Regional integration processes are meant to provide a peaceful arena in which sovereign countries voluntarily combine their efforts in areas of mutual concern, creating common regional interests and objectives. Models and ideas, however, do not always result in concrete actions or significant accomplishments. Even the most developed institutional exercise of regional integration, the European Union (EU), is commonly overwhelmed by the contradictions and obstacles of the institutional architecture and the interests of the member states. The construction of the EU has continued for more than five decades and remains an unfinished project. Despite its ebbs and flows, the assessment of the European integration process is positive and still at the forefront of regional integration experiences. In that regard, what lessons can be learned in the Americas from the European experience? What are the peculiarities and prospects of the integration processes in the Western Hemisphere? What are the conditions necessary for developing integration processes?

Some ideas and responses to these questions are provided in the articles of this book, grouped in four sections: hemispheric integration, North America, Central America and the Caribbean, and South America. The contributors demonstrate that integration in the sub-regions of the Americas has progressed in varying degrees, and that each integration process is characterized by particular circumstances that constrain further institutional developments, legitimacy and credibility. Regional integration in both Europe and the Americas is a work in progress, and therefore, scholarly exercises of the kind included in this book serve not only as a reflection and analysis of what currently exists and how it has developed, but also as a consideration for future developments.
The European Union and Regional Integration
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Introduction

Joaquín Roy and Roberto Domínguez

Regional Integration: A Flexible Concept

The aspiration of regional integration processes is to become a space of conciliation between the creation of regional common goods and national interests, cultures, practices and policies. Models and ideas, however, do not always sublimate in concrete actions; even the most developed institutional exercise of regional integration, the European Union (EU), is commonly overwhelmed by the contradictions and obstacles of the institutional architecture and the interests of the member states. The construction of the EU has taken more than five decades and is still an unfinished project aimed at the creation of welfare. Despite its flows, the assessment of the European integration process is positive and still at the forefront of regional integration experiences. In that regard, what lessons can be learnt in the Americas from the European experience? What are the peculiarities and prospects of the integration processes in the Western Hemisphere? How many models of integration are there? What are the conditions for developing integration processes?

Some tentative answers are drawn in the articles of the present book, which is the result of the conference “The European Union and Regional Integration: A Comparative Perspective and Lessons for the Americas,” held on April 8, 2005, at the University of Miami, under the sponsorship of the European Commission. Each one of the contributors shows that integration in the sub-regions of the Americas has several degrees of progress as well as different particular circumstances which constrain further institutional developments, legitimacy and credibility. From the perspective of this introduction, assuming that the EU can provide some positive ideas for the integration in the Americas, three key conceptualizations can be pondered as crucial in the institutional development of the EU: state, region and integration.

The first element has to do with the political practices in the state. Having in mind the horrors and the human suffering of the wars during the nineteenth and twentieth centuries, the European state has voluntarily pooled sovereignty in a number of areas as a shield against the external world. Scholars have indeed contributed to this debate by proposing the post or neo-modern European state. Under those lenses, the basic premises of the European state can be summarized
as follows: a) a breakdown of the distinction between domestic and foreign affairs; b) mutual interference in traditional domestic affairs and mutual surveillance; c) rejection of force for resolving disputes and the consequent codification of rules of behavior; d) growing irrelevance of borders; and e) security based on transparency, mutual openness, interdependence and mutual vulnerability. The question that arises in this aspect is whether or not a more flexible conceptualization of sovereignty is needed in the Western hemisphere to move forward in the regional cooperation and integration processes.

The second element debated in the chapters is the conceptualization of region. The predominant perception of regions not only from some academic perspectives, but also from specialized media, emphasizes their economic criterion. For instance, the idea of region in the Western Hemisphere is automatically linked to the Free Trade Area of the Americas. Likewise, the fault lines in the integration processes in South America are the result of the convulsive economies in that area. Certainly, a region can be hardly described if the driving force of the economy is neglected. Nevertheless, the paradox of the European regionalism is that the European experience was designed to pursue further objectives and the role of the economy was a means instead of an end. This is why some of the chapters emphasize the role of security, inequality or political preferences as relevant themes in the integration processes. In this regard, the new regionalism is a useful analytical tool to describe the multidimensional forms of integration, which include economic, political, social, and cultural aspects and consequently goes far beyond the goal of creating regional free trade agreements or security alliances.

The third element is the experience of the integration process. Traditional literature on integration indicates that it would be expected that free trade projects will progressively move forward step by step toward a complete economic integration. Nevertheless, the process of integration, beyond economic implications, has had several impacts on a myriad of areas and policies. From the

1 Bela Balassa, The Theory of Economic Integration (Homewood, Ill.: R. D. Irwin, 1961).

2 The first phase is the free trade area, which is the simplest level of integration and allows only free movement of goods. This is the case of the European Free Trade Area Association (EFTA) and the North American Free Trade Area (NAFTA). The second level of integration is the customs union, which is characterized by the harmonization of external tariffs; despite its numerous difficulties, this is the case of MERCOSUR. The third level of surrendering economic sovereignty to integration is the common market, which was reached by the EU at the beginning of the 1990s; this level allows free mobility of capital, labor and services. The fourth stage is the harmonization of economic policies and is known as the economic union; to some extent, the experience of the euro has indirectly obliged the EU to adopt some of such characteristics in specific sectors. The final stage is the complete economic integration, in which central institutions substitute for national ministries in the policy-making process. There is currently no regional experience at this level, although it remains to be seen whether the future evolution of the European Central Bank, the closest institutions to this final stage, will enhance its power and will be an example to be followed by other institutions in different sectors.
conceptualization of integration by Karl Deutsch, who argued a “sense of community” in Europe, to Ernst Haas’ vision of integration as a process whereby political actors are persuaded to shift their loyalties, expectations and political activities to a new center, a more pluralistic debate has nourished the discourse on integration. After five decades in the making of integration theory and based on the evolution of the EU, Amitai Etzioni has revisited the concepts of supranational and integration. In his assessment, Etzioni indirectly questions utopian views of integration and states that the European Commission and Parliament are largely international or regional bodies and not truly supranational ones, and adds that currently the EU is a “halfway integration” process.\(^3\) Numerous examples support this less idealistic view of integration. One of the most recent events with regard to the fallacy of the “shifting of loyalties” was the low turnout in the 2004 European Parliament elections, the French and Dutch rejection to the Constitutional Treaty in 2005 and the disagreements about the 2007-2013 EU budget.

Nevertheless, integration in Europe is simultaneously a reality and an idea. In the construction of Europe, today the EU –like all national political systems – has a set of formal rules for collective decision-making, i.e., an EU legislation that defines and regulates the main aspects of the political and government institutions. Likewise, the office-holders, collective political actors and ordinary citizens take part in EU politics and policy making to defend interests and uphold ideologies and values. On the other hand, despite the small EU budget size, the classic concept of politics as the authoritative allocation of values and resources also applies to the EU. Structural and cohesion funds give the EU the power to redistribute some financial resources among disadvantaged regions and areas.

All these elements are part of the distinct levels of governance, either local, national or European. Even with the failure of the ratification of the project of the EU Constitution, the institutional structure is set to remain solidly anchored in an existing legal framework. It is a series of Treaties that includes the Schuman Declaration “of interdependence,” the Treaties of Rome, the Single European Act, Maastricht, Amsterdam and the Treaty of Nice of 2000, in addition to the Charter of Fundamental Rights and the decisive Laeken Declaration. They form, in the absence of another text that reforms, frames or replaces them, as it was the purpose of the Constitutional Treaty, the existing European “Constitution” that governs this Community of law. This long road towards “an ever closer union” reveals one of the crucial innate characteristics of the EU. In the words of Jacques Delors, a Tour de France fan, it is like cycling --if one stops, one falls.

As a consequence, the proper procedure to observe the present anatomy of the EU and its reverberation in the Americas is not by photographing it, like in a sort of juridical static scholarship exercise. There is also a need to record it like in

a film, by applying the more dynamic tools of international relations, with an open end.

**An Open Future**

On the basis of the established arguments and speculative dimensions regarding the profile of the EU and its role in the world, it is feasible, and possibly most convenient in view of the international uncertainties to offer three potential scenarios for the second decade of the twenty-first century.

*The Victory of Free Trade*

In the first place, according to the most pessimistic calculations based on the collapse of the constitutional project, the European experiment may become a marooned ship, without direction or identifiable objectives. This euro skeptic vision, shouldered by a prevalent, and supposedly realist U.S. vision, which is based on strength and hard power, would welcome an alleged European incapacity to reach a level of integration that goes beyond economics and trade.

In the event of this negative scenario becoming a reality, by the end of the second decade of the twenty-first century, two possible outcomes are plausible on the base of the panorama before the collapse of the EU constitutional project. The first, feared by an anti-immigrant sector that voted against, was a EU composed of 40 members (which would mirror the composition of the Council of Europe). This EU would paradoxically represent the triumph of the European Free Trade Association (EFTA), ironically favored by the business-prone sector that was afraid of a too socially-inclined Europe. Deprived of in depth supranationalism, this typically intergovernmental British alternative was historically explicitly endorsed by Margaret Thatcher in her epoch-making speech given in 1988 at the College of Europe in Bruges. In this scenario, the euro would then be maintained as a common currency for pragmatic reasons and because the benefits of maintaining it as legal tender would outweigh the costs of transitioning back to national currencies. However, the message heard in France and the Netherlands would make further enlargement of the EU a doubtful prospect, beyond the scheduled accession of Romania and Bulgaria.

This Europe, united as a glorified trade area, with the applause of the voters that feared a loss of national identity, would have many of its competences reverted to the national governments by a process similar to devolution, without ever crossing the line towards a true common foreign and security policy and or the implementation of a common defense mechanism. The United Kingdom, without bothering to go through the motion of holding a referendum on the Constitution, would fit very well. In this context, the functionalist process would be exhausted and no other competences would be incorporated into the common pool. After the dismantling (due to the resistance of the net contributing states) of
the Common Agricultural Policy (CAP), to the dismay of the same voters that in the interior of France were the main actors of the derailment of the constitutional scheme, the European Economic Community would have resurrected out of its ashes and simultaneously contribute to the termination of the EU, as envisioned since Maastricht.

The politicians who, at the start of the new millennium, inherited the reins of Europe from the federalists of the last two decades of the twentieth century (with Helmut Kohl, François Mitterrand and Felipe González in the lead) would most benefit from this outcome. Equally satisfied with the new panorama would be the representatives of commercial interests who have witnessed the collapse of the last economic barriers to a real single market. The advocates of nationalism elevating shouts of alarm in response to the dual invasion from Brussels and Europe’s southern and eastern periphery would praise these results. Meanwhile, on the borders of Europe, immigration would appear to be uncontrollable, sentiments of resentment would increase (especially in Turkey and some Balkan republics), and European cities would become terrorist targets.

Following this script, on its own, the United States had decided to concentrate its energies on its zones of special influence in Latin America and Asia, leaving security in Europe adrift. The planned Rapid Reaction Force would be reduced to a theoretical framework buried in the file cabinets stored in the empty offices of the Justus Lipsius building (located in front of the Commission site, the refurbished Berlaymont, at last free from asbestos, the cause for the decade-long exile of its staff). The Council of the European Community, deprived of its competences, would be connected by distant communication technologies. Strong governments would manage to impose their wishes, sideling the protests of the weakest.

On the American continent, as a confirmation of the erratic history of regional integration, the FTAA would already have been converted into a reality, strictly limited to trade, still with many exceptions on certain “sensitive” products. MERCOSUR would be reduced to a free trade area, granting membership to the rest of the South American subcontinent, along the model of NAFTA and the FTAA, but not following the grandiose scheme proposed by the South American Union announced in Cuzco. The Andean Community had disappeared, as a result of the endemic economic and political illnesses of its members. Central American integration, an area where the EU had invested more time and energy than in any other part of the world in the 1980s, had vanished, and CARICOM continued oscillating between inter-insular quarrels and closer relations with the United States. CAFTA-DR had become a reality. In sum, in the New World, the European model of integration as reflected in the successive stages towards the Maastricht Treaty had disappeared as an obligatory point of reference.
An Ever-Closer Union

The second European scenario would be very different. It would be composed of two simultaneous effects. On the one hand there would be a positive European reaction to the crisis generated by the failure of the Constitution and, on the other, a corresponding positive United States response to an ever closer union. In a Messina-like action, the EU leadership had decided to put together the pieces of the disaster and move forward with energy similar to the one used to launch the EC by the Treaty of Rome. Simultaneously, this change would also be provoked by a change in perceptions of the EU process and a different outcome of the referendum process. In this setting, Washington changed course when facing the complexity of the new international circumstances dictated by the September 11 attacks and the feeling of an upgraded sense of increased insecurity. Isolation increased as a result of U.S. unilateral policies (rejection of the International Court of Justice, confrontations on environmental issues). With the possibility of a military disaster in the Middle East and the costly maintenance of the occupation forces, Washington opted for a sudden change with respect to the EU.

This change was the triumph of observers and officials who in the U.S. Mission to the EU had proceeded to review the errors in perception prior to Maastricht. According to this self-correcting analysis, at the time Washington was not able to detect the subtle yet significant linguistic change from the European Community to the EU. The change was interpreted as cosmetic rather than substantive. Although Washington responded to the perception of “Fortress Europe” (represented by the completion of the Single Market) with the creation of NAFTA, and later with the FTAA, U.S. officials did not know how to respond in the political field. In some ways, the United States had missed the train to Maastricht, believing that it was a simple replica of the Single European Act. When they realized that the experiment was serious and that the euro was not a fake currency for kids to play with, and that the creation of the Rapid Reaction Force was a legitimate possibility (which did not look the same as the modest Eurocorps, dependent on the good will of individual governments) they decided to follow the process more closely. If the new experiment failed, U.S. officials could always say that this was just another project of the unruly and incompetent Europeans. In case they were successful, however, it was better to be well informed.

According to this new perception, the United States had decided after President Bush’s visit to Brussels in February 2005 to embrace the European resources in NATO, to back the new Franco-British initiative, in line with the historic decision of Saint Malo, to support the creation of a clearly autonomous European rapid reaction and intervention force. In the peace maintenance and reconstruction activities, the soldiers of at least twenty-one countries of the EU would have coordinated arms and would wear a flag of the EU on their sleeve. The global strategy of the United States had become enmeshed with the
European. Thanks to some military efforts with limited human casualties, some threatening or bothersome regimes had fallen one after the other, and the rest had been left as fossils undeserving of the attention of either Brussels or Washington. The neurological center of the federal government of Europe was not only already functioning, but the Commission had been converted into a body with the executive powers necessary to administer the increasing competences that had passed to the first pillar, while the second and third had functionally disappeared. The rest of the planet could no longer play the double card, asking for strategic favors from the United States (or fighting against them), and hoping the EU would take care of their economic problems.

The United States having overstretched its worldwide hegemony and its total economic dominance in the Americas, had decided to take the step that in the 1990s had been the object of speculation or sarcastic commentaries: the petition for its full membership in the EU, after a period of preferential association. Naturally, this scenario assumes that the United States would have overcome three monumental obstacles to comply with the *acquis*: the abolition of the death penalty, the acceptance of the supremacy of EC law and the decisions of the European Court of Justice, and the elimination of the gargantuan budget deficit. Moreover, this rosy setting did not take into account the referendum disaster and the simultaneous policy of the United States to carve a part of the Western Hemisphere through CAFTA-DR and wait for less rainy days in the FTAA.

*Reasonable Realism*

The third optional scenario is more realistic, less utopian than the second one, and at the same time more hopeful for the future of the EU. According to this vision, the EU would still be a really unique creature, and cease to be accused of being a hybrid according to a traditional analysis, in which reasonable supranational ambitions would coexist without stridencies or friction with the intergovernmental realities. From a traditional federal perspective observers could say that the language continues to be hypocritical and prudent, always avoiding constitutional expressions that may indicate the limit of states’ sovereignty in “hard” competences. The document, a sort of Nice-Plus, that will precede this building, shaky for some, solid for others, will be known as another treaty, devoid of the fearful constitutional references.

This Europe (in which the expression European Union will be consolidated) would be managed by an institutional framework very similar to the one existing at the end of the twentieth century. The European Council will continue to be the protagonist, but would continue to delegate numerous detailed functions to the rest of the institutions. The six-month rotating presidency will continue leading most of the Council of Ministers formats in order to preserve the national tradition. In exchange, there will be a new position with a mandate of two years and a half, as in the case of the Parliament, renewable for another term. Much
along the lines envisioned in the constitutional project, this position will be filled
by a political personality, selected by the European Council, but ratified by the
Parliament. In an exercise of compromise, the president of the Council of
Ministers would be of an ideological leaning different than the president of the
Parliament for the same period of time. The European Council would name the
President of the Commission for a period of five years according to the tradition.
The College of Commissioners will be made up of one member per State, with a
distribution of portfolios that respects collective effectiveness and national
dignity. It remains to be seen how a reduction of the number of commissioners
will be done once the number of countries reaches 27. By means of ingenious
formulas, the national representation in diverse competences would be obtained
by means of a sub-regional system, that at the same time would provide
geographic cohesion (Nordic, Mediterranean, Central Europe, Baltic, former
Yugoslavia, etc.).

The evolution and consolidation of this European model could be fruitfully
adapted in other regions of the world. Although there are reasonable doubts
regarding its success in the African continent, and prospects for the Middle East
will be subject to the disappearance of political regimes diametrically opposed to
the Western style rule of law and separation of powers, the future for a Latin
American adaptation appears optimistic.

A positive review of the European experience as a whole would convince the
United States, especially the reluctant sectors in Congress and unions that feel
their interests threatened by free trade and uncontrolled immigration that some
European mechanisms are adaptable to the circumstances of the Americas. As
Mexican President Vicente Fox proposed back in 2001, well before September
11, two European experiences were urgent candidates for implementation:
structural funds and regional policies, and labor mobility. The best way to reduce
the threat from immigration is to promote development in the vicinity through the
transferring of funds for the improvement of infrastructure, to create jobs and to
promote higher quality living in the native lands as an alternative to migration.
As history shows, illegal immigration is unstoppable. The best solution is to
channel migration flows through generous quotas that help to reduce the
demographic and economic pressures, and at the same time to provide needed
labor for certain sectors. The European experience of the 1960s and 1970s is
perfectly transferable to the dimensions of the Americas, but this requires the
establishment of a network similar to the European Community, with the
implementation of association agreements beyond the mere exchange of goods.
For the time being, the FTAA, NAFTA and the diverse formulas in the
Caribbean and Central America do not explicitly include this ambition.

Once the convenience of supranational sovereignty and shared administration
with joint decision-making has been assimilated (something that will take many
years to happen), the application of the method of the qualified majority plus the
call for a demographic clause, the networks of regional integration in the
Introduction

Americas would avoid the thorny taboo of supranationalism. Countries such as the United States and Brazil (as reflections of Germany in Europe) could preserve their protagonism based on the force of their weighted votes. The small countries would be forced to form effective coalitions to obtain blocking minorities. By means of the preservation of the European method of attempting a consensual vote in international forums (like in the United Nations), the small Latin American and Caribbean countries would be able to make their voices heard with an inter-American profile in a more effective and coherent fashion, with respect to the United States as well as to Europe.

About the book

This book is a collection of articles, which hopefully formulate some interesting ideas and thoughts. The chapters are grouped in four sections, which analyze the integration processes in the different regions of the Western Hemisphere.

The first section covers the current developments of the integration process in North America. Roberto Domínguez provides an overview of the debates about the future of NAFTA. The author argues that NAFTA has unleashed an intense conversation that goes beyond mere free trade debates. Although NAFTA is distant from the EU architecture, the discussion in North America reflects the need to deepen the institutional developments in the region. The agreement among the distinct variants of the debate is that unresolved problems in the region such as migration, security and development demand from the three governments and societies of North America to propose coordinated approaches and policies in order to reach effective results in the implementation of policies.

One of the main proponents of deepening integration in North America is Robert Pastor, who presents in the second article of the book a suggestive definition of the current agenda that faces North America. He addresses the question as to which of three approaches he analyzes (three sovereign nations, a trilateral partnership, or a community) offers the best vehicle for serving the long-term interests of the people of North America. He explains the impact of NAFTA and its strengths and flaws of both commission and, more importantly, omission. In this regard, he describes what could be the future architecture of NAFTA with institutions such as a Council, Parliamentary Group and a Permanent Court on Trade and Investment.

Alejandro Chanona follows this line of reasoning and states that North America has become a region as a result of security concerns, economic advantages and political interests. By focusing on security issues, Chanona argues that the three countries must recognize that common problems regarding security and transnational threats cannot be treated independently and North America is currently a nascent security community. In his perspective, security has become an important element of integration.
Gustavo Vega emphasizes that although NAFTA and the EU share important commonalities in terms of the extent and depth of integration, they are also very different in terms of origins, goals, scope, and degree of institutionalization and centralization. In that regard, despite the fact that the EU’s social policies are not likely to emerge in North America, September 11th opens a possibility to advance the process of integration in the trade and migration fronts, Vega asserts.

From the Canadian perspective, Steven B. Wolinetz states that examining the EU in comparative context is worthwhile because it gives a clear sense of what the EU is and how it has changed over time. Likewise, Wolinetz considers, such regional systems like the EU are likely to become more common in an interdependent world. Nevertheless, thus far the EU and NAFTA models are sufficiently different in their governance and politics that all comparisons in most areas can do little more than highlight the difference.

The second section of the book is centered on Central America and the Caribbean. Fernando Rueda argues that the interest in regional integration in Central America has been revived on a new basis, in which the creation of a regional market and the improvement of its role in the international competitiveness are key elements. However, the integration in Central America is subject to serious limitations such as the excessive dominance of extra regional trade, the inequitable distribution of benefits and the absence of a real common trade policy. Rueda’s analysis warns that if these limitations are not overcome by implementing suitable economic and institutional policies, the new regional integration will not be able to contribute effectively to the Central American economic development process.

On the other hand, Eric Jacobstein explains the importance of the U.S.-Central America free trade agreement and the complexities of its ratification process by the U.S. Congress. The author contends that the real question for those voting on CAFTA is whether Central America will be better off with or without the agreement. In this regard, as a result of the expiration of the Multi-fiber agreement, the passage of CAFTA appears to be increasingly urgent and necessary for the subregion. Jacobstein argues that the vote on CAFTA will mean the negotiation of agreements similar in content to CAFTA while rejection may lead to a reassessment of U.S. trade agreements and more likely to a general delay in the advancement of hemispheric trade and U.S. trade more broadly. This would mean delays in the free trade agreements being negotiated with Panama, Colombia, Ecuador and Peru and a future Free Trade Area of the Americas (FTAA).

Three articles deal with the Caribbean. Joaquin Roy states that the experience of the Cuba-European Union relations reveals a mixed picture. It is composed of a coherent series of EU measures intended in the first place to maintain the lines of communication open, and secondly to contribute to facilitating the conditions for a sort of “soft landing” in the terrain of democracy and market economy in the event of a peaceful transition. This strategy has not come free of charge, he
argues, as demonstrated by the persistent negative vote on Cuba at the UN Commission for Human Rights, and the maintenance of the Common Position imposed in 1996, conditioning any special cooperation and aid package upon the implementation of political reforms.

With regard to CARICOM, Wendy Grenade gives an overview of the regional governance arrangements within the Community, showing the shift from the old to the emerging paradigm. The author argues that while global realities are pushing the small states in the Caribbean to modify and redesign the regional project to achieve deeper levels of integration, the emerging framework also reflects the political culture within member states and the tension between domestic forces and regional integration. Within this context, therefore, Grenade asserts that regional integration is both necessary and problematic and that effective governance mechanisms are necessary to enhance the viability of regional integration movements.

David Hinds examines the linkages between internal politics and regional integration in the Caribbean. Hinds contends that in spite of a more aggressive approach to regional integration of the Anglophone Caribbean in the past decade, political divisions within member countries have stalled this movement. Those divisions, asserts the author, are in essence a reflection of the adversarial nature of the Caribbean political culture that runs counter to the notion of unity and cooperation which underpins regional integration. Hinds argues that integration at the domestic level is integral to regional integration. In his view, regional unity will falter if it is not premised on democratic practices both at the regional level and within the member states. He emphasizes that forms of shared democratic governance have to be worked out within the member countries if regional unity is to be effective. Hinds proposes that one way to begin to address the problem is for the member countries to move in the direction of power sharing based on shared democratic governance to complement the evolving power sharing model at the regional level.

The third section of the book comprises four articles on the integration processes in South America. Aimee Kanner argues that the potential problems associated with deepening EU-Andean Community relations are fundamentally related to issues of governance. Currently, she asserts, deepening Andean integration and EU-Andean relations is the most promising option for the Andean countries and the Andean Community in moving towards what will be an undoubtedly difficult process of developing good governance. Therefore, the EU should move quickly and efficiently towards beginning the negotiations for a fourth generation association agreement with the Andean Community.

Roberto Domínguez, on the other hand, applies networks approaches to the EU foreign policy towards Latin America, taking the case of the EU participation in the pacification of the domestic conflict in Colombia. In the explanation of this case, the author argues that interests groups must be aware that in order to attract the attention of the EU, the parties involved or affected by the conflict have
lobbied the three main EU institutions as well as the some European
governments. In light of the external capabilities of the EU, the EU is
contributing to the pacification process in Colombia through the active
participation of NGOs.

Félix Peña analyzes the present and future Mercosur based on four
conceptualizations: regional reality, strategic idea, formal economic integration
process and image. The reflections of the author lead him to conclude that most
of the existing problems in the strategic idea of Mercosur have reasonable
solutions; they depend on the willingness to move forward in the institutional
development as well as on the strong collective political leadership, technical
imagination and creative participation of the civil society. From the combination
of these elements, the future scenarios of Mercosur will vary from an irrelevant
and diluted integration process to a consolidated integration unit.

Marcos Guedes argues that in the last ten years Mercosur has become a
viable instrument for the creation of a South American pole of economic
development and integration as well as to enhance regional power in the face of
inter-regional and global negotiations. Despite the Europeans’ views that ponder
the limitations of Mercosur or North-Americans’ criticisms that consider it as
nothing more than a regional political arrangement in order to better negotiate
with the United States, Guedes contends that Mercosur is developing as an
integration process. He discusses key aspects that Mercosur shares with the EU
and stresses the particularities that have produced and maintained Mercosur as an
original regional integration model.

The fourth section of the book focuses on Hemispheric integration. After
analyzing the rules of the game, the structure and organization of the FTAA
negotiations, Joaquín Roy takes the EU example of institutional regional
integration and speculates about a FTAA architecture conceived under a
European design. The author certainly acknowledges that a political union in the
Americas remains a utopia; however, he suggests that it is a political challenge to
face the unresolved promise of spreading prosperity in the Americas in the
absence of schemes of regional integration of any sort.

The historical overview of Hemispheric integration is provided by Ambler
Moss. He contents that despite the existence of wars between states in the
Western Hemisphere during the past two centuries, no one has suggested integra-
tion as a necessary way to insure international peace. Moss argues that the idea of
integration has been around in the Western Hemisphere since the independence
of these republics; however, their initiatives have been motivated by other sets of
mutual interests and the FTAA is only a recent event in that chain.

On the other hand, Jeffrey Schott states that due to the numerous interests in-
cluded, it is not surprising that the negotiation of a Free Trade Area of the
Americas (FTAA), comprising 34 democratic countries in the Western Hemi-
sphere, has struggled to advance over the past decade. In order to succeed, the
FTAA deal would have to include both liberalization of trade barriers and rule-
making reforms in areas such as services, investment, government procurement, and intellectual property rights. Likewise, he considers that the United States and Brazil must lead the way to a comprehensive package of trade reforms, or the FTAA will join a long line of failed integration initiatives in the hemisphere.

The closing article of the book is coming from the European continent. Karl Buck presents a comprehensive analysis about the security challenges in Latin America and the role of the EU. After explaining the major elements of the European Security Strategy, Buck delves into the political, economic and social causes of security problems in Latin America: fight against terrorism, drug trafficking, weak democratic institutions, underdevelopment and inequality. All of these issues are analyzed in light of their impact on the region as well as on the EU strategies and contributions to the region. Social cohesion plays a relevant role and is the major item in the agenda EU-Latin America. In this process regional integration is one of the avenues to contribute to the social cohesion in the region.

We want to express our sincerest thanks to the contributors to this volume and our appreciation to their efforts to develop depth analysis and suggestive ideas. The support from the Jean Monnet Chair, the European Commission and the University of Miami has been crucial to pave the way for publishing this book. Likewise, the participation of Wendy Grenade in the reviewing process of the originals has been of great value to the successful publication of this book.

October 2005
North America
NAFTA: Assessments and Institutional Development

Roberto Domínguez

Introduction

This paper looks at two different ways of assessing NAFTA. The first one is a quantitative approach based upon trade and investment growth statistics, which suggest that NAFTA has been a success. Further analysis raises questions, however, about the distribution of benefits. The second perspective is based on the assumption that NAFTA has accomplished some of its goals; nonetheless, the North American agenda indicates that there is an ongoing discussion with regard to the future of the region and several proposals have been introduced in the debate. The paper argues that although North America remains regionally weak in institutional terms, there is an informal process of regionalization, which has given rise to a debate that ranges from proposals for minimal modifications to NAFTA to propositions to create a North American Community.

The Idea of Community

During the free trade negotiations between Canada, Mexico and the United States in 1992, Jerry Rosenberg was enthusiastic about the prospects of an American Community initially composed of the North American countries and including other Latin American countries few years later. In his view, the future of the American Community would depend primarily on the success of Mexico as part of the free trade area of North America. Rosenberg stated that,

The New American Community will initially involve only three nations, of which Mexico will represent the example of a lesser economy to start with an explosive potential to follow. As this troika prospers and functions effectively, so will the remaining plan flower… If Mexico illustrates to the other Latin American nations that she is able to benefit from the alliance with Canada and the United States without being
swallowed or made to play a secondary role, then others will rush to participate.¹

Fourteen years after Rosenberg’s wish list was written, there are no prospects for a Free Trade Area of the Americas. Rather, President Bush has pursued a twofold trade strategy: a) looking for ways to pressure big trading nations to agree to a new global trade deal, and b) opening separate negotiations for free-trade pacts with small nations and regional groupings.²

Latin America’s transformations during the 1990s did not deliver the expected results. Despite a decade of reforms, the gap between rich and poor is widening. Today only 9 to 15 percent of total income goes to the poorest 40 percent of households. Politically there is a danger that “people’s faith in democracy will be eroded if they consider that institutional and market reforms have failed to deliver a better quality of life.”³

**NAFTA: Numbers and debates**

In the 1990, Mexico revealed its intention to negotiate a free trade agreement with the United States. This decision challenged “all previous conceptions of Mexico-U.S. relations.”⁴ Fifteen years later, NAFTA has lost its uniqueness since both Mexico and the United States have implemented a network of free trade agreements with other countries and regions. On the other hand, it has become clear that creating winners and losers is the natural consequence of the logic of free markets, and NAFTA is not the exception. Sidney Weintraub has said that “NAFTA has not been a panacea… it must be assessed for what it is…. a trade and investment agreement that succeeded in its central purpose.”⁵

Most of the publications in this field recognize the successes of NAFTA. Between 1993 and 2000, for instance, trade in the NAFTA region increased from $289 billion to $659 billion. Trade flows between the United States and Canada

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3. Commissioner Christopher Patten and President Enrique V. Iglesias. *Press Conference at III EU-LAC Summit* (Guadalajara, Mexico, May 27, 2004 ) SPEECH/04/271
reached $411 billion and between Mexico and the United States, $263 billion in 2000. Mexican exports to the United States and Canada grew by an outstanding 234 percent and 203 percent respectively between 1993 and 2002. Today, twenty-two U.S. states have Mexico as either the first or second market for their exports. For nine others Mexico is their third most important export destination. With regard to total FDI flows between the three countries, they amounted to $63 billion between 1989 and 1994; during 1995-2000, total flows increased to $202 billion, tripling in dollar volume.

On the other hand, the connection between trade liberalization and investment growth is illustrated by three sectors where commercial ties have been relatively more extensive: the automotive industry, textiles and clothing, and the electronic industry. “In these three sectors, deeper integration is clearly evident between the three economies.”

However, despite the success indicated by the macroeconomic data, some criticisms emerge in the interpretation of these numbers. For instance, “in the 12 years since NAFTA was ratified, the yearly U.S. trade deficit with Mexico and Canada has grown from $9.1 billion to $110.8 billion.” In this vein, a study conducted by the Carnegie Endowment for International Peace shows the following findings: a) NAFTA has not helped the Mexican economy keep pace with the growing demand for jobs (500,000 jobs were created in manufacturing from 1994 to 2002, while the agricultural sector has lost 1.3 million jobs since 1994); b) real wages for most Mexicans today are lower than when NAFTA took place (caused by the peso crisis); c) there has been an increase in the number of migrants to the United States (although not necessarily as a result of NAFTA).

From the U.S. government’s perspective, officials have admitted the qualified success of NAFTA. As one U.S. official pointed out, “In fact, the result is that NAFTA has been virtually job neutral. Given what most reputable economist say about the employment effects on NAFTA, that finding is not surprising.”

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Perhaps one of the assessments in which most of the analysts agree is with regard to Mexico. Whereas wages in Mexican export-related industries are 37 percent higher than the rest of the economy, the gap that existed when NAFTA came into effect widened instead of narrowed. In 2001, seven years after the implementation of NAFTA, “Mexican manufacturing salaries went from $2.10 an hour versus $11.7 an hour in the United States to $1.90 an hour versus $13.80 an hour in the United States.” In March 2005, in the context of the Tri-national Summit, Harold Meyerson stated: “Since NAFTA was enacted, real wages for Mexicans have declined, the nation’s poverty rate has increased, and illegal immigration to the United States has soared. For both Mexican and American workers, NAFTA has been a lose-lose proposition. For the U.S. corporations that have outsourced their work to Mexico, though, NAFTA has been a clear profit center.”

Side Agreements

With regard to the side agreements, most scholars agree that the environmental one - the North American Agreement on Environmental Cooperation (NAAEC) - has had a limited impact on the region since it was not designed to significantly reverse the environmental consequences of economic growth in Mexico. However, it may be taken into account as a pilot project to examine the effectiveness of institutions designed for Mexico and other nations where trade-led growth needs to be channeled in a more environmentally-friendly fashion.

One of the parameters for assessing the environmental side agreement is through its institutional performance. The NACEC has two mechanisms that provide additional means to monitor the enforcement of environmental laws in North America. The first mechanism is through Article 14 and 15. Under this mechanism, 43 cases have been filed under articles 14 and 15 as of February 2004. There were 7 active files against Mexico, 4 against Canada, and none against the United States. With regard to the closed files, 14 were against

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12 U.S. Trade Representative, “NAFTA: A Decade of Success,” Fact Sheet on NAFTA Benefits (July 1, 2004).


15 North American Commission for Environmental Cooperation, Who we are (http://www.cec.org/who_we_are/index.cfm?varlan=english, accessed April 4, 2005) The environmental agreement complements some of the provisions of NAFTA. The NAAEC created the Commission for Environmental Cooperation (NACEC), which was established to address regional environmental concerns, help the potential trade and environment conflicts, and to promote the effective enforcement of environmental law.
NAFTA: Assessments and Institutional Development

Mexico, 10 against Canada and 8 against the United States. The second mechanism is Article 22, which allows any of the three NAFTA governments to enter into a dispute resolution process with parties that persistently fail to enforce environmental laws. According to Article 22, nations found in violation can be fined and after a long process can eventually have NAFTA privileges suspended. However, this Article has never been invoked.

In addition to the mechanisms, few NACEC’s programs have modestly contributed to increased funding, monitoring, and citizen participation. NACEC’s Fund for Pollution Prevention Projects in Mexican Small and Medium Size Enterprises (FIPREV), and its North America Fund for Environmental Cooperation (NAFEC) are both sources of funds for industry and communities.

In light of the modest contributions of the environmental side agreement, Hufbauer and Schott have stated that “without NAFTA, the Mexican government would have had less incentive to pass environmental legislation or to improve its enforcements efforts, and the achievements, modest though they are, of Commission on Environmental Cooperation, NADBank, and BECC would not exist.”

On the other hand, the Commission for Labor Cooperation was created under the North American Agreement on Labor Cooperation (NAALC). The outcomes of the NAALC have been rather disappointing due to both their design as well as implementation. Some of the obstacles are the following: a) there is no intent to harmonize worker’s rights, which allows each country to maintain its respective comparative advantages; b) there are no independent powers to

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16 Council for Environmental Cooperation, Ten Years of North American Environmental Cooperation (Council for Environmental Cooperation, June 15, 2004): 44. Articles 14 and 15 of NAAEC allow citizens to make submissions to NACEC regarding the failure of a NAFTA party to enforce its environmental laws. Under articles 14 and 15, if a submission is accepted by NACEC, NACEC commissions and publishes a factual record. If a factual record deems that environmental law has been continually violated, there are no requirements that action has to be taken. It is hoped that increased public attention to the matter will trigger governmental action.


18 Ibid, 75.


20 North American Agreement on Labor Cooperation (NAALC) (http://www.naalc.org/, accessed January 23, 2005). The Commission is formed of a Council of Ministers, a cabinet-level body in charge of policy-setting and decision-making consisting of the three labor ministers or their representatives; and a trinational Secretariat that provides support to the Council and to the independent Evaluation Committees of Experts and Arbitral Panels the Council may establish under the provisions of the Agreement. The Commission works in close cooperation with the National Administrative Offices (NAOs), created by each government within their own labor ministry to implement the NAALC.
supervise national authorities in the enforcement of labor laws and regulations; c) restrictions on protecting the 11 NAALC principles limit the application of sanctions to only three cases (child labor, minimum salaries, and safety and hygiene standards in the workplace) and leave collective rights unprotected; d) slowness of the arbitration process, and e) procedural disparity in each of the National Administrative Office (NAO).²¹

The NAOs have received a total of 25 complaints. The distribution of the total number of complaints by country from 1995 to 2001 supports the initial assumption that Mexico is the country with the greatest challenges in complying with labor laws (16 complaints), followed by the United States (7 complaints) and Canada (2 complaints). The decrease in the number of complaints (4 in 1994, one in 1995, 2 in 1996, 3 in 1997, 10 in 1998, 2 in 1999, one in 2000, 2 in 2001, and none in 2002) demonstrates the loss of interest by trade union organizations in Mexico and the United States in testing the effectiveness of this instrument. In 1998, the NAALC became more dynamic because of the intensification of transborder labor union cooperation.²²

Some of the concrete achievements resulting from the labor agreement are: pressure on Mexican authorities to implement a public registry of collective contracts; the imposition of a fine by Mexican authorities against a company (Hang Young) due to a violation of safety and hygiene standards; easing of the pregnancy testing requirement in maquiladoras; easing the practice of denouncing a worker’s migratory status by work inspectors in the United States.²³

Looking Towards the Future

In the middle of the first decade of the 21ˢᵗ Century, there is a pervasive perception that free trade is not enough for North America. Unlike the late 1990s, this debate is not confined to university classrooms. Under different scientific assumptions and political motivations, most of the epistemic communities conceive a new stage in North America’s regional development; this phase could be predicted in a minimalist fashion, namely, proposing a superficial adaptation of NAFTA, or in maximalist mode suggesting a European Union like entity, or a combination of both.

At the decision-making or governmental level, the prescription is that North America needs a cautious adaptation. On March 23, 2005, Presidents Bush and Fox and Prime Minister Martin announced the establishment of the “Security and

²¹ Bensusán, 128-129.
²² Bensusán, 130.
²³ Bensusán, 131.
Prosperity Partnership for North America.” Unlike lofty official declarations, it is remarkable that ministerial-level working groups were established to identify concrete, measurable and achievable steps towards the Partnership’s goals. By June 2005, the ministers will issue their initial reports and thereafter the groups will report semi-annually.

One of the most relevant statements of the Partnership is the “Two-Speed European Style.” The document considers that “The Partnership is trilateral in concept; while allowing any two countries to move forward on an issue, it will create a path for the third to join later.” Likewise, the official proposal does not include any reference to migration or institutional development of any kind.

As indicated in its title, the North American partnership is divided into two sections. The first focuses on common security encompassing the following aspects: a) implementing common border security and bio-protection strategies; b) enhancing critical infrastructure protection, and implementing a common approach to emergency response; c) implementing improvements in aviation and maritime security, combating transnational threats and enhancing intelligence, and d) implementing a border-facilitation strategy to improve the legitimate flow of people and cargo. The second part of the partnership highlights four aspects of economic prosperity: a) improving productivity through regulatory cooperation to generate growth; b) promoting collaboration in energy, transportation, financial services, technology; c) reducing the cost of trade through the efficient movement of goods and people; and d) creating safer and more reliable food supply while facilitating agricultural trade and enhancing the stewardship of the regional environment.

In the academic world, the debate on North American integration has been nurtured by a variety of scholars. Gary Clyde Hufbauer and Gustavo Vega-Cánovas elaborated the concept of the Common Frontier, which “... should be a work in progress for at least a decade, to foster closer integration of North America while preserving the essential sovereignty of each partner.” Their proposal encompasses three main topics: border management, defence alliance and immigration.

With regard to border management, the premise is that security must start at the point of origin, rather than at the point of destination. This assumption has been indirectly applied in North America in cases such as the U.S. meat inspectors that routinely visit Canadian packing plants or the U.S. agricultural inspectors posted at Mexican avocado orchards. The second point develops the idea of a strong defence for all modes of entry into the perimeter (NAFTA area),

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24 White House, Joint Statement by President Bush, President Fox, and Prime Minister Martin on Security and Prosperity Partnership of North America (Crawford, Texas, March 23, 2005).

considering four aspects: a) intelligence sharing is a precursor of everything else; b) NAFTA partners should seek agreement on circumstances that justify electronic surveillance of suspects within the common frontier; c) NAFTA partners should define circumstances when a NAFTA arrest warrant can be issued to detain a suspect anywhere within the common frontier; and c) NAFTA coast guard services need to enhance their cooperation.

Although immigration is not part the official trilateral agenda, Hufbauer and Vega-Cànovas provide a pragmatic approach to enhance cooperation in order to diminish the automatic link between Mexican undocumented migrants and insecurity. They consider an initial division between non-NAFTA and NAFTA citizens. In the case of non-NAFTA nationals, the authors state that NAFTA partners should a) revise their visa policies jointly with the intention to synchronize program criteria, agreeing on an acceptable country list and length of stay, and b) create a special NAFTA force to handle all third country immigration controls at the individual’s first airport of entry into NAFTA space. On the other hand, at least three options are considered for NAFTA nationals: a) creating an efficient system for handling legitimate travelers among the three NAFTA countries, b) making it easier for NAFTA citizens to retire anywhere in North America, and c) increasing the number of legal visas (300,000) on skills basis.

In Canada, the debate on the future of North America has been triggered by the Big Idea, proposed by Wendy Dobson. She argues that Canada and Mexico should facilitate U.S security goals, and in return the United States should commit to maintaining open borders even in the aftermath of an attack. Specifically, she recommends the consideration of a “strategic bargain,” a “pragmatic mix of customs-union-like and common market-like proposals plus Canadian initiatives” in areas of strength that are of particular interests for Americans. In the case of the U.S.-Canadian security relationship, Dobson proposes the following: a) investing in the border in order to have a more secure border with less obstacles; b) mutual recognition of the security of immigration from third countries; c) energy as part of bilateral security; and d) more active role for Canada on bilateral military defence. On the other hand, she states that “we (Canadians) should proceed bilaterally but be open to including Mexico when it makes sense.”

Contrary to Dobson, Charles Barnett and Hugh Williams have rejected the Big Idea approach. They submit that engaging in high-profile bilateral negotiations may well be a disadvantage for the weaker state, Canada. They urge

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27 Wendy Dobson, 25-27.
28 Wendy Dobson, 29.
a bilateral process where the issues are addressed in an incremental and pragmatic manner. In this regard, they summarize their approach by focusing on the following areas: a) expanding successful approaches, such as the Smart Border Declaration; b) encouraging security cooperation; c) working towards a common external tariff; and d) identifying mutual interest in international trade negotiations.

Along the same lines, in 2003 the Canadian Council of Chief Executives (CCCE) presented a strategy for advancing the Canadian-United States relationship. This strategy, entitled “Security and Prosperity: The Dynamics of a New Canada-United States Partnership in North America” or “Treaty of North America,” is based on five interlocking pillars: reinventing the border; maximizing economic efficiencies; building on resource security; sharing in continental and global security; and developing new institutions for managing the bilateral relationship.

For the CCCE, a European-style institutional arrangement characterized by supranational institutions is not the option. Under intergovernmental premises, they suggest three elements in the future institutional framework of North America. First, at the political level it must have the direct involvement of the President and the Prime Minister. Second, it should not create bureaucratic superstructures. Third, based upon the International Joint Commission for Boundary Waters between Canada and the United States, the creation of specialized joint commissions to foster bilateral cooperation. Another remarkable feature of the CCCE proposal is the exclusion, at least temporarily, of Mexico. In view of one of its architects, “we (Canadians) recognize that in the post-9/11 world, the United States faces distinctly different challenges along its northern border with Canada than along the Rio Grande… In the longer term, trilateral solutions may be feasible even for difficult issues such as immigration controls, and all three partners certainly should continue efforts to build on NAFTA. The reality, though, is that the most urgent issues confronting Canada and the United States must be handled in the near term on bilateral basis.”

Gary Hufbauer and Jeffrey Schott have also reacted to Dobson’s approach. They have offered “more than enough advice on the substance of a North American initiative.” In their view, rather than the ambitious vision of Dobson’s strategic bargain, the United States “will remain focused primarily on

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security issues, and to lesser extent on energy policy.” Thus, a practical step forward for North American integration could include: a) a common external tariff, b) U.S. and Canadian joint cooperation work to enhance energy supply, c) financial assistance to tackle environmental problems on the Mexican side of the border, and d) a joint Canadian-Mexican proposal for deeper economic integration.

On the other hand, there are other ideas regarding the transformation of NAFTA on very specific issues. One of them surrounds the issue of energy in North America, which has been present in the agendas of the presidents of Mexico and the United States and in some of the above mentioned proposals. When George Bush and Vicente Fox met in Guanajuato, Mexico, in February 2001, they issued a joint statement that called for “a North American approach to the important issue of energy resources.” What does this mean? It has been acknowledged that the creation of a North American energy area would lessen the US dependency on Middle East as well as Venezuelan oil. In order to surmount this obstacle, Castañeda and Garnels propose “a North American Energy Security Fund, overseen by an independent and transparent board, which could be established to issue $75 billion of securities backed by oil revenues (not the oil itself) to finance the rapid expansion of Mexico’s oil production, leading to the doubling of exports by 2010.”

Contrary to minimalist approaches to integration in North America, in a very comprehensive proposal, Robert Pastor presents the North American Community. Considering the pros and cons of European integration, the North American Community would emphasize institutional development at the regional level as well as the creation of compensatory mechanisms to reduce the gap between Mexico and its two NAFTA partners. In this regard, three institutions could be created. Unlike the European Commission, a North American Commission should be “lean and advisory, made up of just 15 distinguished individuals, five from each country.” Likewise, a single North American Inter-Parliamentary Group would merge the bilateral inter-parliamentary groups with a problem solving approach. The third institution would be a Permanent Court on Trade and Investment, which would “permit the accumulation of precedent.” Along with these institutions, a North American Customs Union and a North American Customs and Immigration Force would contribute to enhance trade exchanges and security. Perhaps one of the most important features of this proposal is the North American Investment Fund that would invest $200 billion in infrastructure over the next decade on the condition that Mexico increases its tax revenues from 11 to 16 percent of its GDP.


Final thoughts

Twenty years ago, the intent of this volume perhaps would be centered on the problematic cooperation between North and South as reflected in the relationship between Mexico and the United States. A decade ago, the inquiries might have been focused on the uncertainties of the nascent North American Free Trade Agreement. In 2005, it is accepted by most scholars and decision-makers that NAFTA must be revisited.

The options for North America analyzed in this paper resemble the old and new European debates about regional integration. On the one hand, there are the skeptical ideas which reject regional formulas entailing any evolution beyond free trade. Historically, sooner or later, such ideas eroded and were eventually replaced by more integration-oriented approaches in the European experience. On the other hand, regionally oriented perspectives that privilege collective solutions for facing the challenges of an interdependent world have shown that integration is possible. A similar debate along these lines is currently taking place in North America.

Despite the disagreements in the proposals for North America, there is also some consensus that we can foresee as taking place in the short term. A “selective customs union” and further cooperation in the security seem to be at the forefront of the pragmatic agenda. Other attempts in this direction may have already started in an embryonic fashion, such as the reports to the three Executives that will be delivered next June in the context of the North American Partnership. Perhaps in 2010 the substance of a book like this will be different, hopefully more focused in deepening integration in North America.
North America: Three Nations, a Partnership, or a Community?

Robert A. Pastor

Introduction

On the first day of January of 1994, the North American Free Trade Agreement (NAFTA) came into effect. If one judges a free-trade area by the size of its product and territory, North America became the largest in the world, larger than the European Union (EU). Yet that fact escaped all but a few analysts. It is widely known that the United States has the world’s largest economy, but North America also includes the eighth (Canada) and ninth (Mexico) largest economies as well. ¹ Within a decade, trade and investment among the three countries had nearly tripled, and North America had achieved a level of integration (defined as intra-regional trade as a per cent of world trade) that approached Europe’s - 57.6 percent as compared to 61 percent. In other words, North America had become a formidable and integrated region, comparable in some respects to the EU.

And yet few in North America or outside view the region as anything more than three sovereign countries – a global superpower and two uncomfortable neighbors. It is not hard to explain this perception. The United States accounts for 85 percent of the gross product of the region and a much higher percentage of the region’s military power and reach. The other two countries of North America are very dependent on the United States economically, and partly because of that, have used their foreign policies to define their distance and separateness from the United States. The North American Free Trade Agreement (NAFTA), which can be considered a kind of draft constitution for an emerging region, dismantled most trade and investment barriers and has accelerated social and economic integration. That compelling fact and the security implications that flow from “September 11th” brought the leaders of the three countries of North America together for a Summit Meeting in Texas on March 23, 2005 where they proclaimed a new “Security and Prosperity Partnership,” a framework of an agreement that is

¹ I am grateful to Vassia Gueorguieva for research assistance on this paper.

“trilateral in concept” but barren of vision and incremental and dual-bilateral in fact. ²  

In contrast, the Council on Foreign Relations sponsored a trinational Task Force on the “Future of North America”, which, in an initial statement among the Chairs of the group, proposed a Community, “based on the premise that each member benefits from its neighbor’s success and is diminished by its problems.” ³  

In this paper, we will begin by explaining the origin of this confusion. Why is North America viewed as just three nations? What are the characteristics of this emerging region? Then, I will explain the impact of NAFTA and its strengths and flaws of both commission and, more importantly, omission. Finally, I will define the current agenda that faces North America and address the question as to which of the three approaches – three sovereign nations, a trilateral partnership, or a community – offer the best vehicle for serving the long-term interests of the people of North America.

The Awkward Birth of North America

For each of the three nations of North America, the decision to negotiate and sign a North American Free Trade Agreement (NAFTA) represented a sharp turn – almost a reversal – from previous policy. Canada and Mexico had long defined their vital interests in terms of autonomy from the great power next door. Both tried to keep their relationship with the United States at arms-length for fear that a close embrace would be suffocating. Mexico constructed trade and investment barriers and championed a political doctrine of non-intervention to keep the United States from interfering in its internal affairs. Canada considered free trade at several moments in the 20th century, but each time, retreated, fearing that the United States would dominate and its companies would purchase the country’s assets. The United States also resisted the idea of a regional free trading area because it believed that the optimal trading system was a global one, and as the world’s wealthiest country and the initiator of the General Agreements on Tariffs and Trade (GATT) after World War II, the U.S. government did not want to contribute to any initiative that could undermine the global trading system.

While NAFTA was a departure from past policy for the three governments, in a paradoxical way, it also represented a wholly natural response to the logic of integration. The three nations already were major trading partners of each other.

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and the international trading system had evolved in an unusual way. Instead of one world, there were actually three distinct trading regions: the European Union, East Asia, and North America. Most of each region’s trade with the world was actually within each region. Sixty-one percent of the EU’s trade with the world was intra-regional, and 58 percent of North America’s trade with the world was among the three nations. Together, however, all three trading regions were responsible for about 80 percent of the world’s gross product and trade. In other words, the post-imperial world trading system that aspired to be global discovered the benefits of proximity, and the three countries of North America recognized that their prosperity and competitiveness required a higher level of integration. NAFTA was a means to achieve that goal.

In 1990, when Mexico’s President Carlos Salinas proposed a free trade agreement with the United States, two years after the Canada-U.S. Free Trade Agreement came into force, the gross domestic product of the United States was about twenty times larger than Mexico’s and ten times larger than Canada’s. Asymmetry, whether in size of the economy or power of the military, is the defining characteristic of the relationship of North America’s three states, and history has provided reinforcement of this unevenness. In contrast to Europe, where its catastrophic wars propelled its post-World War II leaders to unify, North America has been divided by its history and, more precisely, by its memory of historical conflicts and interventions.

“Americans do not know, but Canadians cannot forget,” writes Seymour Martin Lipset, “that two nations, not one, came out of the American Revolution.” The United States emerged confident and proud of its revolution, whereas Canada defined itself to a considerable extent as “that part of British North America that did not support the [American] Revolution.” In 1812, the United States tried, but failed, to annex Canada, and the fear in 1865 that the formidable Union army might trek north to try again to expel the British was the principal reason why Canadians sought independence, and why the British accepted it in 1867 in the form of Dominion within the British Empire. Both judged correctly that the United States was less likely to make war against an independent Canada.

Canadians remained wary of a close relationship with the United States. In 1911, the Canadian Prime Minister, Wilfred Laurier, lost an election for concluding a free trade agreement with the United States. Thirty-seven years later, Prime Minister William Lyon McKenzie King refused, at the last minute, to

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approve a freer trade agreement with the United States, evidently fearing a similar political result.

Having lost its war and one-third of its territory to the United States in the nineteenth century and having suffered several military interventions in the early twentieth century, Mexico’s distrust of the United States was deeper than Canada’s. Because it has been less stable, prosperous, and democratic, Mexico also bears a heavier sense of inferiority and thus was averse to any proposal that would bring Mexico into closer contact with the United States. For this reason, any proposal from the United States to reduce trade or investment barriers was usually met with a curt rejection when officials deigned to respond.

Given the history and the imbalance in power, perhaps the only way to have reached a North American Free Trade Agreement was for the United States’ neighbors to lead. And, of course, that is what occurred, starting in Canada. In 1984, a national election brought the Progressive Conservative Party under Brian Mulroney to power with a large majority. Although his party had opposed free trade with the United States, Mulroney recognized a change in the public mood in favor of experimenting with more open trade with the United States. Trade had already increased, and a second reason for pursuing an agreement was to prevent the US from arbitrarily shutting it down. President Ronald Reagan responded positively, and the two governments negotiated and signed a free trade agreement in 1988. In the same year, Mulroney called an election, and the free trade agreement was hotly debated, with the Liberals strongly opposed. Mulroney won re-election, but by a narrower margin.

The reversal on free trade by Mexico and its President Carlos Salinas was even more startling than Mulroney’s. But when the debt crisis threatened to bankrupt the country in 1982, its leaders reassessed their development strategy and embarked on an export-oriented policy. The government imposed fiscal discipline, sharply reduced tariffs and limitations on foreign investment, and privatized state corporations.

When Salinas took office in December 1988, he understood that the success of the Mexican economy depended on whether it could attract large sums of private investment, and neither Europe nor Japan were prepared to invest. He turned to Washington for a free trade agreement and for the key that he hoped would unlock the door of foreign investment. The agreement was signed on December 1992 and came into force on January 1, 1994.

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8 This summary of Carlos Salinas’ views on trade is derived from numerous interviews that the author had with Salinas from 1979 through 1994 and particularly during the period, 1989-92, when his views on NAFTA took shape.
The Impact of NAFTA – Sins of Commission and Omission

NAFTA aimed to eliminate all trade and investment barriers and level the playing field on procurement, telecommunications, banking, services, and other sectors. To secure the market, the three governments created a dispute-settlement mechanism. The agreement was a minimum one that reflected the Canadian and Mexican fear of being dominated by the United States and the U.S. antipathy toward bureaucracy and supra-national organizations. It was an “invisible hand,” classical liberal framework whose principal shared goal was the elimination of impediments to trade.

There is a vast literature on the consequences of NAFTA which reflects to a certain extent the debate that preceded it. In an astute review of the debate, Sidney Weintraub shows that many of the arguments of both advocates and opponents use similar criteria – related to the balance of payments or the gain and loss of jobs. Weintraub argues persuasively that these criteria are misleading and that a more useful assessment of NAFTA’s progress would be based on its effect on total trade, productivity, intra-industry specialization, industrial competitiveness, the environment, and institution-building.

With regard to NAFTA’s principal goals on trade and investment, the agreement has been a resounding success. In 1993, Mexican tariffs averaged about 10 percent, 2.5 times those of the United States. By 1999, Mexican tariffs fell to 2 percent while import licensing and other non-tariff barriers were eliminated. Today, nearly all goods traded between the United States, Mexico, and Canada enter each country duty-free. Agricultural products are the most sensitive and thus freer trade in this area is delayed until 2008.

As barriers declined, trade and investment soared in all three directions. U.S. exports to Mexico increased threefold, from $36 billion in 1990 to $114 billion in 2003, and exports to Canada doubled, from $100 billion in 1990 to $197 billion in 2003. Annual flows of U.S. direct investment to Mexico went from $1.3 billion in 1992 to $15 billion in 2001. U.S. investment flows in Canada increased

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from $2 billion in 1994 to $16 billion in 2000, while Canadian investment flows to the United States grew from $4.6 billion to $27 billion over the same period. More than 36 percent of the total energy imports of the United States now come from its two neighbors. Travel and immigration among the three countries also increased dramatically. In 2000 alone, people crossed the two borders legally about 400 million times. But the most profound impact came from those people who crossed and stayed. The 2000 census estimated that there were 22 million people of Mexican origin living in the United States. Nearly two-thirds of them arrived in the last two decades. As many as 600,000 Americans living in Canada were eligible to vote in the 2004 U.S. election, – more than those voting in six U.S. states.\(^{12}\)

Intra-regional exports as a percentage of total exports – an index of integration – climbed from around 30 percent in 1982 to 58 percent in 2002. As in the auto industry, which makes up nearly 40 percent of North American trade, much of this exchange is either intra-industry or intra-firm – two other indicators of an increasingly integrated economy. Many industries and firms have become truly North American.

There are still other signs of an increasingly integrated community. After seventy-five years of single-party rule in Mexico, in the year 2000, a highly professional electoral service, trained in part by Canadian election officials, conducted an election that was very closely contested. The result was an unprecedented acceptance of the process and outcome by all Mexican parties and the international community and a peaceful transfer of power. Indeed, the Mexican election was much more effectively administered than the one in the United States in the same year.\(^ {13}\)

The signatories of NAFTA deliberately wanted to avoid establishing any bureaucratic or supra-national institutions. The core of the agreement was therefore self-executing or designed to be implemented by each government. With regard to the dispute-settlement mechanism, William Davey, a Canadian scholar, concluded that it “worked reasonably well … the basic goal of trade dispute settlement … is to enforce the agreed-upon rules. By and large, these dispute settlement mechanisms have done that.”\(^ {14}\)

Both the Commission for Labor Cooperation (CLC) and the Commission for Environmental Cooperation (CEC) provide citizens, corporations, unions, and non-governmental organizations an avenue for presenting their complaints. In the

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\(^{13}\) For a detailed analysis of the electoral systems in the three countries and the ways in which each has and can learn from each other, see Robert A. Pastor, symposium editor, “Democracy and Elections in North America: What Can We Learn From Our Neighbours?” *Election Law Journal* 3, no. 3 (2004).

case of the labor agreement, since 1994, the Commission have received 23 complaints – 14 were directed against Mexico, seven against the United States, and two against Canada. Both Commissions have done some useful work, and non-governmental organizations from the United States and Canada have helped their counterparts in Mexico to develop and pursue complaints. Both Commissions reflect the caution of their governments. No one has criticized the Commissions for being too aggressive or trying to forge common responses on difficult questions such as pollution on the border or labor rights in the apparel industry. Nonetheless, Mexico’s environmental standards and capacity have actually improved faster than those of the United States or Canada, not surprising given the initial level, but encouraging nonetheless.

Another institution established under NAFTA was the North American Development Bank (NADBank), which has channeled funds into the border area to improve the environment. On a parallel track, the United States and Mexico negotiated the establishment of a Border Environment Cooperation Commission (BECC) to assist border states and local communities to design and coordinate environmental infrastructure projects. The BECC, based in Ciudad Juarez, Chihuahua, involves local communities in the development of projects and then seeks financing from the private sector and NADBank, which is based in San Antonio, Texas. Mexico and the United States have each contributed $225 million of paid-in capital, which gives the bank a lending capacity of $2 billion. The combination of chronic poverty and rapid urbanization and industrialization on the border have created a multiplicity of health problems, involving water and waste treatment, solid and toxic wastes, and air pollution. The two institutions were very slow in getting organized, but by 2000, 29 projects had begun or been completed.

During the past decade, Mexico has changed from an oil-dependent economy to an urban one based on manufactured exports. The impact on Canada was also quite pronounced. NAFTA deepened Canada’s dependence on the U.S. market, but it also helped diversify and internationalize its economy. Canada’s trade as a percentage of its GDP expanded from 52.4 percent in 1990 to 89 percent in 2002 – making it the most trade-oriented country with the best economic performance in the G-7/8.

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15 For the submissions, see <www.dol.gov/dol/ilab/public/programmes/nao>; also see: <www.naac.org>


As for the United States, its total trade as a percent of GDP increased by 25 percent during the 1990s. Those who predicted substantial job losses were wrong as the 1990s witnessed the fastest expansion of U.S. employment in decades. While Mexico and Canada grew more dependent on the United States—up to 90 percent of its trade and with exports accounting for roughly 40 percent of each GDP—the United States also grew more dependent on its two neighbors. More than one-third of the total trade of the U.S. is now with its two neighbors. More broadly, many firms became continental and more competitive.

An evaluation of NAFTA should not be confined just to trade and investment criteria or the side agreements. One needs to view NAFTA as the centre of a unique social and economic integration process and of an effort to redefine the relationship between two advanced countries and a developing one. The flows of people, cultures, food, music, and sports across the two borders have accelerated even more than the trade in goods and services. In 1996, the first destination for most American tourists abroad was Mexico; 20 million Americans went. The second most popular destination for American tourists was Canada; 13 million traveled there. In 2003, the same pattern held, although fewer Americans traveled abroad—only 15.8 million to Mexico. Of the millions of tourists who visit the United States each year, the vast majority (20 million) come from Canada. The second source is Mexico (7.5 million in 1996 and 10 million in 2003).18

The increase in numbers of immigrants understates their social impact. While the overall population of the United States grew by 13.2 percent in the last decade of the twentieth century, the Hispanic population increased by 57.9 percent (from 22.4 million to 35.3 million) and of Mexicans, by 52.9 percent (from 13.5 million to 20.6 million). About 30 percent of all immigrants living in the United States today are from Mexico.19 While half of all Hispanics live in California and Texas, during the past decade, the Hispanic population in Oregon doubled; in Minnesota, tripled; in Georgia, quadrupled; and in North Carolina, quintupled.20

Remittances have played an increasingly important role in the relationship between Mexicans in the United States and their relatives. The most recent Mexican government report estimates that Mexican workers send their families about $17 million a day, and in 2000, that amounted to $6.2 billion—in the last decade, $45 billion.21 A recent survey found that 61 percent of Mexicans had


21 For the more recent estimate, see Susan Ferriss, “An Altered View of Mexican
relatives living outside the country, mostly in the United States, and 21 percent received remittances from family members working in the United States.22

The result of the social and economic integration of North America is that the region now represents the largest free-trade area in the world in gross product and territory. In addition, North America is almost as integrated after one decade as the EU is after five decades. There has been a lack of compliance in some areas – notably the US imposes limitations on Mexican trucks, vegetables, and sugar and duties on Canadian softwood lumber and wheat. Mexico restricts high-fructose corn syrup from the US. The principal problem with NAFTA, however, is not the lack of compliance but the lack of imagination or rather political will to address some difficult questions.

First, NAFTA was silent on the development gap separating Mexico from its two northern neighbors, and that gap has widened. Second, NAFTA did not plan for its success; and inadequate roads and infrastructure cannot cope with increased traffic. The resulting delays have raised the transaction costs of regional trade more than the elimination of tariffs has reduced them. Third, NAFTA did not address immigration, and the number of undocumented workers in the United States jumped. Fourth, NAFTA did not address energy issues, and eastern Canada and northeastern United States suffered a catastrophic power black-out in August 2003, even while Mexico imports natural gas from the United States. Fifth, NAFTA made no attempt to coordinate macro-economic policy, leaving the region with no way to prevent market catastrophes such as the Mexican peso crisis. Finally, NAFTA was silent about security, and 9/11 threatens to cripple the North American integration process by placing new and formidable barriers in the path of trade and movement of people.

North America’s Second Decade Agenda – The Community Option

The thread that connects many of these omissions is the lack of institutions. Meetings of the three leaders of North America, whether in Quebec City in 2001, in Monterrey in 2004 or in Texas on March 23, 2005, are largely “photo-opportunities” because there are no institutions to prepare a common North American agenda or to monitor or critique the government’s work. Rhetoric notwithstanding, North America is not a trilateral partnership; it is characterized by dual-bilateralism (U.S.-Mexico, U.S.-Canada). Even when the governments negotiated a so-called “smart” border strategy, they duplicated virtually the same agreements.

This failure to construct North American institutions was deliberate. Canada has long believed that it could get a better deal bilaterally, though there is

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substantial evidence to question that. The United States is not exactly in a multilateral mood during the administration of George W. Bush. Mexico has been pursuing a broader vision of a North America, though its specific goal has varied from “common market,” to “customs union” to “community,” but no one is paying attention to them. The architects of NAFTA also seemed determined to make the opposite mistake to that of the EU, which they view as being over-institutionalized, excessively bureaucratic, and interventionist, by creating no institutions.

There are good reasons to avoid the European example, but there is little chance of this happening. The two models of integration are quite different. In contrast to Europe, North America’s model has been more market-driven, resistant to bureaucratic answers, pragmatic, and deferential to national autonomy. Nonetheless, North America should learn from the EU’s fifty years of experience – not only what it should try to avoid, but what it should try to adapt. It should avoid excessive bureaucracy and a common agricultural policy, but if the three countries of North America are to become a community, and if illegal migration from Mexico is to be curtailed, there is no goal more important than reducing the development gap, and the European experience is valuable in this area.

During the last 15 years, the income gap between the poorest and the richest countries of Europe shrank substantially, and migration was reduced. From 1986-2002, the per capita GDP of the four poorest countries of the EU—Spain, Portugal, Ireland and Greece—rose from 65 percent to 80 percent of the EU average. The progress was due to free trade, foreign investment, and a huge transfer of aid at a level that ranged from 2.4 percent of the recipient’s GDP. Good policies by the recipients, and conditioning aid on these policies, also made a substantial difference, as one can see in comparing the spectacular success of Ireland with the mediocre progress of Greece.

Among the lessons to be learned are, first, that the number of institutions for providing aid should be limited and have a “sunset” provision. Second, the most effective projects were in infrastructure and post-secondary education (community colleges in rural areas). Third, funds should be concentrated in the poorer countries (half went to the poor regions of the richer EU countries). Fourth, macro-economic policy coordination and resources are essential to cushion the effects of volatility of the poorer countries. Finally, a community requires that all members assist each other because problems cannot be contained, and growth in one can help others.

There was a moment at the beginning of the Fox and Bush Administrations when the two leaders appeared to accept these points. In February 2001, President Vicente Fox invited President George W. Bush to his home, and together they endorsed the “Guanajuato Proposal,” which read: “After consultation with our Canadian partners, we will strive to consolidate a North American economic community whose benefits reach the lesser-developed areas of the region and
extend to the most vulnerable social groups in our countries.” Unfortunately, they never translated that sentiment into policy.

A community in North America is simply not possible while the people of one of the nations earn, on average, one-sixth of the income of people living next door. Actually, the gap is much wider because one-third of the people of Mexico live in deep poverty. Mexico’s under-development is not only a threat to its stability and, therefore, to its neighbors, but its growth offers its neighbors the most promising market.

In the absence of an explicit development strategy, 90 percent of new foreign investment in Mexico went to just four states, three of them in the north, which grew roughly ten times faster than the south. The border became a magnet for emigrants from the southern part of Mexico. Why do companies invest in the border area where labor is three times as expensive as in the south, labor turnover is 100 percent after a year, and congestion and pollution is chronic? The answer is, because the roads to the south are poor, and infrastructure (roads, communications) is worse. The World Bank estimates that Mexico needs to spend $20 billion per year for at least ten years to meet the infrastructural deficit. The lack of infrastructure, combined with a third world fiscal system, an energy sector that is one of the world’s most inefficient and unreliable, and rigid labor laws, have resulted in a drop in Mexico’s competitiveness, and a diversion of foreign investment to China.

Mexico needs to grow at 6 percent per year for ten years in order to reduce the development gap with the United States by 20 percent. A long journey would still be needed to close the gap, but a consistent strategy that reduces it each year would alter the perceptions of Mexico and by Mexicans. A North American Investment Fund is needed to fill this infrastructural gap by investing $20 billion per year for ten years. The United States would provide $9 billion; Canada, $1

23 Gobierno de la República de México, 2001

24 The estimates on the gap between northern and southern Mexico vary. Luis Ernesto Derbez, a World Bank Economist, who became Mexico’s Minister of the Economy and then of Foreign Relations, estimated that during the 1990s, the export-oriented North grew at annual rates of 5.9 percent, while the South barely grew at 4 percent - more than 10 times faster. (Cited in Henry Tricks, “Free Trade Still Rules in Mexico,” Financial Times, 27 February 2001, 6.) Rafael Tamayo-Flores also concluded that the gap in income between northern and southern Mexico had widened significantly since NAFTA even while the population in the poorer part of Mexico declined vis-à-vis the North. (See his “Mexico in the Context of the North American Integration: Major Regional Trends and Performance of Backward Regions,” Journal of Latin American Studies 33 (2001): 405-07. Based on data from INEGI and CONAPO, the North American Development Bank estimated that the northern part of Mexico was growing more than twice as fast as the south or center.

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billion; and Mexico, $10 billion by gradually increasing its tax revenues from 11 percent to 16 percent of its GDP during the course of the decade. This is less than half of what the Europeans have been investing in the south of their continent. Fox, of course, tried unsuccessfully to persuade the Mexican Congress to approve fiscal reform, but if he, or a successor, had the leverage of $10 billion per year from neighbors, the Mexican Congress might be more amenable.

A new agency is not needed. The money could be managed by the World Bank. If roads were built, then investors would come to the center and the south of the country, and immigration levels and disparities in income would decline.

The weakest link in North America is the lack of credible institutions, and the three governments should begin to fix that by establishing a North American Advisory Council, as outlined in the Council on Foreign Relations Task Force. Unlike the sprawling and intrusive European Commission, which manages and administers European policy, the Council would be lean and advisory – just 15 distinguished individuals, 5 from each country. Its principal purpose would be to prepare an agenda on “North American issues” for the three leaders to consider at annual Summits and then to monitor the implementation of the decisions and plans. The Council would have an office that would gather statistics from the three governments, and it would commission studies of different sectors, like transportation, electricity, or technology. These studies would ask what could be done to facilitate economic integration in these sectors on a continental basis, and then, it would submit these analyses with specific options to the Prime Minister and the two Presidents.

The Council would encourage the three governments to respond to a continental vision. For example, in agriculture, farmers in a few areas cannot compete, and their representatives use all the legal and political channels possible to protect themselves. The three countries can continue aggravating each other, and subverting NAFTA, or they could negotiate North American rules to modify the three regulatory schemes.

A second institution would represent a merging of two bilateral legislative groups into a North American Parliamentary Group. The U.S. Congress is the most insular and clearly the most powerful and autonomous of the three legislatures. The approval in July 2001 of legislation to ban Mexican trucks from U.S. highways and a Congressional Resolution aimed at prying open Mexico’s nationalized oil industry are just two examples of many that offend America’s neighbors. It is possible that a North American Parliamentary Group might become a mechanism for the three Parliaments to deal with each differently than they have in the past.

The third institution should be a Permanent Court on Trade and Investment. The dispute panels established under NAFTA are ad hoc, and it is proving difficult to recruit experts who do not have a conflict of interest. The hearings have finally been opened to the public. Some narrowing or clarification of the
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scope of Chapter 11 panels on foreign investment is also needed to prevent the erosion of environmental rules.

Canada and Mexico have long organized their governments to give priority to bilateral issues with the United States, and Canada has recently established a Director-General for North American Affairs. Only the United States is poorly organized to address North American issues. In 1997, the Canada office was finally moved out of the Bureau of European Affairs and into the Bureau of Western Hemisphere Affairs in the Department of State, and in 2002, a Deputy Assistant Secretary was appointed to handle North American Affairs, but this official cannot negotiate on a par with domestic Cabinet officers or Congressional leaders.

The United States needs to establish a White House Advisor to the President for North American Affairs. That person would need to bridge the National Security, Domestic Policy, and Homeland Security Councils and chair a Cabinet-level Inter-Agency Task Force on North America. No President can have much of an effect on U.S. policy toward North America without such a wholesale reorganization.

Institutions are key to structuring the way governments function and address issues on a routine basis, but what would a North American policy look like? The first set of issues that the NAC should consider relates to transportation. “Crossing the border,” concludes a May 2000 report by a Canadian Member of Parliament, “has actually gotten more difficult over the past five years.” The causes are twofold. “While continental trade has skyrocketed, the physical infrastructure enabling the movement of these goods has not.” And second, the bureaucratic barriers that confront cross-border business make the infrastructural problems seem “minor in comparison.”

While some people have been critical of the United States for imposing U.S. safety standards on Mexican trucks, the true problem is that there are 64 different sets of safety regulations in North America, 51 of which are in the United States. A NAFTA Subcommittee struggled to propose a uniform standard and concluded that “there is no prospect” of accomplishing that. The elected leaders of the three countries should have been embarrassed and would have been, if anyone had been paying attention.

The North American Council should review this issue and develop an integrated continental plan for transportation and infrastructure. The first step is for the United States and Canada each to develop national standards on weight, safety, and configuration of trucking and then negotiate with Mexico on a single set of standards. Second, the governments should eliminate feather-bedding schemes that increase the cost of transporting goods across the borders. Third,

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27 Idem.
the governments should plan and finance new highway corridors on the Pacific Coast and into Mexico. Fourth, the regulatory agencies should negotiate a plan that would permit mergers of the railroads and development of high-speed rail corridors between Canada and the United States.

The establishment of the U.S. Department of Homeland Security represents as great a threat to North American integration as does the terrorism it is designed to confront. In the immediate aftermath of the September 11 attacks, the United States responded by virtually shutting down the border. Within hours, trucks on the Canadian side of the border were backed up as far as 25 miles. Companies that relied on “just-in-time” production began to shut their plants. Canada responded first, by negotiating a 30-point “smart border” agreement with the United States. The essence of the strategy, which had been developed before 9/11, is to separate low-risk goods and people and expedite their transit with transponders, sealed containers, pre-clearance, and other techniques, and concentrate inspection resources on the high-risk traffic. Mexico followed a few months later with a similar agreement with the United States.

This strategy is too narrow to be a serious or enduring solution to what is fundamentally the same integration dilemma: how to facilitate the legitimate flows of people while protecting ourselves from terrorists and smugglers. What is needed is a broader approach to continental integration, first, by negotiating a Customs Union with a Common External Tariff (CET). This would significantly reduce inspections at the border and would eliminate the cumbersome rules-of-origin provisions. Mexico will have the most difficulty because its tariffs are the highest, but fortunately, Mexico’s President Fox, the most visionary of North America’s leaders, proposed a customs union and more. The negotiations would be very difficult, but not beyond the reach of the three countries, and it would accelerate integration.

The problem of transaction costs reaches beyond the issue of trucks and transportation. As the three countries deepen their integration, their three regulatory regimes have raised additional impediments, which are evident in the divergent approaches to trade in pharmaceuticals, mad cow disease, and softwood lumber. Part of the problem stems from the many regulations that customs officials need to administer on the border. The Canadians, for example, have to enforce 96 statutory regulations on the border, and U.S. customs inspectors are responsible for 400 separate statutory requirements. Regulatory standards – from product safety to pollution to business competition – all affect the flow of goods. New approaches are needed to reduce the protectionist dimension while assuring health, safety, and security. These might involve new North American regulatory agencies or coordinated subcommittees of existing national agencies. The second decade of NAFTA, however, will need to address the emerging regulatory agenda.

The United States and Canada should also negotiate a convergence of their immigration and refugee policies. It will not be possible to expand this to include
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Mexico until the development gap is reduced, but in the meantime, all three governments could negotiate a “North American Passport or Border Pass,” which could be extended to a wider group of citizens of the three countries each year.

For security reasons, all three governments need to focus more on the continental perimeter, and one way to do that, while at the same time eliminating the duplication of documents that comes with crossing the border, would be to establish a single “North American Customs and Immigration Force.” This force would be composed of officials from the three governments and trained together in a North American professional school. Most important, if the Department of Homeland Security is not to become a fortress and an insult to America’s neighbors, Mexican and Canadian perspectives and personnel need to be incorporated in some way.

Finally, our three governments could learn from the EU’s project to fund 15 EU Centers in the United States. These Centers stimulate research and awareness in the United States of the EU. The three governments of North America should sponsor Centers for North American Studies in each of the countries to help all understand the problems and the potential of North America and view each other as both nationals of each country and also as North Americans.

Is any of this feasible? Since NAFTA came into effect, the opposition to free trade agreements has grown. Some people fear that they could lose their jobs to countries with low wages. Others fear that global development will have an adverse effect on the environment. Still others fear that a free trading system will be dominated by U.S.-based multinational corporations. Efforts to deepen North American integration will undoubtedly provoke the same groups plus others in Canada and Mexico who worry that steps toward a community could diminish each country’s identity or accentuate their vulnerability.

Are these concerns legitimate? Some of the concerns stem from a fear of globalization. Certainly, as global competition increases, wealthier countries will lose unskilled or manufacturing jobs to China, India, and other middle-income countries. To the extent that workers cannot move up the value ladder, they will lose out as “producers”, even while they benefit as consumers. Of course, the essence of globalization in the modern world is that there is nowhere to hide. Canada and the United States did not lose many jobs to Mexico though they gained some higher value jobs. At the same time, all three countries have probably lost more jobs to China. The fear of cultural domination that one hears in Canada has a similar ring, though in Canada, the workers want to be free to consume products from around the world, and a part of the intellectual elite, supported by magazine and movie producers that seek protection for old-fashioned economic reasons, resist freer trade.

In an age of increasing integration, national governments should assure that the gains of trade are redistributed to those who lose the competition, and that regulations protect their people. Not all do that. Still, the premise of the “North
“American idea” is that the public of all three countries would be far better off forging rules to deepen integration than to rebuild barriers to trade.

Are the three governments prepared to give up their sovereignty for a wider community? The term “sovereignty” is one of the most widely used, abused, and least understood in the diplomatic lexicon. “Sovereignty” is not a fixed or immutable concept. Three decades ago, Canada interpreted sovereignty to restrict U.S. oil companies from investing in Canada. Mexico used it to ban international election monitors, and the United States used it to insist on “states rights” rather than human or voting rights. In each case, sovereignty was used to defend bad policies, and yet changing these policies enhanced the prestige and prosperity of the country. Sovereignty, in brief, is a misleading if not a mistaken defense against an increasingly open and integrated world.

The question is whether the people of the three countries are ready for a different relationship, and public opinion surveys suggest that the answer is affirmative and, indeed, that the people are way ahead of their leaders. A survey of the attitudes of people in the three countries during the past twenty years demonstrates an extraordinary convergence of values – on personal and family issues as well as public policy. Each nation has very positive feelings about their neighbors (although this has changed somewhat since the war in Iraq). In all three countries, the public’s views on NAFTA shifted in the 1990s. There is now modest net support, but a neat consensus: each nation agrees that the others benefited more than they have!

The most interesting surveys, however, show that a majority of the public in all three countries is prepared to join a larger North American country if they thought it would improve their standard of living and environment and not threaten their culture. Mexicans and Canadians do not want to be incorporated into the United States, and they are ambivalent about adopting the American dollar, but they are more willing to become part of a single country of North America and of a unified currency, like the “Amero,” proposed by Herbert Grubel. The “Amero” would be equivalent of the American dollar, and the two other currencies would be exchanged at the rate in which they are then traded for the U.S. dollar. In other words, at the outset, the wealth of all three countries would be unchanged, and the power to manage the currency would be roughly proportional to the existing wealth. The three governments remain zealous defenders of an aging conception of sovereignty whereas the people seem ready to entertain new approaches.

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Other surveys by Ekos of Canada suggest that people in all three countries have begun to think of themselves as part of a larger community. In Europe, instead of renouncing nationhood, Frenchmen and Germans also think of themselves as Europeans. Similarly, 58 percent of Canadians and 69 percent of the U.S. public feel a “strong” attachment to North America, and most surprising, 34 percent of Mexicans consider themselves “North American,” though that term in Spanish has referred to the United States. The surveys also outline a “North American model” that is quite different from that of the EU. For example, in considering 12 values, people in all three countries gave the highest priority to “freedom” and the lowest to government size and “redistribution of wealth.”

The October 2003 survey by Ekos found that a clear majority (56-62 percent) believe that a North American Economic Union is likely to be established in the next ten years. An overwhelming majority of the public in all three countries favored more integrated North American – rather than separate – policies on the environment, transportation, and defense, with more modest majorities in favor of common policies on energy and banking. And on the issue of whether to develop a common security perimeter for North America, both Americans and Canadians favored it by 3:1 and Mexicans by 2:1.

Despite this convergence and a popular desire to experiment, the three governments have devoted so much effort to defining differences that they have not found the time or energy to expand what they have in common. The market has advanced integration; it is time for the political leaders to address its externalities – including currency crises, development gaps, environmental degradation, terrorist threats, and infrastructural impediments. That is the challenge of the North American Commission, – to sketch an alternative future for the entire continent that the people will embrace and the politicians will feel obligated to accept.

NAFTA built an economic foundation under a formidable regional entity. North America needs leaders who can articulate and pursue a broader vision. North America’s second decade poses three distinct challenges – one for each country to take the lead. The first is for Canada – to take the lead in replacing the dual-bilateralism of the past with rule-based North American institutions. If Canada leads, Mexico will support it, and the United States will accept it. The second challenge is for Mexico to demonstrate how it would contribute and use a North American Investment Fund to double its growth rate and lift its economy. If Mexico and North America succeed, then Latin America would have reason to ride the train toward a Free Trade Area of the Americas, but if the development gap cannot be narrowed in North America, then the prospects are bleak for other middle-income countries.

The third challenge is for the United States to redefine its leadership in the 21st century to inspire support rather than resentment, fear, or unease. If the

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United States can adjust its interests to those of our neighbors, the world will look to the United States in more positive ways than it has since Iraq.

These three challenges constitute an agenda of the greatest consequence for North America in its second decade. A successful pursuit of the three challenges would produce a Community in spirit and substance as well as in word. It would not only energize the continent; it would infuse hope throughout the world.
North American Security: A Community or an Identity?

Alejandro Chanona

Introduction

North America has become a real region due to reasons of security, economic advantages and political interests, generating the idea of consolidating a North America Community by means of the deepening of NAFTA. The events of 9/11 put pressure on the countries of North America to seek a shared viewpoint about security issues and the regional vision is gradually being acquired. The three countries recognize common problems regarding security and the existence of transnational threats that cannot be treated independently. Security has become an important element of integration; the main question is if North America is building a security community or an identity in security issues after 9/11?

The Theoretical Debate about Security Communities Building: A Community or an Identity?

The classic concept of security1 centered on the military vision, on the viability and safekeeping (survival) of the State, has evolved, giving rise to a broader concept by incorporating new elements, although the State continues to be the main reference point.2

As Buzan indicates, in addition to meaning survival when the existence of the State or a society is threatened, security “has to do with conditions of existence and includes States’ ability to maintain their independent identity, their integrity

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1 Traditionally, security has been conceived starting from the military-political approach centered on viability and safekeeping (survival) of the State. According to this vision, security by definition "is and should be conceived starting from the State", and this "is and should be conceived starting from security", thus generating an indissoluble dialectic between the State/security. See: Barry Buzan, Ole Waever and Japp de Wilde, Security a New Framework for Analysis, (Boulder: Lynne Rienner Publishers, 1998), 37.

2 From this perspective, security unfolds in several spheres: the military, (related to the offensive and defensive capabilities of States and their perceptions regarding the others' intentions); the political, (referring to State organization, adequate functioning of the institutions and their legitimacy/legality); the economic, (related to access to the necessary resources, markets and finances to sustain the welfare of the population and State stability); the environmental (sustained development promotion); and the social (such as society’s ability to maintain cultural and national elements like language, religion and customs) See: Ibid.
and functionality against forces seen as hostile.”

Threats would be defined as anything that undermines the stability, viability and existence of any sphere of security. Besides traditional threats centered on the State (like external military aggression), threats of a transnational character also arise from non-State actors like international organized crime, terrorism, drug and illegal arms traffickers, corruption, money laundering and the links among them.

We know that optimal regional integration implies the consolidation of a common identity in matters of foreign policy, security and the harmonization of the administration of justice. Without a doubt, the transnational nature of the threats and challenges to domestic and international security has generated an ever greater interdependence among states in this matter.

According to Charles Tilly, a community is defined by three characteristics: a) members of a community have shared identities, values and meanings; b) those in a community have many-sided and direct relations; and c) communities exhibit reciprocity (expressing some degree of long-term interest derived from knowledge of those with whom one interacts) and perhaps even altruism (understood as a sense of obligation and responsibility).

A sense of belonging appears to be closely interrelated with membership in a political community that seems to offer protection from external threats. Identity and security are relational concepts that imply the existence of an “other” against which the notion of a collective self and conditions of insecurity are articulated. States identify positively with one another so that the security of each is perceived as the responsibility of all. Identity implies a shared view about security, defense and threats and a close sense of cohesion and solidarity.

Deutsch’s reflections are among the first attempts after World War II that consider the possibility of pacific change in international relations. According to Deutsch,

“A security community...is a group that has become integrated, where integration is defined as the attainment of a sense of community, accompanied by formal or informal institutions or practices, sufficiently strong and widespread to assure peaceful change among members of a group with reasonable certainty over a long period of time.”

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5 M. Clarke, New Perspectives on Security (London: Brassey’s, 1993), xi.
Collective identities are the agents of pacific change, which explains why interdependence and mutual responsibility among the States grow, finally leading to not considering the use of physical violence among them a legitimate mechanism for the resolution of conflicts.  

Authors from the European School, like Waever and Buzan, have worked on the idea of security communities, developing the concept of regional security complexes, through which they highlight the importance of the regions in structuring security levels.

The regional security systems theory starts from an assessment guided by political realism of the international system’s anarchic nature and the interdependence among States in security matters. According to this vision, thanks to regional integration, we go from a group of anarchic States to stability when a single actor is constituted in the international system.

According to Buzan, a regional security complex is made up of a group of States “whose main security perceptions and references are interconnected; therefore, they cannot be reasonably analyzed or solved some of them independently from others” and “whose securities are not sufficiently interdependent to render them a kind of subsystem within the general model of international security.”

The construction and dynamics of security systems are the result of the interdependence of their members, of the security perception each of them has, of the distribution of power among them and of the friendship-enmity relationships among them.

In this way, regional security systems may be built and may function based on: a) the members’ negative vision, where interdependence arises from fear, distrust and rivalry; b) an intermediate position, in which States perceive threats among themselves but reach agreements to reduce security problems amongst themselves and coming from abroad. This model corresponds to the beginnings of the European Union construction; and c) a positive vision, in which the states have no expectations or intentions of using force among themselves. This describes the development of security identity in North America.

Adler and Barnett acknowledge that there is great skepticism about political actors being able to share values and standards and to come together in diverse and reciprocal interactions that reflect long-term interests. These authors distinguish between amalgamated security communities, characterized by the

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9 See: Barry Buzan, Ole Wæver and Japp de Wilde, *op.cit.*

10 See: Adler and Barnet, *op. cit.*
political merger of their members, toward which the EU is moving, and pluralistic security communities, in which the states maintain their independence and sovereignty, such as the case of North America.

Also, they distinguish between two ideal types of pluralistic security communities: the “loosely coupled” and the “tightly coupled”. While the loosely coupled security community has a minimal definition (a transnational region made up of sovereign States whose people maintain dependable expectations of peaceful change, like NAFTA), the tightly coupled one is more demanding in two respects: a) it has a “mutual aid” society in which collective security system arrangements are made; and b) it possesses a regimen endowed with common supranational and transnational institutions and some form of a collective security system (like in the European case).

To explain how the development of a security community in general affects relations among the member states and in particular their security policies, the authors developed a security community model of evolution in three phases, which I shall use to analyze the development of the security community in North America.

a) Nascent

The governments do not make an explicit effort to achieve the construction of a security community, but they aspire to coordinate their relations to improve their respective security situation, to reduce their transaction costs and to promote trade and other interactions that benefit both parties. The States involved create organizations and institutions both to strengthen interaction and to create controlling bodies that enable compliance with mutual obligations.

b) Ascendant

This phase is characterized by a strengthening of bonding networks, by new institutions and organizations, as well as by the coordination and collaboration of the armed forces of the States cooperating with one another. Mutual trust increases and common identities arise. Both of these help consolidate the expectation of peaceful change and of the development of mutual responsibility.

c) Mature

This is a community of States that share a security identity, as well as institutions and mechanisms to defend it. The process is consolidated, as security is perceived increasingly as a common good.
Is NAFTA a Nascent Pluralistic Security Community since 9/11?

North American integration undoubtedly has peculiar characteristics, such as the asymmetry among its members, the clear hegemony of the United States and the preeminence of bilateral relations (United States-Canada/United States-Mexico) over trilateral ones. North America has become a real region due to reasons of security, economic advantages and political interests, generating the idea of consolidating a North American Community by deepening NAFTA.\textsuperscript{11}

The events of 9/11 put pressure on the countries of North America to seek a shared viewpoint, and that regional vision is gradually being acquired. The three countries recognize common problems regarding security and the existence of transnational threats that cannot be treated independently, although it is true they have opted for paused, thematic, practical and immediate work at a bilateral level (United States-Canada/United States-Mexico) encouraged by the United States’ immediate needs.

We can argue that in North America, a pluralistic security community, understood as a transnational region formed by sovereign States that maintain expectations of pacific changes, is being developed.\textsuperscript{12} The regional security system in North America will be built starting from mutual confidence and interdependence, but it will respond, in principle, to the United States’ immediate needs: safeguarding U.S. territory, especially from a potential terrorist attack.

In North America, the differentiated use the United States makes of its hegemony is clear: when dealing with regions like Africa or the Middle East it has favored, and even carried out, actions, unilaterally exercising its military strength, whereas with its North American partners it has successfully moved toward the search for plans to cooperate, generating channels for dialogue in an effort to reach viable agreements. Mexico and Canada have taken advantage of this in negotiations in order to prevent the unilateral measures of U.S. hegemony from affecting vital areas such as trade and personal life, due to the virtual closing of the borders.\textsuperscript{13}


\textsuperscript{12} Adler and Barnet, \textit{op.cit.} 30.

\textsuperscript{13} However, Mexico-U.S. relations have been under high tension recently. Both Condoleezza Rice’s announcement, Tony Garza’s letter to the Mexican government and the CIA director’s statement about the possibility of political and social instability during the coming presidential
Historically, Canada\textsuperscript{14} and Mexico\textsuperscript{15} have designed their national sovereignty and survival principles without disputing U.S. hegemony, although they tend to remain distant with respect to certain regional or hemisphere questions when their independence is at stake. Mexico and Canada share some positions like the multidimensional concept of security, the promotion of multilateralism or the struggle against antipersonnel land mines.

Canada’s North American identity is firmly established, and it clearly recognizes U.S. leadership in the region. For the United States, Canada is a trustworthy partner. Relations between the United States and Canada in security and defense matters have historically been characterized by proximity and cooperation,\textsuperscript{16} as demonstrated by the more than 80 agreements about defense that the two countries have signed (although they maintain some differences such as the position on Cuba and the conception of human security, one of the principal axes of Canadian foreign policy).

What is more ambiguous is Mexico’s North American identity. This country has been part of the North America concept only for the last decade, an identity ratified with the signing of NAFTA. At present, no matter what issue we analyze campaign have caused a lot of trouble for the Mexican government.

\textsuperscript{14} Traditionally Canada has determined its defense strategy taking into account at least five points:

1) Canada defines itself as "non-militarist", preferring peaceful means for solving controversies; 2) Canadian strategy does not develop the classic elements of self-sufficiency in defense matters; 3) The role of the Canadian armed forces is to support internal bodies, that is, the army’s objectives are not only military; 4) Canada is aware of the need for strong cooperation with the United States in matters of defense, due to its geographic location; and 5) Canada designs its defense policy without autonomy \textit{vis-à-vis} U.S. defense policy. See: Douglas Murray, “Canada,” in \textit{The Defense Policies of Nations: A Comparative Study}, ed. Douglas Murriy and Paul R. Viotti (Washington: The John Hopkins University Press, 1994), 57-59.

\textsuperscript{15} Historically, Mexico’s security and defense policies have been nationalist and defensive. Throughout the twentieth century it has developed its foreign policies based on the principles of non-intervention and respect for the sovereignty of States and international law, thus maintaining its diplomatic independence in the international realm and at the same time protecting its special relation with the United States.

\textsuperscript{16} Canada has maintained cooperative relations in security matters with its southern neighbor. Mechanisms like the North America Defense Treaty, the Bilateral Consultant Group on Cooperation against Terrorism, the Terrorist Interception Program of both countries (TIP), the United States and Canada Forum on Trans-Border Crime, the groups directed by the immigration service and customs known as Border Vision and the information exchange agreements between the United States Drug Control Administration and the Royal Canadian Mounted Police are proof of this close cooperation. The Bilateral Consultation Group for Antiterrorist Cooperation has coordinated efforts in the struggle against terrorism. The establishment of the Ad-Hoc Committee of Ministers in Public Security and Anti-terrorism, presided over by Minister of Foreign Affairs John Manley, and the approval of the Antiterrorist Act, in September and December 2001, respectively, were clear signs of the Canadian commitment to the antiterrorist struggle.
within the context of Mexico-U.S. relations, national security predominates in relation to all the matters of high politics.

In security matters, the most complete representation of the construction of a North American bloc is seen in the smart border agreements. They go far beyond the technical aspects that supposedly support them and imply collaboration in intelligence and migration policies that guarantee security in the territorial proximity of the United States, which enables it to project its military power to the rest of the world.

A Shared North American Point of View about Security and Threats?

Although there is no shared vision of the North American countries on security and the threats to security, we can find minimum agreements in the matter, derived from the United States’ immediate needs, such as the importance of border security and the struggle against transnational organized crime (terrorism, drug and arms trafficking).

Mexico and Canada share a multidimensional vision of security. In the case of Mexico, according to the 2000-2006 National Development Plan, “The main objectives of national security are to ensure the protection and conservation of the collective interest, avoiding as far as possible or minimizing any risk or threat to the physical integrity of the population and to institutions.”

Ratifying the multidimensional vision of security, the National Development Plan points out that “the real threats to institutions and national security are poverty and inequality, the vulnerability of the population faced with natural disasters, environmental destruction, criminality, organized crime and illegal drug trafficking....At present the Mexican State is not aware of any risks to its sovereignty as a result of external threats of the traditional type.”

Faced with this, the U.S. hegemonic vision appears and, using political realism to read the international system, sustains that the construction of worldwide security and the defense of the liberal order rests on the exercise of power and military might, preferring coercion and unilateralism.\(^\text{17}\)

After the events of 9/11, the United States initiated a new security doctrine that for the first time centers its attention on the security and defense of its territory (homeland security and homeland defense), restructuring its domestic and international systems to deal with non-conventional threats to its security, specifically terrorism. Homeland security implies the prevention, prediction of,

\(^\text{17}\) Political realism is based on the existence of a structurally anarchic (Hobbesian) international system, where survival is one of the main objectives of all States: the struggle for power and the use of force are key elements of the international system. The international system’s organizational principle is sovereignty; the States’ first concern should be their security, and this should be guaranteed by means of political power and military force. Likewise, in a multi-polar system, states’ security can be maintained more effectively by means of alliances and balances of power, thus opening up the possibility for cooperation.
elimination and defense against any aggression to the territory, sovereignty, population and infrastructure of the United States, as well as the management of crises and other national emergencies, which the new National Territory Security Office will be in charge of.

The new U.S. military doctrine is not based on nuclear threats but rather on a measure of the military capacity to prevent and react against any unexpected threat or attack. In this doctrine, what the United States accepts is the new nature of its enemies. Terrorists are not afraid of nuclear dissuasion; as a result, the country has developed new forms and more effective means of dissuading. 18

The United States has identified terrorism as the main threat against its security, together with the traditional transnational threats such as organized crime and drug trafficking. The United States has insisted at international meetings that issues like poverty, pandemics and the environment, among others, are not part of the security agenda, due to the fact that they “debase” the concept of security.

Nevertheless, Mexico’s case is special. In addition to the primary U.S. concern about security on the border with Mexico and the porosity of the country’s southern border, the U.S. is also worried about the country’s internal security and stability. As Dziedzic points out, “Mexico has become a point of contention for various geo-social or transnational problems 19 that do not respect national borders....That is why Mexico is –and shall continue being- fundamental for the success of the great United States strategy.” 20

The security agenda for Mexico designed by the Bush administration includes: a) traffic in immigrants; b) widespread corruption (which would potentially allow terrorist groups to set up in Mexico); c) organized crime (drug trafficking, kidnapping, thefts); d) the lack of maritime control on Mexico’s borders; e) the possibility of a terrorist attack on strategic points in Mexico, especially the oil wells. 21

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18 The new strategy contained in the Unified Command Plan is based on the awareness of all the weak points in the U.S. defense system, such as the lack of a defense system against ballistic missiles, which constitutes in itself an initiative for the development of weapons of mass destruction and the means to start them. See: Donald H. Rumsfeld, “The transformation of the armed forces,” Foreign Affairs in Spanish, (Summer 2002):148-149.


20 Ibid, 86.

21 Raúl Benítez Manaut and Georgina Sánchez, “Progress and limits of the participation of Mexico in hemispheric security at the beginning of the twenty-first century,” Security and Defense
Toward a North American Security Perimeter: 
Borders and Cooperation as Key Issues

Smart Borders: The First Step for the Security Community in North America

The borders are key areas for U.S. security. In both cases, United States-Mexico and United States-Canada, priorities are different. Whereas in the United States-Canada relationship, drug trafficking has dominated the agenda, in the case of the U.S.-Mexico border, together with drugs, migration is a bi-national security matter.

NAFTA has increased illegal trans-border interactions; this may be attributed to trade itself and to deficiencies in U.S. drug detection policies along the Mexican border. The debate between trade liberalization and more policing was made more flexible in order to not restrict trade growth on the border.

The numbers speak for themselves: during 2002, 78 percent of a total of 253 million pedestrian crossings through the 55 ports of entry into Mexico took place on the border with the United States. Approximately 89 million private vehicles and 4.5 million trucks crossed that border, and 98 percent of bilateral trade, close to U.S.$300 billion worth, took place there. In addition, there is the phenomenon of undocumented immigration of Mexican workers. The most recent estimates calculate that each year approximately 380,000 Mexicans, half of whom have no documents, travel to the United States, either to stay permanently or temporarily. All this confirms the fact that this is the border with the most crossings in the world. According to the most recent estimates, these undocumented immigrants send their families in Mexico approximately U.S.$15 billion a year, a sum that constitutes the country’s second source of foreign currency, exceeding non-oil exports and foreign direct investment.

Throughout the twentieth century, border relations between the United States and Canada have been characterized by cooperation, which has increased since NAFTA came into effect.

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23 The Canadian government has promoted a considerable number of initiatives in matters of border relations with the U.S., among which is the 1995 Agreement between Canada and the United States on Our Shared Border. In this initiative, both countries committed themselves to work together to achieve the protection against illegal and irregular border activities, to facilitate the transit of goods and persons and to promote international trade. Other measures include the 1997 Border Vision initiative and the 1999 United States-Canada Association, through which both governments created a bi-national mechanism to study common border problems to harmonize
After the September 11 terrorist attacks, the Canadian government questioned its ability to face a similar situation, recognizing the need for greater cooperation with its southern neighbor, not only for safe, proper functioning at the border, but for establishing concrete actions against any possible terrorist act. Just like in the Mexican case, the closing of the border and the exhaustive security measures implemented afterward by the United States had a great economic impact, due to the fact that border crossings were delayed up to 18 hours. Consequently, more than 50 companies from various sectors formed the Coalition for Safe and Efficient Borders in Trade, declaring at the same time full support for the Canadian government to go ahead with the necessary coordination and cooperation measures with the United States to guarantee border security.  

In the case of Mexico, the 1991 establishment of the Border Linking Mechanism did not imply the development of a long-term vision about border management between both countries. Designing border measures as answers to immediate problems and the limited scope of the mechanisms have been constants. In fact, the trans-border initiatives or cooperation policies between Mexico and the United States have traditionally been conceived as part of the international policies of border states, which have been developing informally for several years. An example of this is the relationship between Tijuana, Baja California and San Isidro, California, where their authorities have established ample cooperative actions that range from operations to prevent sailors from returning intoxicated to the United States, to contingency plans to prevent possible attacks with chemical or biological weapons.

The encouragement for creating common border security stemmed from the necessities and guidelines marked by U.S. hegemony after the 9/11 terrorist attacks. Before its North American partners, the United States has accepted the impossibility of unilaterally facing threats to the security of its territory, and has decided to encourage cooperation and concretizing agreements in the matter.

From the Bush administration’s perspective, security on the border “must be guided by the principles of co-responsibility, respect to sovereignty, compliance with constitutional restrictions and protection of human rights and of private policies and actions with respect to the border and increase efficiency in crossings of persons and merchandise and in environmental protection. In addition, corporate, trade and company associations will form a regional business coalition named “Americans for Better Borders.” See: Jimena Jiménez, Christina Gabriel and Laura Macdonald, The politics of the North American Security Perimeter: Convergence or Divergence in Border Control Policies (Paper presented at the International Studies Association, Oregon, 2003).


José María Ramos, Seguridad nacional y fronteriza en el contexto internacional y bilateral (Paper presented at the XV Social Sciences International Meeting. The Sociopolitical Dimension of Globalization in Latin America, Mexico, 2001)
life.” For his government, the fact that land borders have the type of infrastructure and administration systems that facilitate and guarantee the sustained integration of the economic region in North America has become “a vital necessity”.

According to Tom Ridge, “in the future the border will be protected through international cooperation to increase the participation of intelligence information and face more efficiently the threats presented by terrorism, organized crime, the illegal traffic of immigrants and narcotics, pests and agricultural diseases, as well as the destruction of natural resources.” Consequently, in 2003, approximately U.S.$11 billion were assigned to increase border security, U.S.$2.2 billion more than in 2002.

The construction of the so-called smart borders is North America’s most complete immediate institutional response to the threats to its security. By standardizing control procedures, smart borders can contain common threats, with which both public security and economic security will be mutually reinforced.

The smart borders initiative is developed through five principles: reinvent the border; extend economic efficiency; build security resources; share continental and global security; and develop twenty-first-century institutions.

The agreement to create a smart border with Mexico was signed March 21, 2002. Unlike the agreement with Canada (which includes 30 specific actions under four general headings: a) ensure the transit of persons; b) ensure the transit of goods; c) develop safe infrastructure; and d) coordinate and exchange information to reach these objectives), the action plan for the border between Mexico and the United States only includes 22 actions under three general headings: a) ensure the transit of persons; b) ensure the transit of goods; and c) develop safe infrastructure.

For Canada, actions aimed at the creation of the smart border appear to strengthen the cooperation that already existed with its southern neighbor in this matter. Nevertheless, former Prime Minister Chrétien discarded the idea of a security perimeter, arguing that its creation “requires a degree of harmonization of policies, particularly in the area of migration, and the refugees who might infringe Canadian sovereignty.”

The smart border between Mexico and the United States is on its way to becoming a reality. To date, a Bilateral Coordinating Committee has been established, an orientation framework has been agreed on for the protection of infrastructure and sectoral working groups on energy, telecommunications, transportation, dams, public health and agriculture have been set up. Mexico’s General Administration of Customs and the U.S. Bureau of Customs and Border

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27 Jiménez, op.cit.
Protection created three specialized working groups (on borders, law enforcement and technology and customs procedures), which meet every three months and whose main purpose is to improve the application of Indicator Technology of the Situation of Visitors and Immigrants to the United States (US VISIT) program for the control of entries and exits from the United States as of December 31, 2003.

To guarantee the transit of goods along the U.S.-Mexican border the Fast and Safe Trade (FAST) program, designed by the U.S. Bureau of Customs and Border Protection (CBP) was extended to the El Paso border between Mexico and the United States as of December 4, 2003.

The NAFTA Security Perimeter

Although the smart borders strategy is the first step in the creation of the security community in North America, it must be pointed out that these are bilateral agreements, centered on the legal flows of merchandise and persons, and their main objective is to standardize procedures and promote the security of both U.S. land borders. This explains the importance of the agreements reached at the Waco Summit and of the recommendations by the Independent Task Force on the Future of North America, both oriented toward the creation of a North American security perimeter that transcends the idea of smart borders, and the definitive push for the process of construction of the security community.

At the March 2005 Waco summit, the three countries’ heads of state signed the Security and Prosperity Partnership of North America, which includes the creation of a security perimeter to combat internal and external threats to security. This will also enable the implementation of a common model of response to emergencies that will guarantee the protection of the region’s infrastructure and ensure efficiency in moving goods and persons.

As of September 2002, the FAST lanes operate at five points of entry on the border between the United States and Canada: Detroit and Port Huron, Michigan; Buffalo and Champlain, New York; and Blaine, Washington. To be eligible for the FAST lane, manufacturers, importers and transportation companies must participate in another program of the CBP against terrorism, the Customs–Trade Association against Terrorism (C-TPAT), according to which companies develop and implement security plans to improve security operations. Truck drivers must submit information that will enable CBP officers to evaluate if the applicant represents any danger. The approved applicants receive a FAST Commercial Driver Identification Card. The FAST has additional security characteristics on the U.S.-Mexico border. Manufacturers and transportation company drivers who participate in the FAST between the United States and Mexico are required to use high security mechanical seals on all of the containers or trailers going to the United States. Customs and Border Protection shall continue examining these deliveries with X-rays, dogs and other equipment to guarantee the integrity of the FAST program. The CBP also expects the additional security to improve their continuous efforts to intercept drugs along the border.
Also, based on the principle that our security and prosperity are mutually dependent and complementary, the North American leaders committed to work to develop a common approach to security.

The idea of the North American security perimeter is also present in the Independent Task Force on the Future of North America’s Chairmen’s statement, released before the Waco meeting. According to the Independent Task Force, it is necessary to create an Action Plan for the North American Borders, through further agreements on the smart borders, and to include elements such as the joint inspection of container vehicles entering North American ports, the creation of a common approach in the international negotiations related to global movement of people, cargo and vessels, as well as the harmonization of: a) visa and asylum policies; b) the procedures of identification and tracking of persons, goods and vehicles (identified by biometric characteristics); and c) tracking procedures and monitoring of exits and of imports and exports; as well as the sharing of transit information.  

The proposal also points out the importance of extending cooperation to the area of law enforcement and to matters related to defense. However, at least in the short term, trilateral agreements are not likely to be signed in these matters, given Canada’s ambiguous position on the subject and, above all, due to the impossibility of Mexico’s accepting participation in measures such as the creation of a trinational intelligence center on threats, joint training of police forces or participation in a trinational defense force.

As an example, we have Mexico and Canada’s reactions to the establishment of a Northern Command (NORTHCOM) within the framework of restructuring North American security and defense policies.

In Mexico, the executive, Congress and the army itself refused any Mexican participation in NORTHCOM. For the Mexican military, this is normal procedure and does not involve the country’s military sovereignty. Given tradition in the matter of foreign policy and internal conditions, it is clear that, for the time being, Mexico will not risk participating in any security system involving direct armed forces participation. Military and security collaboration with the United States will continue to happen in the fight against drug trafficking and cooperation, but it will not mean, at least in the short term, greater participation in international missions, which would be limited to humanitarian assistance in case of disasters and to nearby areas.

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30 For decades, the Mexican armed forces have systematically helped countries affected by hurricanes, earthquakes, storms and forest fires. Mexico’s Senate has authorized the military to leave the country for humanitarian missions. Solidarity work beyond Mexico’s borders has been clear in recent years in the support given to several Latin American countries: “In 1996, help was given to Costa Rica, Nicaragua and Cuba, struck by hurricanes, and to Ecuador after an earthquake. In 1998, support was given to Bolivia when it was hit by an earthquake and to the Dominican
Therefore, today, the armed forces continue their struggle against drug trafficking and organized crime, terrorism and illegal trafficking in arms and persons, besides helping to solve “the insufficiencies in the poorest areas of our country, where support is needed in social, educational and health areas.”

But Canada’s reaction was ambiguous. In principle, Canada defined the command as an internal U.S. policy; however, the government announced it would begin a series of consultations with its southern neighbor in this matter. The North American Air Space Defense Command (NORAD) has served as a framework for surveillance of air routes in the United States and Canada through the Noble Eagle Operation, which keeps armed airplanes alert for irregular patrolling to identify and intercept suspect flights. However, at the same time, former Prime Minister Chrétien discarded the idea of a security perimeter, arguing that its creation "requires a degree of harmonization of policies, especially in the area of immigration and refugees, which might infringe on Canadian sovereignty.”

Finally, Canadian Prime Minister Paul Martin denied any participation of Canada in the U.S. ballistic missile defense program, thus putting an end to two years of internal discussions on the issue. However, he confirmed Canada’s commitment to promoting regional cooperation in security matters, by strengthening borders, reinforcing sovereignty in the Arctic and Canada’s participation in NORAD.


Between September 2001 and March 2003 there were 27,000 flights to dissuade, prevent and defend themselves against potential terrorist attacks besides consolidating interagency cooperation and carrying out Plan of North America air surveillance, meaning a greater coordination of the North American Air Force-Surveillance Council. Also, an agreement to establish a Bi-national Planning Group for two years was signed. In this framework NORAD has conducted a series of exercise training flights in coordination with the U.S. Federal Aviation Administration throughout the United States and Canada. Northcom. General Ralph Eberhart, Statement before the House Armed Service Committee United States House of Representatives, March 13, 2003. http://armedservice.house.gov/openingstat...leases/108thcongress/03-03-13eberhart.htm

Undocumented Immigration and Drug Trafficking on the Mexico-United States Agenda: The Ghost of Unilateralism

We must also take into consideration the fact that smart border agreements are intended to guarantee the legal transit of persons and goods, as well as the development of the adequate infrastructure along both U.S. borders. Consequently, although it is an important step for the creation of a security perimeter in North America, the great pending task will continue to be dealing with the issue of the immigration of Mexican workers (“illegal” for United States, “undocumented” for Mexico) in which the tendency is that unilateral U.S. actions on cooperation and understanding will prevail.

Without a doubt, the United States and Mexico will have to design an ambitious border agenda, which must include migrants, smugglers of people (“polleros”), smugglers of goods, organized crime, water supply and environmental protection. After the events of September 11, 2001 most analysts were optimistic in considering that, in exchange for an immigration agreement, Mexico could be totally cooperative in seeking effective border security.34

However, despite the fact that the United States considers illegal migration one of the threats to its security, the struggle against terrorism and practical actions concerning border security subordinated a possible immigration agreement with Mexico. On the contrary, Tom Ridge has publicly stated that “undocumented aliens are as dangerous to the United States as terrorists, drug dealers or weapons of mass destruction.”35

The latent concern regarding the possibility that Islamic terrorists may enter the United States from Mexico became stronger in August 2004 after the arrest of Farida Goolam Mohamed Ahmed. According to more recent data, between September 1, 2003 and August 2, 2004, the Border Patrol arrested 57,633 non-Mexican immigrants and, since 9/11, has arrested 700 immigrants related to terrorist groups.36

U.S. attention is still focused on the porosity of the border and, independently of the Agreement on Smart Borders, it is unilaterally promoting its own border security agenda by strengthening border controls, which may even lead to the exclusion or marginalization of its North American partners’ interests. That is the

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reason for the importance that Mexico and Canada place on the reinforcement of the dialogue and cooperation with the United States.

There are numerous examples of strengthening of border controls and of anti-migrant actions, such as:

- Greater control along the border with Mexico, the clearest example of which is the Arizona Border Control (ABC), an operation that aims to strengthen border surveillance, with a budget of half a million dollars per week. The project includes the use of Predator-type spy planes, an increase of 400 Border Patrol agents, the establishment of a special camp on the Tohono Indian reservation to concentrate undocumented migrants and a voluntary repatriation program.

  The strengthening of controls on the Mexican border includes Border Patrol use of rubber bullets and mustard gas against the migrants, apparently agreed within the framework of the 2001 Action Plan for Border Security, which has recently been the subject of numerous debates within Mexico.

- The announcement made by former Attorney General Ashcroft concerning the possibility of detaining any undocumented migrant "for security reasons" indefinitely.

- The control and even non-recognition of the Mexican consular registry, an identification document that over 1,200,000 Mexicans in the United States have.

- The unilateral deportation of undocumented workers detained in Arizona (even chaining their hands and feet) within the framework of the Lateral Repatriation Program and staging raids in areas where a large number of undocumented aliens live, such as California.

- House of Representatives passage of the Real ID Act, which argues security reasons to limit political asylum; modifies a series of uses of the Consular Registration (such as making it insufficient for applying for a driver's license and requiring proof of legal residency); authorizes the construction of a 5.5 km. extension of the San Diego security wall (making it a total of 22.4 km long); and requires that the Department of Homeland Security develops and implements a pilot program to identify and test land surveillance technologies in Tucson, Arizona.

  For Mexican authorities, the way to face the challenge of illegal immigration between both countries lies in a guest workers’ agreement. However, in the short term, the possibility of signing an agreement of this kind seems remote, while
actions against immigrants to strengthen U.S. safety measures will continue to increase.

On the other hand, drug trafficking, and especially the wave of violence that has broken out in the last few weeks in Mexican border states, is the other difficult issue in the Mexico-U.S. relationship. Drug trafficking, on the bilateral agenda since the 1980s, seems to be reaching a point that requires the renewal of cooperative efforts by both countries to combat it.

As I have mentioned before, Mexico’s internal stability is a security issue for our northern neighbor. Consequently, the United States government has made public announcements regarding the violence generated by drug traffickers, in order to “protect” its citizens who travel to Mexico.

Thus, on January 26, the State Department issued an announcement alerting its citizens to the insecurity along the border with Mexico. Later, the U.S. ambassador to Mexico sent a letter pointing to the increase in violence in the border cities and Mexican authorities’ inability to stop it.

In view of U.S. announcements and the possibility of having Mexico return to the list of countries which the United States submits to the process of “anti-drug certification”, the Mexican government has responded by adhering to its foreign policy tradition, demanding from its North American partner respect and non-intervention in the internal matters of the country. However, if this reaction from the Mexican government is not accompanied by a negotiating strategy, it is very likely that the cooperation between both countries will be subordinated and threatened by U.S. unilateralism.

Unfortunately, the disagreements between both governments seem to be prevailing over encouragement for new cooperative actions. Mexico should benefit from U.S. concern about the security along its northern border and the country’s general stability by proposing new cooperation programs. President Fox’s government has the possibility of opening negotiations with our northern neighbor, resulting in the contribution of resources and technology, not only to combat drug trafficking, but also to shore up attention to other priority issues for our country, like social exclusion and unemployment, which tend to foster insecurity.

37 According to the State Department, 27 U.S. citizens have been kidnapped, two were murdered and 11 are still missing.

38 Among other things, Ambassador Garza said that, “Although violence in border cities is not new, the fight among groups of drug traffickers is increasing and has resulted in drastic increases of murder and kidnapping, posing a threat to the integrity of U.S. citizens.” He also expressed his concern regarding “the local police forces’ inability to combat the drug lords. Kidnapping and violence in general will have a negative effect on tourism and trade along our borders, which are both vital for the region’s prosperity.” And he denounced impunity, saying, “The criminals have an impressive arsenal of weapons, since they know that it is not very likely that they will be caught and punished.”
Conclusions

The events of the 11 of September of 2001 started the building of the security community in North America, the security is the main issue of the integration: the three North American countries have recognized that is a necessary condition for the economic development. Beyond an identity, a community is in the making.

The conformation of North America on the basis of security matters is increasing and the framework for a trilateral convergence is there. Although it is in its initial stage, the recognition of the North American security community shifts the problem to the definition, conformation and implementation of these policies, putting them in their correct context. At the end of the day, even though the construction of an identity is debatable, the building of a community is unavoidable.

Reality is proving that national interests and threats go beyond our borders, thus expanding the effects of national security to the space of regional security. The projection of a regional North American bloc in international politics is far from being a fact. However, what is happening is that a regional bloc is coming into being with political progress in the coordination and articulation of actions, although under U.S. hegemony.

The security community, in the sense of a common identity and an automatic identification of common threats in relations among the North American countries, is far from being explicit. In addition to the historic heritage, Mexico is trapped in a definition of foreign policy and security; there are differences inherent to the asymmetry among the countries, which for economic reasons, such as migration and work, foster various opposing forms of nationalism that show the divergence of national interests.

Cooperation of all kinds will deepen among the three nations of North America. And, once more, Canada will continue to be ahead in deepening cooperation in military matters. In the meantime, Mexico will try to safeguard U.S. security by stepping up its efforts to organize smart borders to make sure that it honors its interest in supporting its neighbor, as well as by maintaining internal stability and a minimum agreement among the country’s political forces. Currently, however, disagreements tend to prevail over agreements. Nevertheless, one of the highlights of Mexico-U.S. relations is that Mexico’s economic, political and social stability is a priority for the United States, a situation which, besides requiring increased cooperation on border security matters, opens an important window of opportunity for negotiations with the Mexican government, including the issues of the multidimensional security agenda such as the fight against poverty, diseases and the environmental deterioration.
The Future of Mexican-U.S. Economic Relations: Is the EU a Model for North America?

Gustavo Vega Cánovas

Introduction

In the last few years some analysts and observers of North American integration in Mexico but also in the United States, have been proposing the need for a deepening of North American trade and investment liberalization toward higher levels of integration covering social and immigration policies. In these proposals normally one finds references to the European Union (EU) as a model of integration that North America should follow.¹

In this paper I will address two questions. First, to what extent is the EU a useful model for the near future integration efforts in the North American region. Second, what is the likely future evolution of North American integration? In order to answer these two questions, first, I will compare the experiences of the North American Free Trade Agreement (NAFTA) and the EU and will try to demonstrate that although NAFTA and the EU share important commonalities in terms of extent and depth of integration, they are also very different in terms of origins, goals, scope, degree of institutionalization and centralization and because of this, one important lesson one can draw from the EU experience is that higher convergence in the social field is not likely at least in the short term in North America. However, in the second part of the paper, I will argue that September 11th opens in my opinion a possibility to advance the process of integration in the trade and migration fronts. In order for this to happen a Schengen type of agreement would have to be negotiated between Mexico and the United States.

Economic and Political Models which account for Processes of Integration

Economists as well as political scientists have formulated models useful to understand processes of integration. These models normally entail categories that try to account for the nature and extent of integration, both economic, social and political. For instance, in economics there is a model which is normally used to

account for regional processes of integration which departs from the assumption that integration can be explained on the basis of a continuum which starts from a basic "negative" form of integration, (which entails the removal of discrimination and of restrictions on the free movement of goods and factors of production between countries), and a more advanced "positive" form, which requires the development of common institutions and policies to enable the integrated market to function effectively and to promote collective political and economic objectives. Bela Balassa’s classic model, for instance, formulates economic integration as a process in which three cumulative stages of negative or market integration (free trade area, customs union, and common market) are superseded by two stages of positive or policy integration (economic union and total economic integration). In principle, each stage incorporates all features of the preceding one, plus a new element.

From this perspective, we can situate integration arrangements like the Asian-Pacific Economic Cooperation forum (APEC), or the former European Free Trade Area (EFTA) and go through arrangements like NAFTA, the Southern cone Common Market (MERCOSUR), and reach the EU which from this perspective, is the most advanced example of deep positive integration.

Political scientists, like Peter Smith from the University of San Diego, have also proposed models, aimed at comparing integration arrangements according to dimensions of scope, depth, institutionalization, and centralization. The advantages of these categories are that they account not only for the extent of economic integration but also for the level of political, social and legal integration among countries.

What one realizes when applying these categories is that among all integration arrangements existing at the present time throughout the world, the EU is the most ambitious and complete undertaking. The EU covers a broader range of economic, political and social issues, involves deeper policy coordination, is more institutionalized and has resulted in more centralized decision-making. But where in this continuum can we place North American integration? In order to answer this question, we will use Smith’s categories of depth, scope, institutionalization and centralization.

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4 Peter Smith, “The Politics of Integration: Concepts and Themes” in *The Challenge of Integration. Europe and the Americas* ed. Peter H. Smith (New Brunswick and London: Transaction Publishers 1993), 5 and ff. Scope is defined as the range of issues and transactions falling under the purview of the integration scheme; Depth as the extent of policy coordination or harmonization; Institutionalization as the degree to which accommodation and decision making take place in organized and predictable ways; and Centralization the extent to which there exists a central supranational decision-making apparatus to establish common policy.
The European Union and NAFTA compared

When one reviews the process of integration that is taking place in North America using the variable of scope, one has to recognize that the three countries of North America do enjoy a relationship nearly as wide as those of the EU countries. The NAFTA is clearly a result of a long-term trend towards integration of trade and investment in the North American economy. More than 80 percent of Mexican and Canadian trade is with the United States and between 33 and 35 of United States trade is with Canada and Mexico. Canada is the largest trading partner of the United States while Mexico in 2004 was the third largest. There are also substantial U.S. Mexican and U.S. Canadian foreign investment flows. Labor market integration between the Mexican and the US economies is also very high. Mexican migrant labor has had a large impact on the US economy by increasing the labor supply an effect probably greater that that arising from increased U.S.- Mexican commodity trade, direct foreign investment, or financial transactions. At least 10 percent of the growth of the U.S. labor supply since world war two is due to Mexican migrants. Besides all of the above, NAFTA itself as a free trade agreement is without doubt the most profound economic integration arrangement short of a common market.\(^5\) But here is where similarities end between NAFTA and the EU. Despite the obvious affinities, the EU as a model provide for deeper integration than does NAFTA.

The same explanatory variable of *scope* is extremely useful in highlighting the differences between the two arrangements. To begin with, the EU has had uniform custom policy since January 1, 1993. In fact, most if not all of the EU nations have already eliminated customs checkpoints along their borders. This, however, is not the case in North America where each country in NAFTA retains its own regulations and have not contemplated a common custom policy. Next, the treaties governing the EU provide for the free movement of persons among member nations. Students and laborers are particularly attended to, with European youth eligible for up to a year of education at another country's national university and uniform labor protection laws covering the entire continent. In this dimension NAFTA is also much less ambitious since migration provisions only apply to professionals, business persons and investors all of whom have the right to transfer temporarily for work in member states. The Maastricht Treaty also covers trade policy (the Council of Ministers makes decisions applied to all members), consumer protection, and defense none of which are addressed in the NAFTA agreement.

*Institutionalization* as criteria for comparison points to further striking differences. The EU has implemented coordinated policies regarding: a) trade

agreements with non-member nations (trade agreements are agreed to by the Union, not individual countries), b) macroeconomic policy (member states may not permit run-away inflation nor unilaterally devalue their currencies), c) social security, d) tax legislation, e) health programs, f) competition and quality issues, and consumer protection. NAFTA countries are free to pursue their own policies on all these issues. Furthermore, the EU has established a common currency, an instrument which is not likely in the future in North America though it is only used for large inter-member transfers and each country continues to maintain its own legal tender.

Considering the fact that both arrangements exist in the form of a diplomatic treaty, it may be unfair to say that one is more institutionalized than the other. Nonetheless, the EU allows decision making to take place in more organized and predictable ways than NAFTA does. For this reason, I would contend that NAFTA is not as formal an organization as the EU. This fact, notwithstanding, the very legal nature of both organizations provides for institutionalization far more thorough than APEC, the Andean Pact, with the exception of MERCOSUR.

The argument for centralization is not as ambiguous. The EU clearly has a much more advanced central decision-making process: The European Commission draws up proposals that are binding on all members. No such body exists under the terms of NAFTA. In fact, changes to the treaty are negotiated on an ad-hoc basis. Dispute resolution does go to a central trade commission, but its decisions are not binding (though one country may retaliate against another that continues with policies that have been deemed unfair by a binational panel). The North American Free Trade Area also lacks institutions correlate to the European Council, Court of Justice or Court of Auditors. Another aspect of EU policymaking glaringly missing from NAFTA is the existence of a democratically-elected body to assist in its administration.

Despite the similarities, it is clear, then, that the EU and NAFTA are two very different arrangements. Even when one steps away from Smith's explanatory variables the differences are clear. In NAFTA one country (the United States) is able to overpower the other two through pure economic might and a disparately large population. Such is not the case in Europe, where the largest country (Germany) contains less than a quarter of the group's people and earns less than 35 percent of its gross product. Further, the wage and GNP per capita disparities among EU nations (which measure about 3:1, Germany: Spain) are much smaller than those in NAFTA (where a 10:1 disparity exists between the United States and Mexico).

The question then arises, why are the two arrangements so different? After all, both are integration schemes that involve western countries with a long tradition of market-based economic policy. One obvious explanation is that the EU is simply much older than NAFTA. Although founded in 1957, the EC did not even reach the point of free trade until 1968. If this is taken as a guide, it
might be assumed that in thirty years the North American Continent will be as integrated as the European.

This explanation only goes so far, however. The two treaties rose out of very different historical environments. It is perhaps foolish to assume a post-Cold War economic pact will develop in the same way one did that was founded during the Marshall Plan era. The differing surrounding elements do offer a compelling explanation, however. The needs of the European countries in the 1950's were markedly different from those of North America in the 1990s. Perhaps the most pressing reason for unification in the 1950s was the need to strengthen Western Europe to such an extent that it could resist a Soviet-led invasion. Clearly, North America faces no such threat today. Further, factories in post-World War II Europe needed to find economies of scale if they were to successfully rebuild. The productive plants of Canada, Mexico and the Unites States have not faced similar destruction since the Mexican Revolution in the 1920s.

NAFTA was implemented for a unique set of reasons. To begin, with, Mexico was saddled with such high debt payments that it had no choice than to seek outside capital if it were to develop. It, therefore, sought a trade and investment agreement with the most powerful economy in the world. From a northern perspective, The United States wanted to help stabilize Mexico's economy in order to prevent the negative shocks that would transfer to the States of Texas and California if their southern neighbor were to continue experiencing economic and political difficulty. Canada simply wished to prevent the United States both from granting better trade and financial treatment to Mexico and from positioning itself as the only viable conduit to trade in the Americas.

This being the case, it is perhaps inappropriate to expect the EU and NAFTA to be overly similar. They grew out of different eras with different needs and for different reasons. In fact, in direct contravention of NAFTA, the EU has always been considered a political union first and an economic union second. The two treaties were never meant to be considered equal.

Spill over in North America?

There is a long standing debate in the literature about the political and economic impacts of economic integration in the countries involved. The question is whether once the process of integration is initiated at the lower level, there is a tendency to move more or less automatically from one stage to the next. Political theories of integration have often asserted such logic, while pure economic theory remains more skeptical.\(^6\) Taking the EU example one could argue that indeed there is an inexorable logic to economic integration, even though the reactions of the Danish, French and English electorates to deeper stages of

\(^6\) Robson, 59-61.
integration clearly prove that the progress beyond the customs union is unlikely to be smooth.

However, if one takes other examples like the free trade agreements forged on an individual basis between what at that time was the EC and members of the European Free Trade Association (EFTA) (Iceland, Norway, Sweden, Finland, Austria and Switzerland) one could reasonably argue that free trade areas can achieve stable equilibrium at levels that do not entail significant elements of supranationality, that is, that economic integration can be managed and contained at an early stage at least for a long time as the case of EFTA countries show.  

In principle, it is clear that NAFTA countries have intentionally chosen the EFTA rather than the EU route, but what is the likelihood of the NAFTA following, albeit over some time the EU path of positive deepening integration? In my opinion, this will not happen for the near future. No country in North America would accept the erosion of sovereignty involved in the EU model.

In clear contrast to the EU whose members have been willing to surrender their sovereignty in order to achieve common purposes, Mexico, Canada and the United States have guarded their sovereignty with great zeal. Mexico is extremely sensitive over key economic areas such as petroleum and over its autonomy in foreign affairs. Canada’s views are shaped by some of the same forces: cultural industries and water resources are to Ottawa what oil is to Mexico, while its sensitivity to autonomy in at least foreign economic policy is equally strong.  

For instance, both Mexico and Canada have expressed opposition to an integration arrangement in the form of a customs union or a common market in the North American context because a customs union or a common market require that a uniform set of trade and commercial policies be applied to all non-members. Mexico and Canada have given clear signs that they do not wish to follow U.S. initiatives on trade with the outside world. Both countries have maintained trade relations with Cuba after the United States ceased to do so. In other words, Canadian and Mexican strategic elites believe

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7 Victoria Curzon Price has aptly demonstrated that the free trade technique very successfully managed the relationship between the EC and the EFTA countries where these latter group of countries “had no stomach for the highly intensive form of economic integration on which the EC was prepared to embark” and wanted “to keep a free hand not only in trade policy but in ... industrial policy.” See her Free Trade Areas, The European experience. What Lessons for Canadian-US Trade Liberalization, Observation no. 31 (Toronto: C.D. Howe Institute, 1987). Of course, the recent adhesion of most of EFTA countries to the EU would seem to support the idea for the inexorable logic of economic integration. However, the fact that it took such a long time would support the notion that free trade areas can be contained at least for a good number of years.

8 The contrast between the United States and Canada is, of course, narrowed considerably by a shared Anglo-Saxon origin, similar economic level of development, a federal political structure, North Atlantic Treaty Organization (NATO) membership, and an alliance during two world wars.

9 Let us remember that in the past Mexico also maintained trade and economic relations with Nicaragua during the Sandinista regime despite strong opposition from the United States.
that if they are to preserve their autonomy in foreign economic policy, they cannot accept a common market's legal restriction on its capacity for independent action. 

In the case of the United States, it is clear too that U.S. leaders are as unwilling to share or surrender sovereignty as its North American counterparts are. As an author has said: "The first impulse of great powers when faced with threats to the effectiveness of national policy is often to try to reinforce unilateral control by asserting extraterritorial jurisdiction, as the United States has sought to do." There are many examples of this U.S. impulse like the October 1992 "Cuban Democracy Act" i.e.: the Torricelly Law in the trade field, or the Helms Burton Law.

A second important factor that will prevent NAFTA from following the pattern of Europe in the social field soon is the wide income disparities prevalent among the three NAFTA countries. These large income disparities would make the process of deepening integration very difficult and augment adjustment problems. As Hufbauer and Schott have pointed out, the European Community (EC) spanned a wide divide when it incorporated Spain and Portugal, countries whose per capita GNP levels at the time of accession (January 1986) were $4,860 and $2,250, or 40 percent and 19 percent, respectively, of West German per capita GNP. By comparison, Mexico's per capita GNP was in 2004 only 12 percent that of the United States and Canada combined. Moreover, there were fewer people to accommodate at the lower income levels in the EC case, thus limiting the adjustment burden and simplifying the task of paying for adjustment assistance.

In consequence, if these important factors seem to preclude that NAFTA may in the near future follow the European pattern in terms of social integration, what is the likely future evolution of it? In order to answer this question, I think it is important to present a picture of what impact NAFTA has had for Mexico since it entered into force in January, 1994. Is it achieving the purposes for which it was

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10 Mexico, for instance, has continued in the last few years to pursue trade initiatives with other regions. It has signed free trade agreements with 42 countries in Latin America, Europe, Asia and the Middle East. Canada also has shown a strong interest in increasing its trade ties with other countries in Latin America and Europe.


13 The difficulties present in North America to follow the EU route should not preclude the possibility that North American integration may take an unprecedented form in which elements of policy integration were instituted before lower levels of integration were complete. In fact, as we will argue in the following section, September 11th opened the door for this to happen in the migration field.
negotiated? Can the European experience offer any lessons to improve the integration process in North America? In the next section, I offer answers to these questions.

**Structural Change in Mexico Since the 1980s**

One way to appreciate the impact of NAFTA on the Mexican economy is by showing the strong process of structural change that the Mexican economy has experienced since the opening of the economy and especially since NAFTA went into effect. The following table shows the performance of the economy during successive periods, from the administration of President Miguel de la Madrid, who initiated the opening of the economy (1983-88). This was followed by President Salinas (1989-94), the crisis of 1995, and the successful stabilization and growth during the period of President Ernesto Zedillo (1995-2000).

<table>
<thead>
<tr>
<th>Table 1</th>
<th>Economic Performance by Periods 1983-2001</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP (annual growth %)</td>
<td></td>
<td>1.1</td>
</tr>
<tr>
<td>GDP in manufacturing (annual growth %)</td>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td>Manufacturing employment (annual growth %)</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Trade balance ($bn annual avg)</td>
<td></td>
<td>7.0</td>
</tr>
<tr>
<td>Exports (annual growth %)</td>
<td></td>
<td>16.7</td>
</tr>
<tr>
<td>Imports (annual growth %)</td>
<td></td>
<td>12.0</td>
</tr>
<tr>
<td>Manufactured exports ($bn annual avg)</td>
<td></td>
<td>7.3</td>
</tr>
<tr>
<td>Current account balance ($bn annual avg)</td>
<td></td>
<td>1.8</td>
</tr>
<tr>
<td>Foreign direct investment ($bn annual avg)</td>
<td></td>
<td>2.3</td>
</tr>
<tr>
<td>US GDP (annual growth %)</td>
<td></td>
<td>4.4</td>
</tr>
<tr>
<td>Foreign debt, end of period ($bn)</td>
<td></td>
<td>101.8</td>
</tr>
</tbody>
</table>

Source: INEGI, US Department of Commerce, and Ecanal

**Macroeconomic Overview**

The changes in the economy from before the NAFTA to after can be easily seen. Although Mexico suffered a devaluation and financial crisis in 1995, only one year after the NAFTA went into effect, this crisis was not caused by free trade. The high current account deficit, which reached $29.7 billion in 1994, or 6.8 percent of GDP, was caused by heavy overvaluation of the peso exchange rate, as the currency had been used since 1989 as an anchor to bring inflation down. The NAFTA undoubtedly accelerated trade growth in 1994 and thus indirectly helped to precipitate the balance-of-payments crisis. But such a crisis would have
occurred in any event, as the economy had accumulated considerable distortions from the overvalued peso.

Free trade was, however, key for Mexico to recover quickly after 1995, as the table shows. With high import growth in 1994 having caused the external deficit to rise from -$23.4 billion to -$29.7 billion, when the peso adjusted down the deficit fell dramatically. There was unprecedented growth in exports, from $51.9 billion in 1993 to $166.4 billion in 2000, which helped overcome this crisis within a short period. The current account deficit fell to -$1.6 billion in 1995 and rose only to -$2.3 billion in 1996.

Thus, for the first time in more than 30 years Mexico saw a reduction in the external current account deficit even in the presence of high import growth, which was on average 19.3 percent per year from 1996 to 2000. The current account deficit was only -$11.6 billion on average and never exceeded -$18 billion, including in 2001, when exports to the United States fell -5 percent. The low current account deficit meant that the economy could grow faster than before without suffering balance-of-payments crises, as had been the case from the 1970s through 1994.

Exports of goods and services jumped from 19.4 percent of GDP in 1985 to 32.8 percent in 2000. Employment in manufacturing, not having grown for 15 years, grew 2.5 percent per year, only interrupted in 2001 by the U.S. recession. Another significant change was that as Mexico became more integrated with North America, in 2001 its economy adjusted downwards following the U.S. recession, avoiding an expansion of domestic demand when exports were flat.

Since 1995, Mexico has had a floating exchange rate, which became validated as the appropriate regime, for it allowed Mexico to adjust smoothly to external shocks from the Asian and Russian crises of 1997-98. The floating exchange rate has been responsible for much of the success of Mexican exports and for the control of the trade deficit within manageable limits.

Privatization was another important change in the macro economy, for Mexico had a very large and inefficient state-owned sector engaged in steel, fertilizers, hotels, banks, insurance, telephones, and many stakes in manufacturing industry. From all of these industries, the state withdrew. Privatization was a sound policy, as it reduced the size of the state and budgetary transfers. But clearly one problem was that many privatizations during the term of Salinas lacked transparency and ended up in bankruptcies after the peso devaluation in 1995.

New privatization projects are now focused on electricity, gas, and a new regime for toll roads. President Vicente Fox, however, with the bad experience of the 1990s and especially because of the high cost of rescuing the banks that had been privatized, must assure the Congress and public opinion that they will not repeat past mistakes and vices before obtaining broad support for privatizations.
Foreign direct investment

Table I above shows that FDI has jumped after the NAFTA, which has led to major changes in ownership across sectors, transforming Mexican companies into more efficiently run firms and changing the way in which management operates. FDI was an average of $4.6 billion per year during 1989-94, almost trebled to $11.8 billion during 1996-2000, and reached a peak of $27.7 billion in 2001.

Apart from the greater flows of capital and technology, FDI has led to qualitative improvements in corporate governance, an area until recently ignored by Mexican regulators. That is, for the first time regulations were issued in 2001 establishing rules for the conduct of boards of directors and for the protection of minority rights.\(^{14}\)

The NAFTA has been instrumental in making Mexico more attractive and secure for foreign investors, especially because they know that the free trade regime is permanent, therefore removing a possible cause for uncertainty. It also amplified the size of the potential market to investors operating in any of the three countries.

The NAFTA contained a precept guaranteeing national treatment status to any investor from the region investing in any of the three countries. Moreover, in practice it helped create a climate more propitious to relaxing restrictions, as foreign investment was more notorious across economic activities and the public gradually saw in this an opportunity for more jobs and higher incomes. In 1995, the first foreign banks were permitted to increase their equity shares in Mexican banks to acquire control, and gas distribution was open to private investors. Later on most of the banks were acquired by foreign investors.

The positive effects of FDI have become clear across sectors of activity. Modernization of management and work standards has been visible in all banks acquired by foreigners. The contribution of foreign partners to modernize management of family-owned businesses has also been substantial. In many of the largest public firms, professional managers are now more prominent than they were in the early 1990s, while boards of directors are much more active. Investors, for their part, demand greater information on the companies’ operations.

Under NAFTA foreign capital flows to Mexico have revitalized older sectors and created new ones. Foreign investment has contributed to the establishment of state-of-the-art plants that are internationally competitive. Three industrial sectors that stand out -- automobiles, electronics and textiles, which represent core sectors from traditional, heavy and high technology industries -- have become more dynamic and competitive since the agreement became effective in 1994.

The Future of Mexican-U.S. Economic Relations

Other sectors that have not enjoyed the same kind of capital inflows have not enjoyed the same kind of success. For example, Mexico’s agriculture sector has shown mixed results under NAFTA. A dynamic export-oriented agribusiness sector coexists with a traditional self-subsistence agriculture sector. The uneven performance of agriculture reveals what NAFTA really is -- an agreement to reduce tariff barriers and promote trade and investment flows -- and the limits to what it can deliver. NAFTA is only an instrument that creates opportunities for growth in certain economic sectors, not a solution for transforming the entire economy.

Labor Markets

The NAFTA caused an increase in industrial and services employment, offsetting losses of jobs in farming. In those sectors where employment has increased, output has increased at a faster rate, so that productivity is considerably higher than it was before the NAFTA. This explains that there has been a steady increase in real wages, which continue to catch up with higher levels of wages in North America.

Nevertheless, wages have increased from very low levels after major macro crises wiped out almost one half of their purchasing power in the early 1980s. In the more recent period of 1998 to 2001, wages have shown a steady upward trend despite fluctuations in output and employment.\(^{15}\)

Labor productivity in the manufacturing industry, measured crudely as the ratio of output to employment, grew 38 percent during the 1980s up until 1990, that is, by 3.3 percent per year. From 1990 to 1993, this growth accelerated to 6.4 percent and from that year to 2001 it slowed down to 4.8 percent.\(^{16}\)

The NAFTA has been a major catalyst of the increase in productivity, which has been highly correlated with exports.\(^{17}\) (But even with such growth in productivity, labor markets in Mexico are still much less flexible than in North America. Workers continue to enjoy heavy protection against shedding or relocation; collective labor contracts contain a myriad of uneconomic conditions for companies; and measures to reduce employment are in practice extremely difficult to implement. In 2001, the combination of the U.S. recession and a strong peso exchange rate led some multinational firms in manufacturing to close

\(^{15}\) Instituto Nacional de Estadística Geografía e Informática (INEGI), various years, various statistics, at http://www.inegi.gob.mx/


down operations for the first time in many years, blaming high labor costs.\textsuperscript{18} In fact, this is one cause for the fall in manufacturing employment of -3.9 last year.

**Sectoral Developments of NAFTA**

Table II shows the dramatic increase in exports from Mexico, from $41 billion in 1990 to $51.9 billion in 1993 (8.1 percent per year) and $166.4 billion in 2000 (15 percent per year from 1990 and 18.1 percent from 1993). On this measure, the post-NAFTA period recorded most of the growth in exports.

<table>
<thead>
<tr>
<th></th>
<th>Total Exports of Mexico and selected manufacturers</th>
<th>($ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1993</td>
<td>2000</td>
</tr>
<tr>
<td><strong>Exports</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Crude Oil</td>
<td>8,921</td>
<td>6,485</td>
</tr>
<tr>
<td>Manufactures</td>
<td>29,062</td>
<td>42,500</td>
</tr>
<tr>
<td>Textiles</td>
<td>1,291</td>
<td>2,770</td>
</tr>
<tr>
<td>Chemicals</td>
<td>1,830</td>
<td>2,558</td>
</tr>
<tr>
<td>Glass</td>
<td>258</td>
<td>673</td>
</tr>
<tr>
<td>Steel</td>
<td>938</td>
<td>1,399</td>
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<tr>
<td>Transport Equipment</td>
<td>12,876</td>
<td>14,514</td>
</tr>
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<td>Electrical, Electronics</td>
<td>7,022</td>
<td>14,032</td>
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<tr>
<td><strong>Imports</strong></td>
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<tr>
<td>Agriculture</td>
<td>2,265</td>
<td>2,393</td>
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<td>Manufactures</td>
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<td>Steel</td>
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<td>Transport Equipment</td>
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<tr>
<td>Electrical, Electronics</td>
<td>7,265</td>
<td>12,511</td>
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Source: Bank of Mexico, ‘Indicadores del Sector Externo,’ various years

Table III shows that imports recorded a similarly high increase, so that the link between export and import growth became accentuated.

<table>
<thead>
<tr>
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<th>Total Imports of Mexico and selected manufacturers</th>
<th>($ million)</th>
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<tr>
<td>1990</td>
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<td>2000</td>
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Source: Bank of Mexico, ‘Indicadores del Sector Externo,’ various years

The Auto Sector

The auto sector has been the most dynamic sector in the NAFTA. Mexico’s exports, in the table, included as transport equipment, jumped from $12.8 billion in 1990 to $14.5 billion in 1993 and $51.1 billion in 2000. Mexico’s export drive started before the NAFTA, but it did not go for enough as after the NAFTA.

The automotive industry plays a crucial role in the economies of Mexico, Canada and the United States in terms of exports, employment generation, and technological and industrial development. Thus it is not surprising that the automotive sector was singled out as particularly sensitive during NAFTA negotiations. From the Mexican perspective the sector is not only the largest exporter and importer of manufactured goods, but as such it is also a prime example of the kind of intra industry trade NAFTA was designed to boost. Free trade allows firms that sell in the entire North American market to relocate their production facilities among NAFTA countries to minimize costs and take full advantage of specialization and economies of scale.

The auto industry in Mexico has taken full advantage of trade and investment policies established under NAFTA. It has gone through a restructuring process that has enabled it to increase competitiveness and to successfully integrate into the North American and the world auto market.

The automotive industry has contributed to growth and job creation. Although the 1995 peso crisis had a devastating effect on Mexican auto production with domestic sales falling 80 percent, NAFTA made it possible for the industry to recover with remarkable speed. Vehicle and auto parts production represents 2 percent of Mexico’s GDP and more than 11 percent of Mexico’s manufacturing GDP. The auto industry accounts for 20 percent of Mexico’s total exports and 22 percent of total manufacture exports.

Production jumped from 1.055 million units of cars and trucks in 1993 to 1.854 million in 2001, an annual growth of 7.3 percent. Exports were 493,194 and 1.382 million respectively, i.e. a growth of 13.8 percent per year. Domestic sales of vehicles jumped from 576,025 to 918,835 units, growing 6 percent per year despite the deep recession in 1995 when sales plummeted -69 percent followed by only a mild recovery.

Employment in manufacturing in the auto industry reached 313,157 workers in 1993, rising to 432,733 in 2001, i.e. by 4.1 percent per year. Comparing this figure with that of output growth, we can infer that there was an annual increase in productivity per worker of 3.1 percent per year. While employment in vehicle producers only rose mildly from 1993 to 2001, employment in auto parts

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19 NAFTA provisions were fully implemented this year and the specific levels of local content and export requirements for manufacturers of autos in Mexico, and the conditions for importing foreign vehicles based on sales in the Mexican market as provided in the 1989 Auto Decree were eliminated.
increased by 4.8 percent per year, significantly higher than the increase of 2.6 percent per year recorded for the whole manufacturing sector, as was shown in Table I.

Under NAFTA the Mexican auto industry has become highly integrated with its Canadian and U.S. counterparts, and vehicles made in Mexico have a high United States and Canadian content. Trade in automotive products has consequently exploded. U.S.-Mexico trade in vehicles and auto parts expanded from $14.6 billion to $47.1 billion between 1993 and 2000. Almost 25 percent of U.S. auto parts imports come from Mexico.20 Around 90 percent of Mexico’s vehicle exports are sold in the U.S. market, 6 percent in Canada, and 3 percent in Germany. Mexico has become the second largest export market, after Canada, for both U.S. vehicles and auto parts. In 2000, U.S. car exports to Mexico totaled $4.3 billion.

Mexico, largely as a result of the NAFTA, is now the eighth largest global producer of cars and fifth in trucks. The good performance of the industry makes it key for future integration with North America. Moreover, the government is keen to create conditions to attract more FDI and is in close consultation with the industry regarding taxes and other factors that affect costs and prices. In the next few years we will see greater commitments by the government to facilitate expansion and productivity growth in this industry.

The Textile and Clothing Industry

A major goal for Mexico in the NAFTA negotiation was to gain improved access to the U.S. market for its textile and clothing products through full elimination of tariffs and Multilateral Fiber Agreement (MFA) quotas. Prior to NAFTA, the so-called Special Regime enabled Mexican apparel assembled from U.S. fabric to benefit from flexible quotas and the application of U.S. tariffs only on the non-U.S. value added (in other words, “round trip” U.S. fabric was free from duty). Intensive utilization of the Special Regime by Mexican exporters established the basis for a fast growing garment industry and jobs for low skilled workers. Under NAFTA, immediate elimination of MFA quotas, coupled with substantial cuts on exceptionally high tariffs as NAFTA entered into force, extended the gains achieved under the Special Regime. Benefits were also extended to Mexican fabric producers, who became qualifying suppliers under the complex NAFTA rules of origin.21

20 Among the main auto parts that the United States buys from Mexico are wire harnesses, auto stereos, auto body parts, speedometers, engines and air conditioning parts. For its part, Mexico buys from the United States engines, wheels, seat parts, and auto stereos. A similar type of integration has occurred between the Mexican and Canadian automotive sectors.

21 NAFTA stipulates that no new quotas in the textile and clothing sector may be imposed except under specific safeguard provisions. Moreover, some products that do not meet the NAFTA rules of origin may still qualify for preferential treatment up to a “tariff preference level,”
After almost a decade under NAFTA, performance of the Mexican textile and clothing industry bears out the initial expectations. In 1995, the Mexican industry suffered from the collapse of the domestic economy. Like the auto industry, it was able to export its way to recovery thanks to preferential market access. After a sharp 6 percent decline in 1995, the industry grew 15 percent, 10 percent, and 5 percent in 1996, 1997, and 1998, respectively.

In 2000, Mexico’s textile and clothing industry exported $11 billion, contributing more than 6.5 percent of Mexico’s total exports. Two-way Mexico-U.S. trade in textiles and clothing increased from $4.1 billion in 1993 to $15.3 billion in 2000. In 1998, Mexico became the leading supplier of textile and clothing products to the United States, displacing China. Significantly, Mexico has also become the largest market for U.S. textile products. Today Mexico’s textile and clothing industry includes almost 1,200 maquiladora plants, employing close to 286,000 workers.

The Electronics Industry

The electronics industry, in a fashion similar to the automotive and textile/clothing sectors, became a major export player for Mexico as a result of trade and investment opening promoted by the NAFTA. Mexico established itself as the main trading partner for the United States in electronics, surpassing such key players as Japan, Canada, Taiwan, Korea and Singapore. In 2000, both Mexican exports of electronics to the United States and U.S. exports to Mexico amounted to about $34 billion in each direction. Electronics trade between Mexico and Canada rose from $210 million in 1993 to $773 million in 2000. Zero tariffs and a stable investment climate are behind these trade statistics.

NAFTA has encouraged Mexican production of sophisticated electronic products that go beyond mere assembly, with significant research and development now conducted in Mexico. The 1970s stereotype of low cost, labor inten-

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23 Mexico’s main textile and clothing exports to the United States are denim products, knit fabric, synthetic fabric, trousers, T-shirts, sweaters and underwear.


sive assembly no longer characterizes the new generation of electronics production.  

Some 570 maquiladora plants now operate in the electrical and electronics sectors, representing almost 12 percent of the total number of maquiladora plants in Mexico. In 2000, these firms employed approximately 350,000 workers, an increase of 80 percent over 1993 levels.

The trade and investment story for electronics, as for autos and textiles and clothing, finds firms repositioning themselves through mergers, acquisitions and greenfield investments, and restructuring their chains of supply. The result is far deeper integration of the North American economies. The reward has been higher productivity in favored sectors, a strengthened position in the world economy, and booming intra-industry trade.

The Agriculture Sector

Unlike the manufacturing sector, however, NAFTA has had very different effects over a two-tier agriculture sector where a booming agribusiness sector coexists with a self subsistence, backward and traditional sector. While the first has been able to increase its exports as a result of improved market access into the United States and Canada, the latter has been unable to take advantage of the benefits that NAFTA has provided in terms of investment and increased production.

Agriculture accounts for less than 5 percent of Mexico-U.S. trade. While trade in this sector has grown, export dynamism is concentrated among fruit and vegetable producers in northern and western Mexico who have access to credit and have traditionally been quite competitive. These producers do not engage in traditional Mexican subsistence agriculture, which is heavily concentrated in the central and southern parts of Mexico. The dichotomy between subsistence ejido-type production and export-led agriculture pushed the government to introduce a variety of domestic support policies that side-step NAFTA to sustain the livelihood of Mexican peasantry.

Regional Effects of NAFTA

Exports and investment have been the leading forces of growth in Mexico for the past five years. Both of them are closely linked to the NAFTA, but for the same reason their effects have been uneven across regions.

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27 This is the case of the Program for Direct Support for Mexican Producers which delivers cash payments to guarantee a minimum income for 2.9 million farmers who sow 14 million hectares of basic crops.
The Future of Mexican-U.S. Economic Relations

The main driver for exports and manufacturing activity has been the northern region and especially the border. South of the border, the industrial area north of Mexico City, Guadalajara, Monterrey, and Aguascalientes have all seen growth in industrial activity and in exports. These regions are all located in the northern corridor from the center of Mexico to the north east and in the western region of Guadalajara, where foreign firms in electronics have proliferated for the past years.

But regional disparities have increased after the NAFTA, for the south of Mexico has not attracted as much activity as the north. This problem has been aggravated by budget constraints, preventing the Government from investing in infrastructure and social services. Lack of opportunities in the south while there are growing exports and activity in the north, results in large flows of migrants from southern states to the northern border and eventually illegally into the United States.

The relatively high growth in the north has added pressure on public infrastructure and social services, leading in some instances, to extremely poor environmental conditions, lack of water, and other public services in northern cities. With this in mind, President Fox’s government announced an ambitious plan (Plan Puebla-Panama) to invest in infrastructure and connect Mexico with Central America through more roads, telecommunications and seaports. This plan, however, depends entirely on the successful integration of Mexico to North America. But can successful integration with North America be maintained and enhanced in light of recent events in the United States and particularly the attacks of September 11th?

The “Grand Bargain”

As we mentioned before, NAFTA’s success in achieving the aims for which it was negotiated, led some academics and public officials including president Fox himself, to propose in early 2001 that North America should advance towards deeper levels of integration very much in the European style. The proposal was bold to the extent that it did not argue in favor of what in classic integration theory would be considered a natural second or third steps, namely, a customs union or a common market but it went even further to propose a North American Community or “Grand Bargain.” The main idea of the “Grand Bargain” was that NAFTA had achieved everything that could be accomplished through a process of free trade in goods and investment and what was required next was the liberalization of labor flows and a recognition that the more developed economies, i.e., the United States and Canada, have a responsibility to provide financial support to the less developed economy, namely, Mexico to tackle some of the problems that NAFTA had accelerated like the regional polarization of the economy or the lack of infrastructure in the southern states of Mexico and infrastructural decay in the northern border.
This proposal, to say the least, was received with skepticism in Canada and the United States but in the latter country the government of President Bush decided to initiate talks to explore new ways to strengthen the U.S-Mexican economic and migratory relationship. According to some observers and participants in the negotiations, the talks basically were centering in a possible migratory agreement through which an important amount of Mexican workers would be allowed to come temporarily to work in the United States. Mexico in turn was insisting that the agreement should also include provisions to legalize the 3 to 4 million of Mexican undocumented workers that are residing in the U.S. This Mexican proposal was made famous by the Mexican Foreign Relations Minister, Jorge Castañeda as “the whole Enchilada approach.” Apparently, the Bush administration was not persuaded of the legalization proposal but had not rejected it either. But then came September 11th. What has been the impact of the September 11th attacks on the Mexican-U.S. relations? In the next section, I discuss the significance of the September 11th attacks for the future of Mexico-U.S. economic relations.

September 11th and the Need for Secure but Open Borders

History shows that stunning events can force a new perception of the world and a new set of policies. In 1941, Japan’s attack on Pearl Harbor forced the American public to follow President Franklin Roosevelt’s lead, abandon the entrenched post First World War policy of isolationism, and adopt a new policy of active engagement in world turmoil. In 2003, the tragic events of September 11th are still being debated in the United States. President George W. Bush has called for a global war on terrorism based on a new doctrine of preemptive strikes and the creation of a new Department of Homeland Security with extensive powers. How these initiatives will play out remains to be seen. But the same openness that fosters economic integration is evidently a great source of vulnerability. The United States has thus begun to adopt an array of new policies to make its domestic territory and its borders more secure.

For Canada and Mexico the new security policies had immediate and shocking implications. On September 11, 2001, the U.S. authorities took a number of immediate measures at its borders north and south. U.S. Customs went to a high level of alert which still exists (Level One: sustained and intense inspection). Automobile traffic was delayed for several hours and commercial traffic for up to 12 to 15 hours for several days thereafter. Just-in-time manufacturers, particularly auto companies and Mexican goods exporters, were in crisis. By some estimates, unexpected shutdowns due to part shortages cost auto makers up to $25,000 a minute in lost production. Cross-border retail shopping and tourism plunged. The U.S. Customs Service beefed up its staffing along the border and introduced legislation to triple the number of agents. The Immigration and Naturalization Service (INS) announced plans to introduce an entry/exit system by
2003 at airports and seaports and by 2004 at the 50 largest land entry points. This system would require visitors, including those from Mexico, to have their names recorded every time they enter and leave the country.

As these measures were adopted, Mexico’s choices seemed to narrow: either take a leap towards deeper integration and be “inside the U.S. tent” or see the bilateral border re-erected and be left outside. Debates about deeper integration predated September 11th as did work to negotiate a new initiative to allow more Mexican migrant workers into the United States and legalize the workers already living in the United States, but the range of possibilities changed that day. Deeper integration became a matter of national security: if Mexico wanted to preserve openness it had to pay more attention to security.

Longer term, the impact of a permanent increase in border transaction costs acts like a tariff, particularly on Mexican and Canadian goods entering the United States. The higher cost of exports causes U.S. customers to switch to cheaper domestic and alternative foreign suppliers. Mexico’s exchange rate depreciates as the demand for Mexican pesos declines. More expensive imports undermine Mexican living standards. Higher costs of moving people, goods and services also erode Mexico’s productivity performance. The other longer term impact could be the reconsideration of the plans to invest in Mexico by countries like Japan and those in the EU. Increasingly, they can be expected to head for the United States with new investments. Why invest in Mexico or Canada if border delays are to be a permanent factor in the other North American markets? Diversion of such investment would also undermine Mexico’s productivity growth.

Mexico is not alone in its dilemma. Increased border security raises transaction costs around the world. Some estimates put the aggregate increase in transaction costs at one to two percentage points. If these costs become permanent, some way will have to be found to offset the increase -- for example by negotiating in the WTO or the Free Trade Area of the of Americas an across-the-board reduction in industrial tariffs of an equivalent or greater amount. Mexico’s response, after a period of uncertainty and delay, was to negotiate with the United States a Border Partnership Action Plan recently announced by the two countries.28 This accord is similar to the one signed in December 2001 by the United States and Canada on Smart Borders.

The Action Plan aimed to achieve three objectives: to secure infrastructure, to secure the flows of people and to secure the flows of goods. The securing of infrastructure will aim to:

…conduct a joint survey of [the]… border to identify bottlenecks that impedes the movement of goods and people…to develop integrated infrastructure investment

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plans…and to conduct security assessments of critical infrastructure and take steps to protect them from terrorist attacks.\footnote{U.S. Department of State-Office of the Secretary, “Specific Measures that Compromise Joint Action Plan with Mexico”, Fact Sheet (2002), (http://www.state.gov/p/wha/rls/fs/8910.htm).}

The securing of the flows of people, in its turn, will aim to:

…develop and implement technology systems at ports of entry to speed the flow of bona-fide travelers; to cooperate to identify individuals who pose threats to...[both] societies before they arrive in North America and to coordinate efforts to deter smuggling of third-country nationals and establish a joint U.S. Mexico Advanced Passenger Information Exchange System.\footnote{Ibid.}

Finally, the securing of the flow of goods aims to:

…implement technology-sharing programs to place non-intrusive inspection systems on cross-border rail lines and high-volume ports of entry; develop and implement technology systems to increase security at all points of the supply chain that links producers and consumers and to expand partnerships with the private sector to increase security of commercial shipments.\footnote{Ibid.}

In other words, all these measures aim to “move the border away from the border” through fast tracking pre-cleared travelers at border points; integrated border enforcement teams staffed by the two countries with common objectives and integrated actions; Internet-based measures to simplify border transactions for small and medium sized enterprises; and infrastructure investment to improve access to border crossings through, for example, new highway bypasses that avoid congested downtown streets, along with a smart handling of goods and people at crossings. These are all sensible measures to secure an open border for goods and services.

But there are a number of sensitive measures that relate to the movement of people that still are undefined. Many measures will speed the cross-border movement of business travelers. Even permanent resident cards are contemplated, including a biometric identifier. These measures, also, will undoubtedly increase confidence that people from third countries coming to North America do not have malign intentions. But what is not clear from the border plan is the treatment to be given to Mexican migrant workers. Within this category there are, as we know, two groups: those who already reside in the United States, a group whose number reached between 3 and 4.5 million in the last decade;\footnote{Robert Pastor, op. cit.; Steven A. Camarota, Immigration from Mexico: Assessing the} and those who will, in the future, come to the United States to
work. All that was mentioned when the Action Plan was announced by presidents Fox and Bush in Monterrey, Mexico, was that the Cabinet level migration group should continue negotiating this issue the way it was charged with in previous meetings between both presidents in Guanajuato and Washington.\(^{33}\) In these meetings both presidents committed to a “Grand Bargain” in immigration flows from Mexico, that is a search for alternatives to legalize or regularize the migrants who already reside in the United States and adopt a more liberal approach for those who will, in the future, come to the United States to work.

The question, however, is whether the “Grand Bargain” approach is still a viable initiative after the September 11\(^{th}\) events. For Mexico, no doubt, immigration is an issue that has to form part of the Border Partnership Action Plan. The Mexican government considers the legalization of immigrant workers a matter of human rights and social justice -- and a necessary step in the economic integration of North America. In terms of economic benefits, legalization will help ensure that the Mexican economy receives a growing flow of worker remittances, which now run about $13 billion a year.\(^{34}\) The legalization of millions of Mexicans working in the United States will moreover improve their economic prospects and enable many to return to Mexico as successful entrepreneurs.

On the U.S. side, feelings are equally strong. Some Americans flat out oppose any increase in immigration. More immediately, the attack on September 11\(^{th}\) and the subsequent deterioration of the U.S. economy damped discussions of a “Grand Bargain” that started in the Administration and Congress in the fall of 2001. The fact that many of the terrorists overstay their visas cast a huge shadow over any legalization initiative.\(^{35}\) The recession and rising unemployment gave fresh impetus to groups that oppose the opening of the border to migrant workers. According to polls, taken after September 11\(^{th}\) the American people grew more apprehensive about what they perceive as weak border control and voiced stronger support for enforcing immigration laws.\(^{36}\)

What does this imply for a Grand Bargain on undocumented immigration and the concept of a Border Partnership Action Plan? In my opinion, the shifting


\(^{34}\) Impact on the United States (Washington DC: Center for Immigration Studies, 2001).


\(^{36}\) In a national poll conducted after September 11 by John Zogby for the Center for Immigration Studies in Washington, D.C., some three-fourths of Americans said that the government wasn’t doing enough to control the border, and nearly as many said that it should greatly increase the resources devoted to enforcing immigration laws. See Brownstein.
political landscape in the United States has superimposed security concerns on top of the already difficult economic issues wrapped up in immigration policy. Any deal on immigration will need to enhance the security climate by comparison with the current regime.

What kind of assurances could an immigration agreement provide that both satisfies security concerns and facilitates the creation of a secure border? The place to start is with the ongoing flow of migrant workers arriving in the United States. When the current recession gives way to a stronger economy, the United States should take up Fox’s challenge, put forward shortly before the September 11th attacks, to substantially enlarge the annual quota of Mexicans legally authorized to enter the United States on temporary (but renewable) work permits. In recent years, legal immigration from Mexico to the United States has numbered about 130,000 to 170,000 persons annually. Illegal immigration numbers are of course speculative, but the INS places the annual average at about 150,000 between 1988 and 1996.37

In my opinion, the way to tackle the flow problem is to start with an expanded number of legal visas, say 300,000 persons from Mexico annually. Additional visas should be issued on a work skill basis (including unskilled workers), not on a family reunification basis (the dominant test for current visas). However -- and this is where security is underlined -- to obtain a temporary work permit, the Mexican applicant will have to undergo a background check designed to avert security threats. Once inside the United States, temporary permit holders would need periodically to inform the INS electronically of their address and place of employment. Permit holders could renew their permits as long as they were employed a certain number of months (say eight months) in each rolling twelve-month period, had no felony convictions, and reported regularly to the INS. They could apply for U.S. citizenship after a certain number of years (say a cumulative five years as temporary permit holders). In the meantime, they should accumulate public Social Security and Medicare rights, as well as any private health or pension benefits.

Coupled with this substantial, but closely regulated, increase in temporary work permits, the United States and Mexico should embark on a joint border patrol program to reduce the flow of illegal crossings. The program should include features such as enhanced use of electronic surveillance, ineligibility for temporary work permit for three years after an illegal crossing, and short-term misdemeanor detention (say 30 days) in Mexico following an illegal crossing. No border patrol program will eliminate illegal crossings, but a joint program, coupled with a substantial temporary work permit initiative, could reduce the flow.

37 Camarota estimates that total legal and illegal immigration from Mexico averaged about 400,000 annually between 1998 and 2000. By implication, his figures suggest that illegal immigration was running over 200,000 annually in recent years (2001). See several documents by U.S. Immigration and Naturalization Service (2001).
That leaves the very difficult question of perhaps 4 million undocumented Mexicans living and working in the United States. There is no magic solution. The foundation for my tentative suggestions is the proposition that nearly all these people have made permanent homes in the United States and they are not going to pick up their lives and return to Mexico. Under a set of appropriate circumstances, therefore, they should be granted residence permits with eligibility for citizenship. The appropriate circumstances I envisage have two components -- a threshold relating to illegal crossings and standards for individual applicants.

- The resident permit program would be launched when the Presidents of the United States and Mexico could jointly certify that the annual rate of illegal crossings does not exceed 50,000 persons. This would entail a reduction of more than two-thirds in illegal crossings estimated in recent years. The resident permit program would be suspended in years when the Presidents could not make this certification.

- Individual eligibility would require evidence that the person resided in the United States prior to the announcement of the program. Otherwise, eligibility standards would parallel those for temporary work permits discussed earlier.

- An applicant for a residence permit who could provide satisfactory evidence of residence in the United States prior to the announcement of the program would not be subject to deportation (whether or not he met other eligibility requirements) so long as he periodically reported a place of residence to the INS and committed no felony after the issuance of the residence permit.

- Holders of residence permits would be immediately eligible for public Social Security and Medicare benefits, as well as private health and pension benefits. They could apply for citizenship say after seven years.
Comparing Canada, the European Union, and NAFTA: Comparative Capers and Constitutional Conundrums

Steven B. Wolinetz

Introduction

This is an exercise in comparative analysis. The paper examines Canada, the European Union, and the North American Free Trade Agreement (NAFTA). Its underlying premise - that political systems are best seen in comparative context - is an article of faith for students of comparative politics. Students of the European Union (EU) who began with the study of one or more of its member states will have little problem with this, while those who started from International Relations and European integration studies will have greater doubts. Pooling the sovereignties of fifteen or more member states, the EU is in some respects *sui generis*. Although to be sure, it can be considered a multilevel system of governance, in some respects different from the federations with which it is often compared, the EU is different enough to make any serious student of comparative politics pause. The EU, like many federal systems has complex decision-making procedures and impinges on the decision-making and sovereignty of its member states, and appears as a single actor in international trade negotiations, but in other respects, it is very different: unlike many settled federations, the EU unites no well-defined people, and its inability to act as a single actor in foreign affairs or defense was documented well before current splits on Iraq and the Middle East.

Difference has never stopped thoughtful students of comparative politics. The old adage that you can’t compare apples and oranges is easily met by noting that both are fruits. The EU may lack many features of federations but it is a complex multilevel system that may bear closer resemblance to lesser studied entities such as leagues and confederations. Examining the EU in comparative context is worthwhile not only because it gives us a clearer sense of what the EU is and is not, and how it has changed over time, but also because such regional systems like the EU are likely to become more common in an interdependent world.¹ This paper is unorthodox: it compares the EU to another large trading bloc, the North American Free Trade Area (NAFTA) and to one of its

Comparing the EU and NAFTA is straightforward and obvious enough. The two regional systems take in almost all of the world’s largest economies but are sufficiently different in their governance and politics that comparison in most areas can do little more than highlight difference.

Comparing Canada and the EU is another matter. To some, the comparison may sound absurd, and appear to compare fruit and vegetables rather than apples and oranges. Nevertheless, Canada is a federation and a state, with membership in international organizations. However, it is not a pattern state from which models and theories have been extracted and does not figure prominently in the comparative literature. Like the EU, Canada can be considered unique and *sui generis*. It is difficult to find another country held together by two single-track railways, two broadcasting networks, (until recently) two airlines, and one very long border. That said, Canada’s center-periphery tensions, constitutional disputes, and disintegrative tendencies make it a case about which students of comparative politics should know more. The utility of this comparison will become more obvious if we consider not only current politics, but also the construction of the Canadian confederation (the official term), which was in some respects a battle, if not against nature, against geography and thepull of easier north-south relationships.

We will begin by comparing the EU and NAFTA, highlighting differences and similarities, and then develop the more complex, but in many ways more tantalizing, Canada-EU comparison, and show why it is particularly relevant at a time, when the EU’s constitution, like Canada’s, is in discussion.

**The European Union and NAFTA: Vive le Difference?**

Comparing the EU and NAFTA is an obvious exercise in a world in which nation-states are supposed to be obsolete. Both are large regional systems bringing together sovereign nation-states. As such, they might be considered the wave of the future. Whether that is true or not remains to be seen. What is more than apparent is how different the two are. The EU was one of several transnational or international structures established during or after World War II. Despite the aspirations of Monnet or Schuman, the most important reason for the establishment of the European Coal and Steel Community (ECSC) was to find a means of marrying France and Germany and removing barriers to economic reconstruction. Creation of the European Economic Community (EEC) and EURATOM, following the European Defense Community debacle, reflected a saw-off between its two most important member states, France and Germany. Established at a time when recovery was complete and much of Europe was approaching full employment, the EEC rapidly succeeded in establishing both a free trade area and customs union in the 1960s. Although aspirations to move beyond intergovernmentalism and introduce qualified majority voting in the Council of Ministers were thwarted by French President Charles de Gaulle, the
Comparing Canada, the European Union, and NAFTA

EU launched the Common Agricultural Policy (CAP), and began developing its competition policy in the 1960s.

After General de Gaulle resigned in 1969, the way was open for British membership and the first enlargements, which included not only the UK but also Denmark and Ireland. In the 1970s, the European Communities (later the European Community, EC) established the Common Fisheries Policy (CFP), used ECSC instruments to tackle over-capacity in the steel industry and built a fabric of competition law to supplement its agricultural support policies. Direct election to the European Parliament was also agreed upon and implemented. At the same time, the European Court of Justice built up a body of case law that constitutionalized the treaties and established the supremacy of European over national law. In the 1980s, the EU moved forward again, implementing qualified voting in the Council of Ministers, proceeding with the Single Market, and agreeing to contemplate both monetary and closer political union. Well before NAFTA was contemplated or established, the EU was becoming an increasingly complex multilevel system in which decision-making competence in several policy areas had been transferred from national capitals to Brussels.

NAFTA’s story is different. Spared the misfortune of large scale wars, North Americans had no need to marry historic enemies to secure peace. Instead, NAFTA’s origins reflect the separate needs of Canada and Mexico to deal with a larger, wealthier, and far more powerful neighbor, the United States, and in particular, to counter protectionist tendencies and ensure continued access to its markets. For Canada, seeking a free trade agreement with the United States reflected the culmination of an historic debate between economic nationalists, who hoped to enhance and protect domestic industries, and continentalists, who believed that economic salvation required closer relationships with their neighbor to the south. Historically, Liberals had been more inclined toward continentalism and the Progressive Conservatives more inclined toward economic nationalism. By the 1980s, the positions had reversed: Progressive Conservatives (The Government from 1984) and the Macdonald Royal Commission (Royal Commission on the Economic Union and Development Prospects for Canada, 1985) advocated free trade, while New Democrats and some Liberals opposed them. The 1988 election was fought on the issue. Progressive Conservatives under Brian Mulroney won a second majority and negotiated the Canada-US Free Trade Agreement, which was broadened in 1993 to include Mexico.

NAFTA’s provisions are well known. The treaty opened up trade in goods not governed by other treaties, such as automobiles, which are regulated by the Auto Pact. In contrast to the EU’s founding treaty, neither the Canada-U.S. agreement nor NAFTA hinted at anything other than a free trade area. Although there are voices in Canada who believe that Canada should adopt the U.S. dollar and think that Canada will eventually join the United States, the North American Free Trade Agreement contains no aspirations for a customs or monetary union, let alone closer political union. Instead, NAFTA has been what it was advertised
to be: a free trade agreement with limited provision for the movement of people - albeit one with important consequences for the ability of federal and provincial governments to implement regulatory policies which might reflect a free flow of goods.²

<table>
<thead>
<tr>
<th>Table 1. Comparing the EU and NAFTA</th>
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<td><strong>European Union (EU)</strong></td>
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| Type of system | Free Trade Area  
Customs union  
Incomplete monetary union  
Partial governance structure: pools sovereignty in certain areas | Free trade area |
| Membership | Most European states | Canada, Mexico, United States |
| Governance structures | Complex, combines transnational and intergovernmental structures | Intergovernmental |
| Internal power relationships | Balance among larger and smaller member-states: leading role for certain larger states but no clear hegemon | United States |
| Legal basis | Treaties, constitutionalized by European Court of Justice (EJC); new constitution being drafted | Treaty |
| Scope of policy | Initially economic (tariffs, trade, competition, agriculture, fisheries). Broadened to include some health and safety, social policy, monetary policy, foreign and security policy, justice and home affairs, citizenship | Tariffs and trade with potential impact on competition, environment, and labor |
| Principal type of policy | Regulatory | Regulatory |
| Instruments | Regulations, directives, some benchmarking | Courts  
Adjudication by trade tribunals |
| Aspirations | Ever closer union | Free trade |

We need not concern ourselves with a detailed history of either the Canada-U.S. Free Trade Agreement or the North American Free Trade Agreement that superceded it. More important is to recognize what NAFTA is and is not and how it differs from the EU. Table 1 compares the EU and NAFTA. A quick glance at the chart should convince anyone that differences between these two regional systems more than outweigh superficial similarities. The EU is a complex and, at the moment, troubled multilevel system of governance. Member states pool their

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sovereignties in an increasingly wide range of policy areas and participate in complex, and in some respects, cumbersome intergovernmental and transnational structures of governance. There are larger and smaller member states. However, even though some have played more pre-eminent roles than others, no one member state is in a position to dominate others. Decisions are made in different ways. The normal or official legislative process is from the Commission to Council of Ministers and European Parliament. However, the European Council has assumed an increasingly important role in cutting through the most important deadlocks. Less visible intergovernmental structures, such as COREPER and Permanent Representations, underpin the Council of Ministers and play an important role in building consensus among member states’ day-to-day decision-making. Also important are the European Court of Justice and the fabric of European law which member state courts apply in their adjudication.3

The North American Free Trade Agreement is different. NAFTA brings together Canada, the United States, and Mexico. All three are federations, but they are not equal in status or influence. The United States is superior to Canada and Mexico in population, the size and importance of its economy, and international status. NAFTA provides both Canada and Mexico with something that some policy-makers in each country thought vital: better, though hardly perfect, access to lucrative American markets. Its governance structures are barely visible: Three councils, an intergovernmental Free Trade Commission (FTC), a Council for Environmental Cooperation (CEC), and a Commission for Labor Cooperation (CLC), bring together cabinet-level officials from time to time to deal with disputes and implement NAFTA provisions. These are staffed by small secretariats, and can decide by two-thirds vote. It is also possible to convene trade tribunals in the event of disputes.4 Even these appear to be sidelined when aggrieved interests in the United States - e.g. softwood lumber interests - can press the United States Trade Representative and the Commerce Department to impose countervailing duties outside of NAFTA and WTO trade relationships. That said, NAFTA limits the ability of local, provincial or state, and federal governments in each country to regulate economic activity. This occurs not through direct prescriptions or prohibitions, but because plaintiffs - typically business firms - in each country can ask courts in other countries to strike down regulations which may be deemed to interfere with trade or limit commercial activity. The extent to which this will inhibit health or environmental regulation remains to be seen.5


5 Barry, Dickerson and Gaisford, Toward a North American Community?; William C. Graham, “NAFTA vis à vis the EU: Similarities and Differences and their Effects on Member
Comparisons between the EU and NAFTA are better undertaken within a larger universe of regional blocs or systems. The most obvious to be included is MERCOSUR. Doing so is beyond the scope of this paper. We turn now to our less likely, but in some ways more useful, comparison between Canada and the European Union.

Canada and the European Union

Comparing Canada and the EU makes sense because both are contested multilevel systems of governance, which have or are likely to experience strong center-periphery or autonomist tendencies. Like most other nation states and political systems, both are constructs, and both are works in progress and subject to change. This is not difficult to understand with respect to the EU. Barely fifty years old, the EU has grown from a policy-specific system with six member states and competence in only one policy area, coal and steel, to a broader economic political union with fifteen (and before long twenty five and perhaps twenty seven member states). Despite neo-functionalist logic, the EU has moved, not in a smooth progression, with spillover from one policy area to another, but rather in a bumpier progression, in which we can distinguish periods of rapid progress toward ‘ever closer union’ from periods in which such progress appears at best tenuous. The European project moved into high gear in the late 1980s and early 1990s but has slowed down since then.

The EU’s present situation is difficult to discern. European integration is at a threshold from which it could either advance or regress. Earlier projects, including monetary union and ‘somewhat’ closer political union have been partially (though hardly fully) realized. In 2004 the EU will take in ten new member states. EU decision-making structures, strained with fifteen member states, will have to accommodate twenty five. Anticipating the problem, the fall 2001 Laeken European Council established the European Constitutional Convention. Chaired by former French President Valery Giscard d’Estaing, the Convention is to propose a single constitution to replace the treaties. However, it is not certain whether, or how rapidly, it will or can succeed.

Lurking behind all this is a profound sense of unease: Europe has been an elite project, built a few steps a time. Only a few of the member states have put the question of EU membership or ever closer union to their citizens for approval. Anti-European sentiments are stronger in some member states than in others, but in the late 1990s and the first years of this decade, those sentiments have been mobilized by new right parties (and occasionally smaller left parties) who themselves oppose established parties and governing elites. Replacing the treaties, constitutionalized by the European Court of Justice, with a single, more transparent document is supposed to be a solution for this.
The Canadian Case

What about Canada? To understand the Canadian story we need to go back and consider the ways in which Canada came together. Canada was assembled from British territories that did not join the thirteen American colonies in their rebellion against British rule. These initially included not only Nova Scotia and New Brunswick, in Atlantic Canada, but also Upper and Lower Canada - the present-day provinces of Ontario and Quebec. Quebec had originally been French territory but was lost to Britain in 1763. Though defeated and conquered - a fact that Québécois still regret - the territory was allowed to retain its language and religion. At the time there were few whites west of Quebec; fearing American expansion northward as well as westward, the British encouraged settlement in Upper Canada (Ontario).

Colonial governments were dominated by wealthier upper classes. Rebellions in the 1830s induced the British to establish a more broadly based regime in Upper and Lower Canada. In 1840, both were brought together in the United Province of Canada. This was a power-sharing regime in which new measures had to be approved by concurrent majorities from Canada East and Canada West. This proved to be short-lived. By the 1860s, there were pressures to unite all British North America. Requiring concurrent majorities produced frequent deadlocks. Political forces in Upper Canada were becoming restive. Incipient industrialization was underway and the population was growing, producing pressure for representation according to numbers (impossible under the equal representation clauses of the 1841 Act of Union). The Colonial Office in London wanted to unite the maritime provinces. Fears that the post Civil War United States might want to expand northward provided further impetus for a different form of government. In 1864, the future fathers of Canadian confederation came together in Charlottetown, Prince Edward Island, to discuss the construction of a stronger federation to govern all of British North America. Confederation took place when the British House of Commons passed the British North America Act in 1867. Initially, only Ontario, Quebec, New Brunswick, and Nova Scotia joined, but the promise of a rail link persuaded British Columbia to enter in 1871. Prince Edward Island followed in 1873, but Newfoundland remained independent until 1949. In between Ontario and British Columbia were territories, which became the provinces of Manitoba, Saskatchewan, and Alberta.

The Canadian Constitution (through 1982, the British North America Act, 1867) adapted British institutions to a vast territory. Provinces were constitutionally entrenched and shared in sovereignty. However, the initial design was quite

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6This is evident in a variety of ways: Quebec license plates no longer advertise ‘le belle province’ but remind driver ‘je me souviens’.

centralized. Residual powers belonged to the federal government, and federal governments could disallow acts of provincial legislatures. Rarely used, this power has fallen into desuetude. Over time, court decisions and practices have de-concentrated powers and made confederation far more decentralized. This was no more apparent than in the 1960s and the 1970s, the period in which both federal and provincial governments were building the Canadian welfare state. Activist federal governments became involved in education, health, and social welfare - key areas of provincial jurisdiction. Some provinces, and particularly Quebec, objected. All responded by building up their own provincial state apparatus. Initially, differences could be paved over by expanding budgets. Once these began to contract, conflicts were inevitable.  

From the start, Canadian governments had to cope with strong disintegrative tendencies. Dissatisfied with its terms of union, Nova Scotia did not enter the confederation until 1869, and tried to secede in 1886. The western, and to a lesser degree the eastern, provinces invariably felt shortchanged by state-building policies which they felt favored central Canada (Ontario and Quebec). Conservatives in the 19th century and Liberals in the 20th century promoted a national policy. These included protective tariffs for fledgling industries and freight rates which made it more advantageous to ship finished goods west from Ontario and wheat east to Ontario. These translated into a deep-seated sense of alienation and surge of support for parties of agrarian protest in the 1920s and 1930s, and again later in the 20th century.  

At the centre were Quebec and Ontario. However, Francophone Quebecois harbored deep grievances against English-speaking commercial elites in Montreal, then the financial centre of Canada. Within Quebec, the Roman Catholic Church maintained strong social control. Nevertheless, issues such as opposition to conscription in both world wars divided Quebec from the rest of Canada. North-south relations were also a source of continual strain. Because north-south shipping and travel was invariably easier than east-west movements, there were regular flows of people back and forth across the border. Actual boundaries were settled early on, but relations with the United States, particularly whether to resort to protective tariffs or seek free trade, could be divisive.  

Canadian politicians sought to balance these pressures by practicing a non-ideological brokerage or aggregate style of politics. Initially, Canada had a two

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party system. In the 19\textsuperscript{th} and early 20\textsuperscript{th} centuries, first the Conservatives, under Sir John A. MacDonald, and then the Liberals, under Sir Wilfred Laurier, pursued a National Policy, offering something for everyone, while building the industrial heartland - Ontario and Quebec. Initially, Canada’s cleavages were contained within a two party system, but this proved difficult after World War I. Agrarian discontent in the west fed protest movements and third parties, providing a basis for a multi-tiered multiparty system. Many but not all provinces continue to have two party systems, but from the 1920s and 1930s more than two parties were represented in the House of Commons. At present there are five parties but only the Federal Liberals can even pretend to be a nationally based party. More disconcerting, and different from most other federal and multilevel systems, parties competing at the provincial level are often not the same or even organizationally connected to parties operating in federal politics. In instances in which the parties happen to bear the same names, it is not unusual to find relatively harmonious relations between federal and provincial governments from different political families and acrimonious relations among parties of the same stripe or family.\textsuperscript{10}

Party competition is only one of several arenas in which Canadian politicians and governments wrestle with centrifugal tendencies. Parties governing in Ottawa try to represent all provinces and major cities in the federal cabinet. Regional ministers typically serve as intermediaries between provincial governments, whatever their political color, and the federal government.\textsuperscript{11} When available, patronage and federal largesse help to smooth over differences.\textsuperscript{12}

The party system is not the only setting in which conflicts are dealt with. Intergovernmental relations are equally important. The federal and provincial governments have their own line administrations and have concurrent jurisdiction in most policy area. Moreover, the provinces have to be involved in any process of constitutional change. Constitutional disputes have been a persistent but by no means exclusive source of conflict. Fiscal relationships and their ensuing policy conflicts are a close second. This reflects the build-up and later contraction of the Canadian welfare state. When the Canadian welfare state was being expanded in the 1960s and 1970s, the federal government became an important source of funding in health, education, and social welfare, all of which are areas of provincial jurisdiction. Although federal funds were willingly accepted, some provincial governments (particularly but not exclusively Quebec) opposed

\textsuperscript{10}Ibid.

\textsuperscript{11}Herman Bakvis, \textit{Regional Ministers: Power and Influence in the Canadian Cabinet} (Toronto: University of Toronto Press, 1991).

\textsuperscript{12}Carty and Wolinetz, “Political Parties and the Canadian Federation,” Herman Bakvis and Steven B. Wolinetz, “Canada: A Case of Hyper-Presidentialism?" Prepared for the ESF/SCSS Exploratory Workshop, \textit{The Presidentalisation of Politics in Democratic Societies} (Kinston, near Lewes, United Kingdom: April 12-14, 2002).
Ottawa’s attempts to impose uniform standards; for the most part, Quebec was able to insist on its right to design its own programs in areas such as pensions. Later on, budgetary restraints fuelled further conflicts. When the federal governments decided they had to bring their deficit under control, transfers to the provinces were cut, strapping provincial governments that found it difficult to sustain programs over which they felt they had little control. As a result, relations between federal and provincial governments are often overtly acrimonious.\footnote{Carty and Wolinetz, “Disconnected Competition in Canada.” Carty and Wolinetz, “Political Parties and the Canadian Federation.”}

Though never formalized, there are regular contacts among federal and provincial ministers and their civil servants. Federal and provincial governments come together in federal-provincial conferences bringing together either ‘first’ ministers (Prime Ministers and provincial premiers) or the federal and provincial ministers active in policy areas such as finance, health, education, and social welfare. In addition, provincial premiers sometimes meet without their federal counterparts. Federal-provincial conferences can be important arenas in which positions are stated, thrashed out and sometimes reconciled.\footnote{Ibid.} The former was more typical when the Canadian economy and government budgets were expanding in the 1960s and 1970s, the later more typical, when both levels of governments were balancing budgets in the 1990s. Aside from constitutional issues and center-periphery and linguistic strains, financing the Canadian welfare state is a continuous object of contention.

As noted earlier, educational, health, and social programs were financed by federal governments operating in what were previously areas of provincial jurisdiction. Typically federal moneys were available as long as provincial programs met national standards. Reducing deficits and bringing federal finances into balance has meant that the federal government finances a smaller proportion of each envelope. This has made it far more difficult for federal governments to insist that provinces, more and more inclined to go their own way, adhere to such standards. One consequence is that despite a regular underbelly of cooperation, federal and provincial relations have become more and more acrimonious. Provincial governments argue that the federal government is not paying its fair share. For its part, the government in Ottawa has been increasingly reluctant to provide transfers without strings or to fund programs for which the provinces take credit.\footnote{Ibid.}

Thus far, our discussion has emphasized center-periphery tensions and the regularity of conflict between the federal government and its provincial (and territorial) counterparts. Missing and deliberately omitted are conflicts around language, constitutional change, and the position of a modernized Quebec in
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Canadian confederation. These are important, but also better known. Language has been a continuing problem. Reflecting the quiet revolution in Quebec, Liberal governments under Pierre Eliot Trudeau promoted bilingualism, much to the annoyance of anglophones in provinces without large concentrations of francophones. Reflecting the same Quiet Revolution and the subsequent transformation of Quebec society, governments of the Province of Quebec have not only promoted French as the dominant language in Quebec, but also have insisted on both the distinctiveness of Quebec society and the right of a majority of the Quebec people to separate from the rest of Canada.

Insistence that Quebec is distinct and that it should be able to assert that distinctiveness in either a special relationship in Canadian confederation or a separate country has dogged federal provincial relations and made it difficult to resolve either constitutional or day-to-day issues dividing the federal and provincial governments. During the Trudeau era, federal and provincial governments tried unsuccessfully to agree on the status of Quebec and an amending formula which could be included in a ‘repatriated’ constitution. The 1982 Canada Constitution Act revised the Canadian Constitution by adding a Charter of Rights and an amending formula, requiring that amendments be accepted by seven of the ten provinces with 50 percent of the population and approved in a national referendum. However, this was done with the consent of only nine provinces and the unrelenting opposition of Quebec. The Quebec government opposed the repatriated constitution because it neither recognized Quebec as a distinct society nor gave the province a veto over constitutional change. Progressive Conservative governments under Brian Mulroney tried to resolve the problem through a renewed constitutional settlement, the Meech Lake Accord. This granted Quebec and the other nine provinces a veto over constitutional change and recognized Quebec as a distinct society. Initially accepted by all ten provinces, the Meech Lake Accord failed when two provinces, Newfoundland and Manitoba, failed to ratify it within the specified three year period.16

The 1991 failure of the Meech Lake package led to a flurry of constitutional activity. Meech failed, it was argued, because it had been negotiated by elites (in this case, the federal and provincial premiers closeted in a Gatineau villa) without broader involvement or success. A series of citizens forums were held, resulting in a new package, the 1992 Charlottetown Accord, negotiated by federal and provincial governments. However, this was rejected not only in Quebec but also in a national referendum. The failure of both the Meech Lake and the Charlottetown Accords contributed in part to the subsequent defeat of the Progressive Conservatives in 1993. Since then, the Liberals under Jean Chretien

16Ironically, the Meech Lake Accord could have been approved under the amending formula in the 1982 Canada Constitution Act, but reflecting its unanimity requirement, the Meech Lake Accord required unanimous consent.
have preferred to keep constitutional change and the cans of worms which it
tailed off the political agenda. Benign neglect gave way to a more aggressive
posture after 1995, when separatists nearly won majority in a Quebec referendum
on sovereignty came close to winning a popular majority. Believing that no
successful resolution was possible, the Chretien government refused to reopen
the constitutional file. It did however adopt a harder line, the so-called ‘Plan B.’
This entailed recruiting a more aggressive Quebec Minister of Intergovernmental
Affairs (a political scientist, Stephan Dion), seeking a reference from the
Canadian Supreme Court on what would be required for Quebec to separate, and
more generally putting separatists on notice that the Government of Canada
would not necessarily lay down and acquiesce to Quebec’s separation. The
Supreme Court ruled that should a majority of Quebec voters vote for separation
on a clear question that the Government of Canada would be obliged to negotiate
with it. These actions put constitutional issues on the back burner. In power in
Ottawa, the Chretien Liberals have seen no purpose to engaging the discussion.
Parti Quebecois governments would happily call for a referendum if they
thought that they could win it, but no government has felt that ‘winning
conditions' existed.

At this point, it is useful to conclude our discussion of Canada and return to
Canada-EU comparisons. We have sketched a portrait of Canada, known to some
extent to people outside the country. The Canada we have sketched is a country
with strong centrifugal tendencies. Differences among provinces and between
west and east are considerable. These include not only physical but also
psychological distances. Although it could be argued that the country (more
specifically, its English speaking part - the ‘rest of Canada’) is held together to
some extent by its public broadcaster, the CBC (English language listeners and
viewers hear or see the same public affairs programs), there are also profound
differences, exacerbated as immigration changes both Ontario and British
Columbia. True to their Westminster origins, party systems are adversarial, but
given the current fragmentation of the opposition parties at the federal level,
opposition from provincial and territorial governments to the federal government
is at least as important as the criticisms of New Democrats, Progressive
Conservatives, the Bloc Quebecois, and the Canadian Alliance.

Canada-EU Comparisons

Our sketch of Canada is necessarily incomplete, but sufficient to raise questions
about the utility of Canada-EU comparisons. These can be treated in several
ways. There were obvious parallels between “Meech Lake syndrome” and the
“democratic deficit” from which the EU was said to suffer following the
Maastricht Treaty. We could also extract cautionary tales about the futility of
constitutional discussions without sufficient consensus. But neither, in and of
Comparing Canada, the European Union, and NAFTA

itself, will tell us about the utility of systematic comparative analysis. That is the
job of this section and the conclusion which follows.

Can Canada and the EU be compared? Obviously, yes. In principle, anything

Canadians do not readily disobey their national
government - the laws of the government of Canada, including criminal and
family law, are followed inside and outside the province of Quebec - but the
national government and its institutions do not enjoy the same deep legitimacy or
affection that most Americans accord their national government and constitution.

Nor does the EU or its institutions in Brussels, Strasbourg or Luxembourg enjoy
strong affection and legitimacy from European citizens. The ways in which
central or higher level governments deal with these problems - working with
them or around them - is an area which could be studied. The most obvious
efforts - putting big signs saying Canada on the sides of federal buildings,
distributing plastic flags, financing Canada Day celebrations across the country
on Canada Day (July 1), or their European equivalents - subsidized school trips
to Brussels - may seem like better grist for satire - but it would be interesting to
know what long term effects can be attributed to EU financed exchange
programs, such as Erasmus and Socrates. Equally, it would be interesting to
know what effects divisive issues - e.g., relations with third countries,
controversial military actions promoted by third countries, conflict in the former
Yugoslavia - have on underlying identities. The same question, of course, can be
asked about enlargement.

The question of identity and the ability of citizens to hold multiple identities
and affections, is only one of several areas that might be studied. Equally
important is the whole fabric of intergovernmental relations in federations and
multilevel systems of governance. Whether we are looking at Canada and the
EU, or perhaps including European federations such as Germany, Austria, or
Switzerland, we need to know more about the underbelly of informal
relationships which underpin formal relationships. Canada is unusual among
federal and multilevel systems in that there is no arena, aside from the Canadian
Senate, in which provinces are formally represented at the federal or higher level.
Ostensibly, the appointed Senate represents the provinces. However, Senators are
appointed by the Governor General in Council (in effect, the Prime Minister) and
serve until they reach the age of seventy-five, making this at best a passive
channel. The informal channels described earlier - ongoing contacts among civil
servants, federal-provincial conferences - are more important even when they are
inactive. More to the point, though, few formal (or center-stage) processes of
intergovernmental relations succeed without substantial underpinning. Something
has to go before, smoothing and paving the way. In the EU, the most important
and least visible channels are from member state governments to Permanent
Representations in Brussels, and via COREPER and equivalent channels, the Council of Ministers. Even if the Canadian channels are not formalized, they exist, and could be compared fruitfully with EU processes and intergovernmental structures in other federal or multilevel systems. How such structures operate depends to some degree on the structures, and the extent to which they facilitate compromise and mutual understanding, but the impact of context could also be studied. Federal-provincial relations were smoother in Canada (though by no means smooth) when federal and provincial budgets and activities were expanding. Coping with contraction is another matter.

Other areas that might be studied include policy in any number of sectors, and the whole question of constitutional change. It is an open question whether the EU’s Constitutional Convention will produce a document on which existing and candidate member-states can agree. John Fitzmaurice has argued that it will succeed because it has to B i.e., the costs of failure would be too great. Fitzmaurice may well be correct, but the obstacles at the moment are formidable: disagreement on war in Iraq, annoyance, depending on the corner it is coming from, at the French and Germans or the British because of positions which they have taken; very real disagreements on the shape which an enlarged EU will take. It is possible that Giscard will succeed, and produce a package that member-states can not only accept, but which will give greater legitimacy and clarity to the European project. But it is also possible that the constitutional convention will fail, disagreeing not only on contentious issues of governance and competencies, but also on issues which would not have been raised - e.g., whether God should be recognized in the new constitution – had there been no convention. Should this turn out to be the case, and Europe finds itself suffering from a ‘maladie canadienne,’ then European leaders may regret opening this file. Whatever the case, both the process of constitution-making and the process of seeking approval, if a constitution is indeed made, call for comparative analysis. And this is valid whether the result bears closer resemblance to a successful caper or a nagging conundrum.

**Conclusion**

Let us conclude our discussion. The aim of this paper was to demonstrate - perhaps to the convinced - the utility of Canada-EU comparisons. That case has been made and there is little utility to concluding it with an extended list of possible comparisons. The agenda I have suggested is sufficient to keep students of Canadian and EU politics, and more generally students of multilevel systems of governance, busy for some time to come. What is not needed is further lists, but rather critical imagination.

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Central America and the Caribbean
Prospects for the Central American Customs Union

Fernando Rueda-Junquera

Introduction

The summit of Central American presidents held in Antigua, Guatemala, in June 1990 gave a strong impulse to the revitalisation of the Central American Common Market (CACM), regional integration scheme created in 1960 by Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. This renewed attempt at integration in the 1990s has not involved a return to the old scheme launched in the 1960s. While regional integration remains viewed as an instrument for accelerating the growth rates of the economies participating, its main goal has shifted. It is not sought to extend domestic import-substituting industrialisation (ISI) policies at the regional level, but to support an outward-oriented growth model based on the promotion of non-traditional exports. As part of this shift, the Central American governments have adopted commitments such as the liberalization of intraregional trade and the drastic reduction in the common external tariff (CET), commitments that have to materialize in the reestablishment of a customs union.

This article aims at assessing the progress of the new Central American economic integration scheme, identifying its principal potentials and weaknesses. With this purpose, the paper is structured into four sections. The first analyses the measures taken to restore the Central American customs union. The second and third sections examine respectively, the achievements and limitations of the new CACM. The fourth and last section provides the conclusions drawn from that assessment.

Reactivation of the Central American Common Market

From the statements of the presidential summits in the early 1990s as well as from the Guatemala Protocol signed in October 1993 to modify the 1960 General Treaty of Central American Economic Integration, it is followed that the Central American governments have wished to reactive the CACM under the approach of
the open regionalism or new regionalism. The governments have manifested their intention of supporting a new market-driven integration, compatible with an outward-looking economic development.

The main initiatives of the new CACM have been directed at restoring the two essential instruments of a customs union: the free intraregional trade and the CET. The last adopted initiative dates back to June 2002 when in the 21st Summit of Central American Presidents celebrated in Granada, Nicaragua, the Action Plan for the Central American Economic Integration was approved. The general objective of this Action Plan is the consolidation of the economic integration process, emphasizing the establishment of a customs union for January 1, 2006.

At present the benefit of free intraregional trade is granted to those goods originating in the CACM member countries, except to those included by pairs of countries in the Annex A of the General Treaty of Central American Economic Integration. The number of products originated from Central America that do not benefit from free intraregional trade, is small. Only sugar and unroasted coffee are excluded for all the countries. To this, there is to add the restrictions imposed on the imports of ethylic alcohol by Costa Rica and Honduras, on those ones of roasted coffee by Costa Rica, and on those ones of petroleum by-products and distilled alcoholic beverages by Honduras. For the full achievement of a free intraregional trade area, it is still necessary to eliminate the Annexe A and grant

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3 The foreseen date for entering into force the Central American customs union was January 1, 2004. As this deadline was not complied with, it was agreed to postpone it to January 1, 2006.

4 SIECA (Secretaría de Integración Económica Centroamericana), *Unión aduanera centroamericana en cifras* (Guatemala: SIECA, 2005), 91.
the same treatment to those goods not originated from the region, that is, that free trade extends to all the goods consumed—and not only produced—in the region, as well as to services (specially to those associated to the trade of goods).

In order to facilitate free intraregional trade, there has been adopted a group of regulations applicable to intraregional trade. The main regulations approved by the CACM governments have been the Central American Regulations on Unfair Trade Practices (1995), Safeguard Measures (1996), Rules of Origin (1998), Measures of Standardization, Metrology and Authorization Procedures (1999) and Sanitary and Phytosanitary Measures (1999). In addition to these regulations, there has been created a trade dispute settlement mechanism in 2002.

The aforementioned regulations provide a general framework to orientate the harmonization of norms, but it does not constitute a set of norms that serve to evaluate specific situations, what limits its effectiveness as a driving factor of intraregional trade. To amend this deficiency, proposals are been developed to advance in the harmonization of norms applying to specific situations. In this context, it is debated on the degree in which it is necessary to harmonize the existing regulation at the Central American level or if alternatively, it turns out to be better to adopt international standards. Furthermore, this debate is conditioned by the possibility that the Central American countries apply among them the norms established as part of the United States – Central America Free Trade Agreement (CAFTA) signed in 2003. This could have the advantage of constituting a set of norms in which the pressure to fulfil them would be greater. However, it would not suppose an endogenous element of strengthening and deepening of the Central American customs union.

The implementation of harmonized norms will contribute to a greater transparency and fluidity in the intra-Central American trade. Likewise, the fact that there is a formal trade dispute settlement mechanism will facilitate the application of those harmonized norms. In practice, it is still necessary to verify if this mechanism is an effective means for reducing transactions costs within the region, being able to diminish uncertainty and lead to fewer costs than those ones stemmed from the international litigations initiated to settle intraregional trade disputes.

With regard to the CET, 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 2005 there were 332 tariff lines remaining to be

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5 For example, working parties have been established for the harmonization of technical standards, sanitary and phytosanitary measures, registries (with four specific technical subgroups: food and beverages, medicines and related products, agricultural inputs, and oil products), rules of origin and regulation of intellectual property. For more details, see: SIECA (Secretaría de Integración Económica Centroamericana), Estado de avance de la unión aduanera: agosto (Guatemala: SIECA, 2004).
harmonized and 5,861 tariff lines already harmonized, which represent 94.6 percent of the total of tariff lines.⁶

Also progress has taken place in the areas of customs procedures and customs legislation.⁷ In the last years there has been a process of modernization of the Central American customs, which has translated into better methods for goods controls, as well as into a speeding-up of the trading procedures between countries. Regarding regulations, important progress has been achieved such as the entry into force in the five CACM countries, of the Central American Uniform Customs Code and its corresponding regulation. Also there exists a Single Manual of Customs Procedures, which is applied by some customs in the region. Likewise, different projects of customs legislation are being drawn up (legislation for fighting against contraband and customs fraud, reform of the Regulation on International Customs Transit Regime, code of conduct for customs officials, etc.).

As for the establishment of a common customs, the CACM has four customs administration models.⁸ 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.

The integrated customs consists of sharing a single office for customs formalities by two countries, which are members of the same customs territory. The juxtaposed customs refers to the same previous case, but keeping different customs offices in every country, that coordinate their activities. In this case, the customs offices are committed to apply complementary customs formalities through the use of electronic communication mechanisms, which guarantee the effective control of intraregional transits from origin to destination. In this respect, it has begun to work on the implementation of an electronic interconnection system allowing the early electronic transmission of the Central American Uniform Customs Forms (Formularios Aduaneros Uniformes Centroamericanos, FAUCAs) and the International Transit Declarations (Declaraciones de Tránsito Internacional, DTIs), forms required to those goods originated from the CACM.

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⁶ SIECA, Unión aduanera centroamericana en cifras, op. cit., 79-87. Motor vehicles have not been included in the total of 6,193 lines of the tariff universe because they have been classified by different tariff nomenclature in the Central American countries. Nevertheless, at present the harmonization of motor vehicles nomenclature has been already achieved and therefore, from now it will be possible to initiate negotiations for harmonizing its tariffs at the regional level.

⁷ See: SIECA, Estado de avance de la unión aduanera: agosto, op. cit.

Since 2003 major customs between Guatemala and El Salvador rely on a customs administration model either integrated or juxtaposed. These two countries are those ones that have made more progress in promoting customs and migratory facilitation in their binational frontiers.9

The trinational customs correspond to customs administration services provided by three countries which carry out their functions in a common building where they implement coordinated and uniform procedures. The Amatillo (Honduras) is an example of trinational customs shared by El Salvador, Guatemala and Honduras.

None of the three models of intraregional customs examined constitutes the type of customs that would benefit to a customs union in which free movement was allowed not only to those goods produced in the CACM, but also to those goods consumed in the region. The peripheral customs model can overcome this problem and is the one which is closest to the type characteristic of a customs union. This model consists of locating customs administration services in the exterior periphery of the common customs territory, applying the same procedures in the framework of an uniform customs legislation. In this case, those goods dispatched by the peripheral customs, could move freely within the common customs territory. Currently El Salvador, Guatemala, Honduras and Nicaragua have established a pilot programme with six border posts operating as peripheral customs: Puerto Quetzal, Santo Tomás de Castilla, Puerto Barrios and Tecún Umán (Guatemala), Puerto Cortés (Honduras) and Peñas Blancas (Nicaragua).

In sum, since the beginning of the 1990s the CACM reactivation has aimed at reestablishing a customs union. However, after almost three lustrums the new CACM remains an imperfect customs union.

Achievements of the Central American Economic Integration Scheme

New regionalism is expected to provide mechanisms promoting decisively the economic development of the Central American countries. The reactivation of the CACM has been able to stimulate substantially intraregional trade, improve its quality and attract intraregional investments, thus contributing to economic growth in the region.

9 In fact, since November 15, 2004 they have simplified substantially their procedures to facilitate goods and persons mobility. At present the customs procedure for loading traffic in the border posts between both countries has been reduced to only two stages: the haulage contractor presents the FAUCA in the integrated customs office and next, the customs official verifies the documentation and the corresponding payment. In migratory matters, when the overland route is used, travellers between Guatemala and El Salvador will only be required to enter to and leave for both countries, the submission of the migratory form in a mailbox installed in the border post. For the Salvadorans and Guatemalans using airway, their flight will be considered as domestic and so, they will only have to show the document identifying their nationality.
Since the beginning of the 1990s, intraregional trade in the CACM has experienced a steady expansion. The total value of intraregional exports and imports quintupled in the 1990-2004 period, passing respectively, from $671 and $638 million in 1990 to more than $3,300 million in 2004 (see Table 1 and Figure 1).

### Table 1
Central American Common Market: Intraregional Trade, 1985-2004 (Selected Years)  
(in millions of US dollars and in percentages)

<table>
<thead>
<tr>
<th>Year</th>
<th>Intraregional exports</th>
<th></th>
<th>Intraregional imports</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Value (US$ million)</td>
<td>Share in total</td>
<td>Value (US$ million)</td>
<td>Share in total</td>
</tr>
<tr>
<td>1985</td>
<td>485.8</td>
<td>13.5</td>
<td>540.8</td>
<td>10.2</td>
</tr>
<tr>
<td>1990</td>
<td>671.2</td>
<td>17.1</td>
<td>638.1</td>
<td>9.9</td>
</tr>
<tr>
<td>1995</td>
<td>1,595.4</td>
<td>21.7</td>
<td>1,497.6</td>
<td>12.4</td>
</tr>
<tr>
<td>2000</td>
<td>2,616.8</td>
<td>22.7</td>
<td>2,739.3</td>
<td>14.6</td>
</tr>
<tr>
<td>2001</td>
<td>2,829.4</td>
<td>27.8</td>
<td>2,933.6</td>
<td>14.3</td>
</tr>
<tr>
<td>2002</td>
<td>2,871.7</td>
<td>28.2</td>
<td>2,949.1</td>
<td>13.4</td>
</tr>
<tr>
<td>2003</td>
<td>3,076.6</td>
<td>27.3</td>
<td>3,042.1</td>
<td>12.8</td>
</tr>
<tr>
<td>2004</td>
<td>3,439.7</td>
<td>27.6</td>
<td>3,312.7</td>
<td>12.4</td>
</tr>
<tr>
<td></td>
<td>2,966.9</td>
<td>26.7</td>
<td>2,995.4</td>
<td>13.5</td>
</tr>
</tbody>
</table>

a Preliminary data.
b Estimated data.

### Figure 1
Central American Common Market: Intraregional Imports, 1950-2004  
(in millions of US dollars)

Source: SIECA (Secretaría de Integración Económica Centroamericana), Centroamérica en gráficas (Guatemala: SIECA, 2005), Figure 5.
Prospects for the Central American Customs Union

Not only the value of intraregional trade has improved since 1990, but also its quality. As it has been revealed by several studies, intraregional trade has been of a greater quality than extraregional trade, characterizing by its larger contents of manufactured products and intraindustry trade.

The sustained growth of intraregional trade is essential to increase economic interdependence among the CACM members and to reduce their external vulnerability. If intraregional trade has a growing share in the total trade flows of the Central American countries, their dependence on extraregional trade will be diminished and the impact of adverse external shocks on their economies will be reduced.

The greater quality of the intraregional trade in expansion is specially relevant for the economic development of Central America. The increasing presence of intraindustry trade in intraregional exchanges of manufactures helps to develop new comparative advantages alternative to the pattern of specialization in primary goods, since it improves industry productive efficiency and stimulates its diversification.

The growth of intraregional trade in manufactures in the new CACM also can be an important factor for achieving a customs union with net trade creating. The old CACM was bound to be net trade diverting because it commenced its existence with the imposition of a CET which raised average tariff levels in a region lacking of a significant industrial base. By contrast, the new CACM has adopted a CET much lower than its predecessor and at the same time, a minimal domestic manufacturing sector is now in place in each member country. In this context there is considerable scope for the new integration scheme to be net trade creating. The lower CET induces increase in extraregional imports and the full restoration of free trade area within the CACM enables expansion in intraregional imports.


11 The main sectors involved in the expansion of intraindustry trade in manufactures in Central America produce final demand goods. These sectors at the four-digit level of International Standard Industry Classification (Revision No. 2) were identified by: Rueda-Junquera, La reactivación del Mercado Común Centroamericano, op. cit., Ch. III. Specifically, these sectors are: 3121 (food products n.e.c.), 3211 (spinning, weaving and finishing textiles), 3220 (clothing), 3419 (pulp, paper and paperboard articles n.e.c.), 3522 (drugs and medicines), 3523 (cleaning and toilet preparations), 3551 (tyres and tubes), 3560 (plastic products, n.e.c.), 3620 (glass and glass products) and 3720 (non-ferrous metals).
If this potential trade creation comes accompanied by a high component of intraindustry trade, economic integration scheme will be facilitated. The productive structure adjustment linked to intraindustry trade is relatively costless and its effect on income distribution is less severe. In case of predominance of this trade, member countries have only to bear the cost of eliminating some firms from some industries, without having to abandon entirely those industries. By contrast, interindustry trade involves the whole elimination of some industries in some member countries due to their moving to other member countries where comparative costs for these industries are the lowest in the regional market.

In addition to enhancing intraregional trade flows in value and quality, the new CACM has become an attraction factor of new foreign direct investment (FDI) flows, particularly of intraregional origin. Although the relationship between regional integration and investment is not clear, prospects offered by an integrated regional market appear to turn this integrated market into an important destination for FDI. In the case of the CACM, the FDI inflow of extraregional origin has been chiefly induced by the privatization processes undertaken by the regional governments in the framework of their structural adjustment policies, rather than by the reestablishment of the regional market, whose economic size remains small compared with those of the Common Market of the South (Mercado Común del Sur, MERCOSUR) and the Andean Community.

The regional market seems to have contributed to a greater extent to encourage the FDI flows of Central American origin. There is not statistical information compiled systematically on regional capital movements, but available evidence suggests that intraregional investments have been growing since the reestablishment of the CACM. Increasingly there is a greater presence of domestic firms of CACM member countries which operate with a regional vision, taking the CACM as a starting point at the moment of designing their production and marketing strategies. In fact, this type of managerial activities is part of what is called real integration, which takes place outside the formal integration promoted by the governments. The process of real integration is constructed from the expansion and strengthening of the regional financial and trade activities developed by the major Central American economic groups and the transnational companies operating in this area.

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13 Monge, *op. cit.*, 71-80.
Table 2

<table>
<thead>
<tr>
<th>Country of origin</th>
<th>Sector</th>
<th>Activity</th>
<th>Group or Company</th>
<th>Recipient country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costa Rica</td>
<td>Industrial</td>
<td>Construction materials</td>
<td>Grupo Durman Esquivel</td>
<td>Central America</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>Wholesale trade</td>
<td>Supermercados Más x Menos</td>
<td>Honduras, Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>Written press</td>
<td>Grupo La Nación</td>
<td>Guatemala</td>
</tr>
<tr>
<td>El Salvador</td>
<td>Services</td>
<td>Airlines</td>
<td>Grupo Taca</td>
<td>Central America</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>Financial</td>
<td>Grupo Cuscatlán</td>
<td>Costa Rica, Guatemala</td>
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<tr>
<td></td>
<td>Services</td>
<td>Agrícola Comercial</td>
<td>Agricola Comercial</td>
<td>Guatemala</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>Hotels</td>
<td>Intercontinental Camino Real</td>
<td>Costa Rica, Honduras</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>Property</td>
<td>Grupo Poma</td>
<td>Central America</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>Department stores</td>
<td>Almacenes Simán</td>
<td>Guatemala</td>
</tr>
<tr>
<td>Guatemala</td>
<td>Farming</td>
<td>Poultry</td>
<td>Grupo Gutiérrez</td>
<td>El Salvador, Honduras</td>
</tr>
<tr>
<td></td>
<td>Farming</td>
<td>Sugar industry</td>
<td>Ingenios Guatemaltecos</td>
<td>Costa Rica, Honduras, Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>Fizzy drinks</td>
<td>Grupo Mariposa</td>
<td>Honduras, Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Services</td>
<td>Hotels</td>
<td>Hoteles Princess</td>
<td>El Salvador, Honduras, Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Servicios</td>
<td>Fast food</td>
<td>Pollo Campero</td>
<td>Central America</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>Goods vehicles</td>
<td>Camiones Hino</td>
<td>Honduras</td>
</tr>
<tr>
<td>Honduras</td>
<td>Industrial</td>
<td>Brewing industry</td>
<td>Cervecería Hondureña</td>
<td>Nicaragua</td>
</tr>
<tr>
<td></td>
<td>Trade</td>
<td>Supermarkets</td>
<td>Despensa Don Juan</td>
<td>El Salvador</td>
</tr>
<tr>
<td></td>
<td>Housing</td>
<td>Property</td>
<td>Inversiones Sogetal</td>
<td>Guatemala</td>
</tr>
<tr>
<td></td>
<td>Industrial</td>
<td>Non-alcoholic beverages</td>
<td>Grupo Facusse</td>
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<td>Services</td>
<td>Financial</td>
<td>Grupo Pellas</td>
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<td></td>
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<td>Financial</td>
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<td></td>
<td>Services</td>
<td>Financial</td>
<td>Grupo Fogel</td>
<td>Guatemala</td>
</tr>
</tbody>
</table>


As Table 2 shows, the main intraregional investments tend to be concentrated in the services sector, specially in the financial, trade and tourist activities. This type of investments is consistent with the new growth pattern prevailing in the region, based on the dynamism of activities linked to the maquila industry and the services.

Weaknesses and Challenges of the New Regionalism in Central America

Despite the achievements examined, regional integration in Central America is still subject to numerous limitations, which have to be surmounted if expected
positive effects on the economic development process are wished to become a reality. Among these limitations, the following can be highlighted: the great predominance of extraregional trade, the slow improvement in the quality of intraregional trade, the distributive problems of costs and benefits, the absence of a real common trade policy, the lack of a common customs administration, the limited coordination of macroeconomic policies and the weakness of regional institutions. Next these limitations are analyzed and some implications for institutional and economic policies are drawn for overcoming them.

**Predominance of extraregional trade**

Trade liberalization initiated in the 1990s has facilitated the rapid growth in intraregional trade, but part of this growth has only represented the recovery of trade lost as consequence of the economic crisis of the 1980s.\(^{14}\) Intraregional trade remains limited within the total trade of the CACM. In the 2000-2004 period intraregional exports were not able to represent on average more than 26.7 percent of total exports, while intraregional imports did not exceeded 13.5 percent of total imports (see Table 1). These percentages are still far from those ones observed in the European Union (EU), where intraregional trade –measured by both the export and import side– accounts for more than 60 percent of total trade (see Table 3).

<table>
<thead>
<tr>
<th>Year</th>
<th>Intraregional exports</th>
<th>Intraregional imports</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of total exports value</td>
<td>% of total imports value</td>
</tr>
<tr>
<td>1992</td>
<td>66.9</td>
<td>64.5</td>
</tr>
<tr>
<td>1995</td>
<td>64.0</td>
<td>64.1</td>
</tr>
<tr>
<td>1999</td>
<td>63.8</td>
<td>62.0</td>
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<tr>
<td>2000</td>
<td>62.4</td>
<td>59.1</td>
</tr>
<tr>
<td>2001</td>
<td>61.9</td>
<td>59.5</td>
</tr>
<tr>
<td>2002</td>
<td>61.8</td>
<td>60.4</td>
</tr>
<tr>
<td>2003</td>
<td>61.9</td>
<td>60.2</td>
</tr>
<tr>
<td>1999-2003 average</td>
<td>62.4</td>
<td>60.3</td>
</tr>
</tbody>
</table>


The dominance of extraregional trade –between 73.3 percent and 86.5 percent of total trade– explains why the economic policy of Central American governments has given priority to extraregional economic relations and in

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\(^{14}\) Another important part of the growth in intraregional trade has been possible thanks to the net inflow of capitals, which has facilitated the funding of imports and current account deficits.
moments of conflict, has not favoured the interests of the Central American integration scheme. If intraregional trade is wished to acquire more significance for the economic development of Central America, it is necessary to adopt measures favouring its expansion. Thus, measures such as the removal of the non-tariff barriers (NTBs) and the effective liberalization of intraregional trade in primary products and services can help to achieve this objective.

The use of NTBs has been one of the principal obstacles to the sustained expansion in intraregional trade. Although in the last years considerable progress has been made to reduce them, it is still necessary to attain their total elimination. For example, the Central American governments need to adopt a competition policy designed to suppress oligopolistic practices among suppliers and restrictive practices between producers and distributors.

The relevance of regional market can be enhanced not only by removing NTBs to intraregional trade in finished products, but also liberalizing intraregional trade in inputs, particularly in raw materials and in some services. A regional market in such inputs could generate important cost savings for the Central American firms. Many of the sectors better placed to face successfully international trade insertion are industries processing raw materials. A genuine liberalization of intraregional trade in raw materials would provide an opportunity for these firms to lower their costs by purchasing these inputs from the cheapest regional source. Likewise, the costs of other inputs could be reduced if they were traded freely within the regional market. This could be the case of services such as electricity, water, gas, financial services and some business services.

Although the proposed measures can help to increase the relevance of intraregional trade, it will be necessary –as it is shown next– to make additional efforts to enhance its quality and achieve a more equitable distribution of its potential benefits.

Slow improvement in the quality of intraregional trade

Intraregional trade with its greater contents of manufactured products and intraindustry trade, has showed a better quality than extraregional exchange. Nevertheless, the available empirical evidence does not appear to corroborate the idea that intraregional trade, as it is expected in the new regionalism, has contributed substantially to change the structure of extraregional exports and improve the trade insertion of Central America. According to the theory of the new regionalism, the creation of a regional market has to enable member

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15 See: Rueda-Junquera, La reactivación del Mercado Común Centroamericano, op. cit.; Monge, op. cit.; Jorge Mario Martínez and Enrique Cortés, Competitividad centroamericana, Serie Estudios y Perspectivas de la CEPAL nº 21 (México: Sede subregional de la CEPAL, 2004).
countries to attain learning economies, in such a way that later they gain access to extraregional market in competitive conditions.

There has certainly been a rise in the participation of manufactures in extraregional exports—in particular, those ones going to the United States market—, as well as a change in the structure of these extraregional exports, which have incorporated new products, such as clothing maquila and in the case of Costa Rica, electronic products. The evidence indicates that this new pattern of extraregional trade insertion has not been boosted decisively by mechanisms generated by the new CACM, but by others linked to the national processes of trade opening-up and the preferential trade agreements, such as the Caribbean Basin Initiative and more recently, the signing of the CAFTA. All this without forgetting the decisive role played in the 1990s by the intense and sustained economic recovery in the United States, major extraregional export market for the new Central American manufactures.

As for the presence of intraindustry trade in intraregional exchanges, this has expanded since the reestablishment of the CACM. However, it reflects mostly a recovery of the levels existing before the crisis of the 1980s. Besides, the current dimension of intraindustry trade in Central America is still very far from that one reached by the industrialized nations.

In short, the quality of intraregional trade in the CACM has improved since the early 1990s, but at a slow and insufficient pace and without substantial invigorating effects on the quality of the extraregional trade insertion. Intraregional trade liberalization by itself has not been enough to ensure a significant rise in its quality. Trade liberalization leads to a more efficient use of regional productive resources. Nevertheless, a better reallocation of these resources without the appropriate level of investment to upgrade the sources of industrial competitiveness, will not induce the expected revitalizing effect of intraregional trade. In the medium term, this revitalizing effect can become an essential factor for accomplishing a high-quality trade insertion, since the new exporting sectors of manufactures are demonstrating to have a limited capability for creating productive linkages and expanding productivity.

Distributive problems of costs and benefits

Most of the growth in intraregional trade and in its intraindustry component has been explained by the trade exchanges among the relatively more developed Central American countries, that is, Costa Rica, El Salvador and Guatemala.

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Several studies have revealed that intraindustry trade is a phenomenon appearing exclusively in the trade flows among these three countries.\(^\text{17}\)

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>94.1</td>
<td>349.3</td>
<td>26.9</td>
<td>215.1</td>
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<td>427.3</td>
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<td>19.7</td>
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<td>53.2</td>
<td>83.0</td>
<td>64.1</td>
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<td>CACM</td>
<td>387.4</td>
<td>1,542.8</td>
<td>25.1</td>
<td>920.9</td>
</tr>
</tbody>
</table>

Source: INTAL (Instituto para la Integración de América Latina y el Caribe), Informe centroamericano N° 2 (Buenos Aires: BID-INTAL, 2004), 12.
CACM: Central American Common Market.

Nicaragua is the country that less takes part of the relative greater quality of intraregional trade. It is the CACM member which tends to have a lower intraindustry trade index and a higher weight of the agricultural products in the total value of its intraregional exports.\(^\text{18}\) As it is observed in Table 4, in 1995 agricultural exports accounted for 64.1 per cent of Nicaraguan intraregional exports, being this percentage the highest in the CACM. In 2002 this percentage has increased slightly to 68.6 percent and remains the highest one in the region. Nicaragua keeps a pattern of intraregional trade specialization with weak quality and very little diversification, focused principally on the cattle exports.

Besides the three relatively more developed Central American countries are responsible for most intraregional exports. Costa Rica, El Salvador and Guatemala have explained 84.3 percent of the average intraregional exports in the 2000–2004 period (see Table 5), being the bilateral exchange between El Salvador and Guatemala the most important.\(^\text{19}\)

\(^{17}\) See: Rodas, op. cit.; Rueda-Junquera, La reactivación del Mercado Común Centroamericano, op. cit., Ch. III; Monge, op. cit..

\(^{18}\) An empirical assessment of the effects of liberalizing intraregional trade in agricultural products, can be found in: Fernando Rueda-Junquera, “Regional Integration and Agricultural Trade in Central America” World Development 26, no. 2 (1998): 345-362.

\(^{19}\) The bilateral exchange between Guatemala and El Salvador represents around 30 per cent of the average intraindustry trade in the same period. For more detailed quantitative information, see: SIECA (Secretaría de Integración Económica Centroamericana), Boletín estadístico 13.1 (Guatemala: SIECA, 2005).
This empirical evidence points out that the members relatively more developed are in better conditions to enjoy the potential benefits from the consolidation of the new CACM. If this new regional integration scheme is to endure, it must not only result in a situation that improves allocative efficiency in the regional resources, but it must also be perceived to be equitable by all the member countries, especially by Honduras and Nicaragua. Without additional measures paying attention to specific needs of the relatively less developed countries, it is almost inevitable that these countries begin to question their participation in the new CACM.\(^{20}\)

It would be appropriate to design mechanisms that enabled the potential winners of the customs union creation compensate the potential losers of the same. The European experience has shown that a way to carry out this compensation is through financial solidarity materialized in the Structural Funds and the Cohesion Fund. By these Funds, a part of the member states’ contributions to the community budget is transferred to the less favoured social groups and regions. In the current Financial Perspective 2000–2006, the aforementioned Funds account for the third part of the community budget.

\(^{20}\) 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).
Prospects for the Central American Customs Union

This experience is beginning to be taken into account in the Latin American integration schemes, as it has been confirmed during the last MERCOSUR Presidential Summit held in Ouro Preto, Brazil, in December 2004. The creation of a Structural Convergence Fund was approved during this summit with the purpose of supporting the most depressed sectors and areas in the MERCOSUR. The debate that took place within MERCOSUR revealed two different approaches to confront the problem of the asymmetries in intraregional trade, a problem that also is present in the CACM. As opposed to the Argentinean position that demanded the right to establish safeguard measures in intraregional trade to protect the national industries vulnerable to intraregional competition, the Brazilian position argued that the best way to correct trade imbalances was not by restricting free intraregional trade, but by creating a mechanism of intraregional financial solidarity to facilitate the competitive incorporation of the most depressed sectors and areas into the regional trade.

In the same way as it is happening in MERCOSUR, the European experience on intraregional solidarity could be adapted to the peculiarities of the Central American case, giving rise to some kind of structural and social cohesion instrument. In fact, the Central American presidents themselves have shown their formal interest in the creation of a Social Cohesion Fund. In the presidential summit held in Belize in December 2003, the Central American Bank for Economic Integration (CABEI) 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 CABEI proposed a project of a financial mechanism of intraregional solidarity, this one was not approved. For the present time, the interest of the Central American presidents in this type of mechanisms is more formal than real.

Absence of a real common trade policy

The creation of a customs union involves unavoidably the adoption of a common trade policy, since all the customs union members are bound to apply the same 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 stemmed from the greater regional bargaining power. In customs unions made up of developing countries, as it is the case of the CACM, the possibility of using the greater regional bargaining power is singularly important because it allows to take part in better conditions in international trade relations. However, the Central American countries have scarcely used this power. They have tended to negotiate bilaterally their free trade agreements, eroding the common dimension of the tariff protection guaranteed by the CET (see Table 6). Even when the Central American countries have negotiated free trade agreements en bloc—as it was done with the
Dominican Republic and the United States—, harmonized joint agreements were only reached regarding procedures, while the tariff concessions were negotiated bilaterally, taking into consideration the peculiarities and the sensitive products of every country.

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Entry into force</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico – Costa Rica</td>
<td>1995</td>
</tr>
<tr>
<td>Mexico – Nicaragua</td>
<td>1998</td>
</tr>
<tr>
<td>Mexico – Guatemala, El Salvador and Honduras</td>
<td>2001</td>
</tr>
<tr>
<td>Panama – El Salvador</td>
<td>2002</td>
</tr>
<tr>
<td>Panama – Honduras</td>
<td>2002</td>
</tr>
<tr>
<td>Dominican Republic – CACM</td>
<td>2001-2002</td>
</tr>
<tr>
<td>Chile – El Salvador</td>
<td>2002</td>
</tr>
<tr>
<td>Chile – Costa Rica</td>
<td>2002</td>
</tr>
<tr>
<td>Canada – Costa Rica</td>
<td>2002</td>
</tr>
</tbody>
</table>

Source: INTAL (Instituto para la Integración de América Latina y el Caribe), Informe centroamericano N° 2 (Buenos Aires: BID-INTAL, 2004), 16.

The absence of a real common trade policy not only has prevented CACM members from taking advantage of the potential regional bargaining power, but also it can 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 CAFTA will give clear proof of this problem, since it will not take place in a homogeneous way in all the Central American countries. Tariff concessions were negotiated bilaterally, which means that the schedule of tariff exemption in the 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 United States is the principal trade partner of the CACM, providing around 40 per cent of its total imports, converts to the CET exceptions originated by the CAFTA implementation, into a potential 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 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 CAFTA coming into force is left aside, the current percentage of the tariff universe remaining to be harmonized is small (5.4

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percent). Nonetheless, its harmonization can be complex because tariffed agricultural products are included. For this type of products, a renegotiation both in the list of products and in the tariff levels, as well as in the quotas, could be required within the framework of the World Trade Organization (WTO). In other words, it would be necessary to renegotiate commitments assumed by every country as part of its admission into the WTO, for what it would be advisable to rely on a regional bargaining power.

It is evident that the creation and consolidation of a customs union in Central America will need to adopt an authentic common external trade policy. This common policy will have to facilitate the harmonization of the different commitments undertaken by the CACM members as a result of their participation in the WTO and/or of the bilateral free trade agreement signed. Likewise, it will have to contribute to create joint trade negotiation mechanisms.

Lack of a common customs administration

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 the CET has to be applied against third countries in equal terms by all the CACM members, but also it has to be collected and administered jointly. 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.

At present there exist four models of customs administration –three of intraregional character and one of peripheral character– that are being tested in the CACM. For now, the advances in the setting up of a customs administration strictly common are limited, what can be conditioning 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 becoming the type of customs which is typical of a customs union.

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 the customs. That is why it is important to find suitable mechanisms of tax harmonization as well as of collection and distribution of the CET revenues received by the peripheral customs. A coherent proposal would be that such revenues financed a community budget from which common policies could be developed. Nonetheless, for the time being the Central American governments are reluctant to this idea.

Moreover, a potential fiscal challenge arises in many countries due to the fact that the customs collect internal taxes that other tax agencies cannot due to their
smaller overseeing ability (for example, the collection in the customs of taxes on the goods bound for the informal sector). In this context, the elimination of intraregional customs—element inseparable from the creation of a common customs administration—could lead to reduce this collection of internal taxes. To avoid this, it will be necessary to make previously progress towards the strengthening of other internal tax collecting agencies.

**Limited coordination of macroeconomic policies**

Macroeconomic stability is another requirement for laying down a customs union on a sound basis. A way of contributing to this stability is the coordination of the major macroeconomic policies of the countries participating in the customs union. Besides, this coordination is fundamental to avoid that the measures adopted by every member country to adjust to the international economy changes, end up affecting unfavourably on the rest of the partners.

Aware of the relevance of the macroeconomic coordination, the Central American Monetary Council (CAMC) has established a group of basic parameters of macroeconomic convergence as a starting point for that coordination. These parameters have been used only for monitoring the economic evolution of the region, without a political commitment having existed to fulfill them. The prevailing parameters of macroeconomic convergence are the following:

- a) 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 percent were regarded as satisfactory;
- b) The rate of inflation must not go above 6 percent;
- c) The index of real effective exchange rate with the United States has to be placed between 95 and 105;
- d) The rate of real passive interest must not pass 5 percent;
- e) The ratio of Central Bank’s net international reserves to monetary base has to be greater than or equal to 100;
- f) Balance of payments’ current account deficit does not have to surpass 3.5 percent of GDP;
- g) Public sector deficit must not be above 2.5 percent of GDP;

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22 The macroeconomic convergence parameters established by the CAMC have been changing throughout time, adapting to the conjunctural changes. The current version was established in November, 2002 in the 233rd CAMC Meeting. In this Meeting it was agreed to modify some of the parameters to reflect appropriately the recent evolution of the Central American economies and to take into account the Dominican Republic incorporation into the CAMC in that year. For more information, see: SECMCA (Secretaría Ejecutiva del Consejo Monetario Centroamericano), *Informe económico regional 2004* (San José: SECMCA, 2005).
h) Total public debt must not exceed 50 percent of GDP.

As Table 7 shows, the fulfillment degree of these macroeconomic convergence criteria in Central America has been modest. In the 1997–2004 period the average fulfillment degree did not exceed 34 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. 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, what explains the disparity in the macroeconomic convergence.

<table>
<thead>
<tr>
<th>Year</th>
<th>Costa Rica</th>
<th>El Salvador</th>
<th>Guatemala</th>
<th>Honduras</th>
<th>Nicaragua</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>50.0</td>
<td>63.0</td>
<td>50.0</td>
<td>37.7</td>
<td>50.0</td>
</tr>
<tr>
<td>1998</td>
<td>63.0</td>
<td>63.0</td>
<td>75.0</td>
<td>38.0</td>
<td>25.0</td>
</tr>
<tr>
<td>1999</td>
<td>38.0</td>
<td>63.0</td>
<td>25.0</td>
<td>13.0</td>
<td>50.0</td>
</tr>
<tr>
<td>2000</td>
<td>63.0</td>
<td>63.0</td>
<td>75.0</td>
<td>38.0</td>
<td>37.5</td>
</tr>
<tr>
<td>2001</td>
<td>50.0</td>
<td>63.0</td>
<td>63.0</td>
<td>25.0</td>
<td>25.0</td>
</tr>
<tr>
<td>2002</td>
<td>25.0</td>
<td>75.0</td>
<td>50.0</td>
<td>38.0</td>
<td>13.0</td>
</tr>
<tr>
<td>2003</td>
<td>50.0</td>
<td>74.0</td>
<td>50.0</td>
<td>38.0</td>
<td>13.0</td>
</tr>
<tr>
<td>2004</td>
<td>38.0</td>
<td>63.0</td>
<td>38.0</td>
<td>38.0</td>
<td>38.0</td>
</tr>
</tbody>
</table>

**1997-2004 average**: 47.1 65.9 50.1 33.2 31.4

Sources: Derived from: SECMCA (Secretaría Ejecutiva del Consejo Monetario Centroamericano), Informe económico regional 2001 (San José: SECMCA, 2002); SECMCA, Informe económico regional 2002 (San José: SECMCA, 2003); SECMCA, Informe económico regional 2003 (San José: SECMCA, 2004); SECMCA, Informe económico regional 2004 (San José: SECMCA, 2005).

The macroeconomic convergence parameters are the eight ones established by the Executive Secretariat of the Central American Monetary Council; on this, see: SECMCA (Secretaría Ejecutiva del Consejo Monetario Centroamericano), 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.

The fulfillment degree of these parameters takes values varying between 0 per cent (null fulfillment) and 100 per cent (full fulfillment).

b Preliminary percentages.

In sum, the empirical evidence confirms that macroeconomic policies coordination in the CACM is very limited. The real possibilities that this coordination will be extended and deepened, appear to be still very reduced, 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.

**Weakness of regional institutions**

The new institutional framework created by the 1991 Protocol of Tegucigalpa is characterized by its global and multidimensional aspects. It has established an
institutional model—the Central American Integration System (CAIS)—based on four subsystems: political, economic, social and cultural. With this, it attempts to go beyond the strictly economic area and grant a global dimension to the new Central American integration, a feature that was lacking in the 1960s old scheme.\(^2\)

Likewise, the CAIS incorporates new institutions as the Central American Court of Justice and the Consultative Committee, which come to solve two fundamental insufficiencies of the previous phase. Firstly, the lack of institutional mechanisms guaranteeing the fulfilment of the agreements and the safeguard of the common interest (as the Central American Court of Justice). Secondly, the absence of an institutional mechanism allowing the active participation of the civil society (as the Consultative Committee).

In contrast to these advances, the new regional institutional scheme presents three major limitations reducing its effectiveness. Firstly, the institutional scheme develops immersed in a remarkable juridical disorder. There are no homogeneous and compulsory deadlines for the national ratification of the agreements signed, what 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.

Secondly, the essentially intergovernmental conception of the new institutional framework makes that the decision taking power is concentrated on the Summit of Central American Presidents, which is the CAIS highest ranking 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 situations, which can slow down and hinder the regional integration process.

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

The third limitation of the new regional institutional scheme lies in its excessive complexity and high number of institutions. This not only has

\(^2\) On the new institutional framework, see: 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.
conditioned its effectiveness, but also has ended up causing a serious funding problem.

The aforementioned limitations have brought about an important institutional weakness, which hampers the advance in the regional integration scheme. Aware of this, in the second half of the 1990s the Central American governments and the CAIS General Secretariat with the support of the Inter-American Development Bank (IADB) and the United Nations Economic Commission for Latin America and the Caribbean (ECLA), carried out a profound reflection on the rationalization and reinforcement of the Central American common institutions. The result was an institutional reform proposal contained in the report *Diagnosis of the Central American Regional Institutions*, published by IADB and ECLA in 1997. However, governments did not put into practice report’s recommendations.

Recently, the Central American Presidents Summit held in June 2004 has taken up again the formal commitment to conduct a deep institutional reform by constituting an *ad hoc* Commission for the Comprehensive Reconsideration of the Regional Institutions. This Commission with the support of the the CAIS General Secretariat and the Central American Economic Integration Secretariat has to submit a consensual agreement on the different institutional reform proposals. If this formal commitment will actually materialize into a reality still remains to be verified.

**Conclusions**

After a profound deterioration in the 1980s, the interest in regional integration in Central America has been revived on a new basis. Now regional integration is perceived not only as an instrument for creating a regional market that extends the national demand, but also as an instrument for gaining international competitiveness, compatible with the promotion of non-traditional extraregional exports.

This new regional integration has achieved the revitalization intraregional trade, improving its quality and attracting intraregional investments, thus contributing to economic growth. Despite these achievements, the new CACM is subject to serious limitations such as the excessive dominance of extraregional trade, the slow improvement in the quality of intraregional trade, the unequitable distribution of benefits, the absence of a real common trade policy, the lack of a common customs administration, the limited coordination of macroeconomic policies and the weakness of regional institutions. If these limitations are not overcome by implementing suitable economic and institutional policies such as those ones suggested in the article, the new regional integration will not be able to contribute effectively to the Central American economic development process.

Faced with the current situation of the regional integration scheme, Central American governments can take up a passive or active stance. The adoption of a passive stance would imply that the regional integration scheme would limit
itself to perfecting only the free trade area and at best, to completing the customs union. This passive stance would reduce drastically the bargaining power of the CACM, particularly if the Free Trade Area of the Americas was established. When tariffs were eliminated within the Americas, CACM’s political decision power against the big multinational companies and world economic centres would diminish substantially.

Along with this passive stance, there is another alternative consisting of taking up an active stance in favour of regional integration. This alternative would aim at consolidating and deepening the economic integration scheme, by perfecting completely the customs union and going gradually and realistically towards the creation of a common market and an economic and monetary union. Only through this active stance the regional integration scheme will be able to support effectively the economic development of Central America. For that, it would be necessary that member countries renewed their political commitment, taking on the need to deepen the integration scheme and especially, observe and comply with the commitments undertaken.
The Politics of the Central American Free Trade Agreement (CAFTA)

Eric Jacobstein

Introduction

In May 2004, U.S. Trade Representative Robert Zoellick joined trade ministers from Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua for the historic signing of the Central American Free Trade Agreement (CAFTA). The agreement – which now also includes the Dominican Republic – contains economic opportunities that come at a crucial time. While there are great differences of opinion over the potential benefits of the accord, these benefits may never be seen if CAFTA is not voted on or if it is defeated in the U.S. Congress.

Those in favor of the agreement contend that the Free Trade Area of the Americas (FTAA) is not progressing. For Central America, CAFTA appears to be the only viable option for expanding trade, attracting more investment and increasing productivity. The increased economic might of China poses an imminent threat to jobs in Central America. In particular, the expansion of Chinese textile production poses a significant challenge to Central America’s large textile and apparel sector. With the January 1, 2005 expiration of the Multi-Fiber Agreement, China could now exploit an important comparative advantage in this sector. But CAFTA would give the U.S. private sector good reason to keep textile jobs in the hemisphere rather than sending them to China and other Asian nations.¹

While the general idea of a CAFTA agreement is broadly supported among policymakers and legislators in the United States and Central America, the content of the agreement has been a great source of contention. Legislatures in El Salvador, Guatemala and Honduras have approved the agreement, but ratification is still pending in the other CAFTA countries.² The most difficult battleground for CAFTA will be the U.S. Congress. CAFTA will likely slide through the U.S.

¹ Eric Jacobstein, Advancing the Legislative Debate on the Central American Free Trade Agreement, Inter-American Dialogue Conference Report (July 2004), 3.

² David Leal, “Congreso hondureño ratificó TLC con los Estados Unidos,” La Nación (Costa Rica), March 4, 2005.
Senate where legislators broadly focus their voting patterns on the concerns of constituents state-wide. In the U.S. House of Representatives, legislators have much more specific constituent concerns that come into play each time they cast a vote. Furthermore, members of the House of Representatives are likely to follow party lines more closely. The vote on CAFTA in the House will be very close. If the agreement passes it will likely pass by no more than two or three votes.

Virtually every Democrat that has spoken out on CAFTA has announced that they will vote against the agreement, on the grounds that it does not require member countries to enforce International Labor Organization (ILO) standards. In addition, members of Congress on both sides of the aisle have indicated they will vote against the agreement in order to protect constituents in the sugar and textile sectors. The House of Representatives approved trade promotion authority (TPA) for President George W. Bush in 2002 by just three votes. (TPA calls for international trade agreements to be subject to an up-or-down vote but not amendment in Congress). Furthermore, the window on free trade in the U.S. Congress continues to narrow.

Failure to gain congressional approval of CAFTA would severely damage the prospects for approval of several upcoming bilateral trade agreements in the region and an eventual FTAA. It could also damage U.S. trade policy more broadly by setting a precedent for the rejection of future trade accords. The Bush administration is currently completing free trade negotiations with Panama and is in the late stages of negotiations with Colombia, Ecuador and Peru. These negotiations use the CAFTA framework as a base, and the Bush administration will not be able to bring them to the floor of Congress if CAFTA fails. This paper will focus on the political dynamics of CAFTA in the 109th U.S. Congress and the major implications that the political battle over CAFTA will have on the future of U.S. trade policy.

The Case for CAFTA

CAFTA proponents argue that the agreement has the power to expand economic opportunities in Central America and the Dominican Republic. CAFTA is not likely to make a major contribution to the massive U.S. economy but could spur investment in the poverty-stricken nations of Central America. Given increased competition from China and other Asian nations, such investment, though not an all-encompassing solution is seen by many as essential to increase the subregion’s competitiveness.

Bush administration officials and members of Congress in favor of CAFTA also argue that the agreement is in a sense a reward to a group of countries that has made substantial democratic progress. Over the last decade, Central America has emerged from a series of military dictatorships to a community of democracies. Reflecting on a recent trip to El Salvador, former Representative
Cal Dooley (D-CA) and Representative Jerry Weller (R-IL) contend that the passage of CAFTA "can help cement the democracy and national reconciliation of the past decade – and a failure to approve its risks [would] push the region back toward the past." Arguments in favor of CAFTA go beyond pure economics and instead also focus on the agreement’s implications for democracy and security in the region. The Bush administration’s primary attention to Latin America has been shown in its intensive trade agenda. Without congressional approval of CAFTA, the administration will have little to show for its efforts in the hemisphere.

**Labor and CAFTA**

It is nothing new for trade agreements to be a source of major contention in the U.S. Congress. Free trade creates anxiety among a large sector of the American public who perceive U.S. job loss as directly linked to the signing of free trade agreements. This in turn often makes legislators equally wary. A recent survey found that 51% of Americans across all political parties oppose CAFTA. A press release describing the survey noted that “voters were primarily concerned with the negative impact CAFTA will have on the American economy along with possible significant job losses.”

Even so, while some members of Congress cite job loss as a factor in their opposition to CAFTA, Democratic critics support the general idea of a CAFTA accord but point to the negotiated agreement’s weak labor standards in rejecting it. Democrats will vote overwhelmingly against the accord, far more so than they have in other trade votes. The day before CAFTA’s signing in Washington, three key Democrats – Representatives Charles Rangel (D-NY), Sander Levin (D-MI) and Xavier Becerra (D-CA) – issued a statement articulating their problems with CAFTA. (Rangel is the ranking Democrat on the House Ways and Means Committee – the committee that plays a leading role in U.S. trade policy – and Levin and Becerra also serve on the committee and on its trade subcommittee.) The legislators said they would reject CAFTA on the grounds that the agreement does not in any way bind member countries to the core labor standards of the International Labor Organization (ILO) but instead simply asks countries to enforce their own labor laws. They found this to be particularly troubling given what they viewed as Central America’s dismal labor record. The statement explained:

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4 “New National Poll Sends a Clear Message to Congress: Americans Oppose CAFTA Trade Agreement.” www.americansforfairtrade.org. The survey was commissioned by Ayres, McHenry and Associates which is described as “one of the best in the nation,” by Roll Call (A non-partisan Capitol Hill newspaper).
The CAFTA negotiated by the Bush Administration…adopts an ‘enforce your own labor laws’ standard. This standard is totally unacceptable when all of the analyses of the realities within the CAFTA countries – including those of the U.S. State Department, Human Rights Watch and the International Labor Organization – confirm that the international standards are not incorporated into the countries’ labor laws and they do not enforce even their inadequate laws.5

The legislators further contended that the Bush administration’s failure to negotiate a bipartisan agreement put “this CAFTA on a midnight train to nowhere.”6 Democratic presidential candidate John Kerry similarly rejected CAFTA noting his consistent support for free trade agreements but his concern that CAFTA was a “disappointing and unnecessary step backwards in our nation’s efforts to ensure that opening markets results in higher living standards on all sides and not a race to the bottom on workers rights and environmental protection.”7

An October 2003 Human Rights Watch report called for trade negotiators to move beyond the labor rights provisions in the United States – Chile and United States – Singapore free trade agreements which call on governments to simply enforce existing labor laws. Human Rights Watch and many Democrats viewed the U.S. – Jordan free trade agreement, on the other hand, as the model for labor standards. This agreement entered into force in December 2001 and allows for the possibility of fines and sanctions in the case that domestic laws violate international standards.8 Ultimately, CAFTA incorporated labor provisions similar to those in the Chile and Singapore free trade agreements. This has become a rallying cry against CAFTA for many Democrats.

Democrats and organized labor groups argue that the implementation of CAFTA will lead to a setback for workers’ rights. They contend that specific, binding international laws and regulations in the CAFTA accord protect intellectual property rights and cover other issues of interest to the U.S. business community but no such laws exist for the protection of workers’ rights.9 The AFL-CIO notes that CAFTA is a step backward from the current trade preference programs that exist between Central America and the United States – the


6 Ibid.


The Politics of the CAFTA

Generalized System of Preferences (GSP) and the Caribbean Basin Initiative (CBI). The GSP requires countries to take steps to afford internationally recognized worker’s rights and the CBI asks the U.S. president to consider the extent to which international workers’ rights are enforced in granting preferential access. The AFL-CIO contends that “the GSP and CBI directly condition market access on respect for international labor rights” while CAFTA has no such binding mechanism.

The Office of the U.S. Trade Representative, however, points out that CAFTA is groundbreaking in its approach to labor. A three-tier approach is used in dealing with labor issues in the agreement. First, as previously noted, countries must enforce existing labor laws. Second, Central American countries have already begun to work with the ILO to improve existing labor laws and enforcement. Finally, there have been substantial trade capacity building efforts related to CAFTA. Trade capacity building efforts are funded not only by the U.S. government but also by international financial institutions and by the private sector.

Members of Congress in favor of the current CAFTA accord have argued that the only way to ensure enhanced workers’ rights is through the implementation of the agreement. The CAFTA-DR countries have worked closely with the ILO over the past two years to improve their laws in an unprecedented fashion. Without the negotiation of CAFTA and the forging of closer economic and political links, supporters argue, such progress would have never been possible. Furthermore, CAFTA supporters contend that those who have cited faulty labor provisions as their primary objection to the agreement simply oppose the current CAFTA labor provisions as a pretense to reject free trade more generally. Former Representative Cal Dooley (D-CA) and Representative Jerry Weller (R-IL) make this argument in the context of the U.S. – Australia free trade agreement:

We are doubtful that organized labor would ever support CAFTA, especially when one considers its opposition to the US-Australia trade agreement. If labor opposes an agreement with a country with a higher minimum wage, twice the percentage of union workers, and arguably higher labor standards, why should anyone believe that it would ever support a free trade agreement with Central America?

10 “CAFTA Weakens Existing Labor Rights Protections for Central America Workers,” Global Fairness 2005, AFL-CIO.


While labor provisions are clearly at the heart of the political battle over CAFTA’s approval, there is more to Democrats’ failure to support the agreement. The next section will describe further Democratic concerns and Republican responses. The specific constituent-based concerns from the textile and sugar lobbies will then be assessed.

**Further Democratic Concerns and Republican Responses**

In a recent opinion piece in the *Wall Street Journal*, former Clinton administration officials Stuart Eizenstat and David Marchick contend that “the Democratic opposition to CAFTA is very poor politics.” Failure to support the agreement, they believe, would damage the Democratic Party’s image of being pro-growth and pro-trade. Eizenstat and Marchick elaborate off-the-record Democratic arguments against the accord. The first argument is that a unified Democratic opposition to CAFTA would force House Republicans with close races in 2006 to support CAFTA. This would allow Democrats to gain political leverage from the accord. The second argument is quite simply that CAFTA rhymes with NAFTA (the acronym used to describe the North American Free Trade Agreement) and brings back memories of the battle that President Clinton had to wage within the Democratic Party to get NAFTA approved in the U.S. Congress.

In response to Democratic opposition to the agreement, Bush administration officials and lobbyists are said to be spinning rejection of CAFTA as anti-Hispanic. This is particularly aimed at members of Congress in the Congressional Hispanic Caucus and non-Hispanics representing border states. 110 Democrats voted for a free trade agreement with Morocco with labor provisions similar to those in CAFTA. A U.S. trade official recently quoted in the *National Journal Congress Daily* explains: “What message would it send to say ‘we’re not going to trade with poor Latinos?’…what message would it send when you get 110 Democrats for Morocco and you can’t get them for CAFTA?” Still, a number of members of the Congressional Hispanic Caucus have announced their intention to vote against CAFTA including Representatives Xavier Becerra (D-CA), Raul Grijalva (D-AZ) and Hilda Solis (D-CA).

Bush administration officials are hoping to pick up votes for CAFTA from those Democrats who voted in favor of Trade Promotion Authority (TPA) for President Bush in 2002. But six of those Democrats who voted for TPA have

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14 Ibid.

now retired. While Republicans did pick up seats in the House in the 2004 elections, they are likely to lose a number of CAFTA votes as a result of constituent-related concerns in sugar and textile districts. Representative Becerra recently challenged the assertion that Democratic opposition is solely responsible for holding up CAFTA. He contends that the real reason is “Because a Republican Congress will not give a Republican president the votes he needs to pass it.” Republican Congressional opposition to CAFTA will make the Bush administration’s task of getting the agreement through Congress particularly difficult. President Bush will have to find ways to get these votes back from select Democrats if the agreement is to gain approval.

The recent appointment of Representative Rob Portman (R-OH) as U.S. Trade Representative demonstrates the Bush administration’s concern that the U.S. Congress should be a focal point for the top U.S. trade negotiator. The successful continuation of U.S. trade policy will depend on bipartisan inclusion of members of Congress in the trade policy-making process before trade agreements are voted on. By bringing members of Congress on board from the very start, Portman would be more likely to get future bilateral and multilateral trade agreements through the U.S. Congress and in particular through the U.S. House of Representatives. The Washington Post notes that Portman is in a strong position to do so because of his reputation as “a relatively bipartisan figure in Congress, having worked with such Democratic stalwarts as Sen. John F. Kerry (D-MA) and Rep. Ben Cardin (D-MD) on numerous tax-related legislative initiatives.” Portman will need to work closely with members of the U.S. Congress if the U.S. trade agenda is to move ahead in any substantive way.

Sugar and Textile Opposition to CAFTA

If the passage of CAFTA simply depended on a Republican majority in the U.S. House of Representatives, there would be little serious concern about the agreement moving ahead. But while there is a Republican majority in the House of Representatives, a number of constituent concerns have led some Republicans to announce their intention to vote against CAFTA. While the ultimate decisions of legislators may depend more on pressure from the White House than on pressure from their constituents, sugar and textile opposition to CAFTA pose the risk of taking Republican votes away from the agreement.

CAFTA would initially allow an extra 109,000 tons of sugar into the U.S. market. This number – which represents less than one percent of the 10 million

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ton domestic market – would eventually grow to 150,000 tons. While the numbers are relatively small, the sugar industry’s fear is that larger trade deals will be easier to pass if CAFTA goes through. The proliferation of bilateral trade agreements will mean more competition for the U.S. sugar industry. The sugar industry was successful in managing to exempt sugar from the recent U.S. – Australia free trade agreement. It did not have similar success with the CAFTA accord, which was negotiated directly with countries that depend highly on sugar exports.

The American Manufacturing Trade Action Coalition similarly rejects CAFTA, noting that “the deal is riddled with loopholes that will destroy tens of thousands of U.S. textile and apparel manufacturing jobs.” The coalition believes rejecting CAFTA will protect textile jobs in the United States. The counterargument is that a free trade agreement between the United States and Central America will benefit both regions and thus keep textile manufacturing processes in the hemisphere rather than exporting jobs to China.

Constituent concerns will be a major dealbreaker in the vote for CAFTA. However, while members of Congress are prone to make their constituents their first priority, political pressure from the White House could trump constituent politics if the Bush administration exercises a substantial amount of political will in pushing CAFTA forward.

Conclusion

CAFTA comes at a crucial time for Central America. China and other Asian countries pose a significant economic challenge to the small, poor nations that make up the Central American isthmus. These countries desperately need to increase their competitiveness and CAFTA presents them with such an opportunity. While there is no consensus in the U.S. Congress on the content of the agreement, the real question for those voting on CAFTA is whether Central America will be better off with or without the agreement. As a result of the recent expiration of the Multi-fiber agreement, the passage of CAFTA appears to be increasingly urgent and necessary for the subregion.

CAFTA’s passage is by no means certain. If the Bush administration does not think it has the votes to get the agreement through, the agreement will likely not come to a vote at all in the 109th Congress. This would not only hold up CAFTA but would also delay free trade agreements being negotiated with

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19 Ibid.
Panama, Colombia, Ecuador and Peru and a future Free Trade Area of the Americas (FTAA). It could also continue to hold up the Doha round.

Nevertheless, the most likely outcome is the passage of CAFTA by a small margin. While constituent concerns are important, so is party politics. Still, a positive outcome on CAFTA will require the Bush administration to spend a great deal of political capital in getting the appropriate votes. This could mean making a number of side deals with members of Congress to get their votes. (For example, increasing agricultural subsidies in particular sectors.) In an increasingly polarized political environment, future cliffhangers such as the CAFTA vote will be hard to avoid. The vote on CAFTA will determine the future of the U.S. trade agenda and the speed at which it moves ahead. Approval of the agreement will mean the negotiation of agreements similar in content to CAFTA while rejection may lead to a reassessment of U.S. trade agreements and could foment the forging of compromises between Democrats and Republicans. More likely, rejection of CAFTA would lead to a general delay in the advancement of hemispheric trade and U.S. trade more broadly.
The European Union and the Caribbean:
The Case of Cuba

Joaquín Roy

Introduction

Against all odds, the European Union has long been trying to contribute to the transition of Cuba by offering a reasonable and natural anchoring in its proper context, the Caribbean. Rejected by Havana and suspected in Washington, Brussels seems to have sighed "don't blame me for trying". Paradoxically, the EU plans and schemes are today seen in the light of the frenzy to predict and map the future of Cuba, an exercise in which everybody seems to have a perfect crystal ball. Utopian and catastrophic all plans contrast with the mere reasonable proposal that has been presented to the Castro regime for years and it is destined to be on the table when the transition is executed. There is no secret weapon - the EU has only the soft power of the model of integration, in its natural setting.

Although the partial dependency of subsidies and favors that the EU offers will not represent the long range solution that Cuba needs, the logic of the Cuban insertion in its special geographical setting of the overall African, Caribbean and Pacific (ACP) group is today perfectly valid for immediate implementation once the transition machinery is set in motion. This Caribbean anchoring will soften the exhaustive dependency that led to the confrontation of the 50s, and respecting cultural, racial, demographic and political peculiarities.

It is extremely significant that the insertion of Cuba in a scheme to benefit from the Cotonou Agreement is stubbornly resisted by the Castro government, who is not willing to accept conditions. At the end of the day, they are "a
nuisance for little money”. At the same time, the EU offer has been seen with skepticism from Washington, because it is still perceived as a violation of the remains of the Monroe Doctrine - Europeans are a bore in the back yard.

Cuba may be 90 miles from Key West. It might be closer to Miami at the transition, but this dependency should better be confronted with an implacable reality of a Cuba exhausted, without viable infrastructure, but well anchored in its natural Caribbean setting. Then Cuba will have its most precious asset - its people, comparatively well educated, used to survive, and willing to find solutions in its own environment.

Europe may face this moment with its own resources under pressure, dealing with the cost of enlargement, prospects of Turkey membership and urgent needs in the immediate neighborhood. But so will be the United States facing the daunting challenges in the rest of the world. Cuba will then have to tackle its own problems and the most natural manner to do it will be in its Caribbean context. It is for this reason that the EU has insisted on its "constructive engagement" policy towards Cuba, encouraging it to start the needed training. Facing this unquestionable argument, Castro has been resisting the EU offer - he has simply resisted the implacable future of Cuba in the Caribbean.

An Overall Assessment

Fidel Castro dramatically selected the commemoration of the 50th anniversary of his failed attack against the Moncada Barracks in Santiago de Cuba on July 26, 1953, for his rejection of any kind of humanitarian assistance, economic cooperation, and political dialogue with the EU and its member states. This signaled one of the lowest points in European-Cuban relations. Just days before the anniversary of the prelude of the Cuban revolution, the EU issued a harsh criticism of both the regime’s latest policies and a series of personal insults against some European leaders (notably, Spain’s José María Aznar), in essence freezing all prospects of closer relations. Having survived the end of the Cold War and the perennial U.S. harassment, the Castro regime seemed to have lost its most precious alternative source of international political cooperation, if not economic support.

This serious setback was the result of the harshness of the reprisals against a number of dissidents and the death sentences imposed on three hijackers of a ferry in April 2003. These developments pushed back a series of rapprochement measures maintained by the EU and most of its member states with the expectation of contributing to facilitate the political transition. In spite of the fact that the Cuban government justified its actions in view of the perceived threat presented by the

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increased activity of the internal opposition and the backing provided by the U.S. government to the dissidents, the bluntness of the response (disproportionate imprisonment and summary executions by firing squad) was too much to swallow for Brussels.

The measures taken by Cuba generated an unprecedented worldwide protest not limited to the usual conservative sectors in the United States and the Cuban exile community. Traditionally acquiescent governments in Europe made explicit complaints. Important backers of the Cuban regime abandoned their endorsement, changing it for a straight denunciation. In the wider EU context, once again (as had happened in 1996), a possible cooperative arrangement became doubtful. After careful consideration, the institutional framework of the EU acted accordingly. The European Parliament passed a Resolution and the Council adopted conclusions condemning Cuba. The Commission announced on May 1, 2003, the freezing of the procedure to consider the admission of Cuba into the Africa-Pacific-Caribbean (ACP) Cotonou Agreement. In essence, this decision pushed back the EU-Cuba relationship to a low level similar to the one existing in 1996 when the EU voted on a Common Position (CP). This conditioned a full European cooperation package upon reforms taken by the Cuban regime. This time the breakdown in the process was not due to the Cuban government’s withdrawal from the application process (as had been the case in 2000), but rather to the decision of the EU not to continue with the negotiations. As expected, however, Cuba decided to withdraw again its application in order to avoid an embarrassing rejection. From what had previously been a dubious attitude and the absence of a clear single policy on Cuba, now the EU appeared to have confirmed an effective common policy.

On June 5, the Presidency (held by Greece) of the EU issued an unprecedented blistering declaration on Cuba’s “deplorable actions” in “violating fundamental freedoms.” It demanded the immediate release of “all political prisoners,” and called on EU member states to limit high-level government visits to Cuba, to reduce the profile of participation in cultural events, and to invite dissidents at national day celebrations. On July 21, the EU Council of Foreign Affairs issued a conclusion using some of the crudest terms in describing Cuba’s latest actions, and confirming

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3 For general information, consult the web of the EU Commission: http://europa.eu.int/comm/development/development_old/cotonou/index_en.htm


5 For a review of these events, see my book entitled Cuba, the United States and the Helms-Burton Doctrine: International Reactions (Gainesville, FL: University Press of Florida, 2000).

The EU demanded the release of political prisoners, denounced the manipulation of an anti-drug trafficking campaign used, it claimed, to extend internal repression, condemned Cuba’s demonstrations against European embassies, and expected a new attitude of the Cuban government, conditioning all future assistance upon political and economic reforms. In sum, from a policy of persuasion, the EU had first expressed frustration in not seeing the expected signs of reform from Cuba, and finally issued unequivocal signs of irritation. Cuba’s policy towards the EU was seen as one bound to lead to rejection and confrontation, leaving European observers and leaders scratching their heads trying to find a logical explanation.

In the setting of this chapter, it has to be understood that the linkage between Cuba and the EU is to be interpreted in its relationship with the collective institutions of the EU, and not with individual member states—with whom the Havana government seems to have been able to obtain ample ground for maneuvering, in terms of trade, investment and even political connections. It is in the common sovereignty of the EU where, paradoxically, Cuba has been encountering a more cohesive front of the Union, both in imposing conditions and in requiring a breathing space for dissent. In the final analysis, Cuba seems to feel more at ease in bilateral relations, in a modest scale of a divide-and-conquer approach to European interests, than in the Byzantine terrain of the EU institutions where national interests are protected and covered under the rules of consensus (a must in matters of foreign policy) or in different scales of majorities, not privy to outsiders.

After the end of the Cold War and the disappearance of the Soviet subsidies, a Cuban policy of encouraging foreign investment through joint ventures resulted in a notable increase in European, and especially Spanish investment. Spain’s interest became very visible in tourism with the construction of hotels. The survival of the Cuban regime after the first half of the 1990s, based partially on this sector, led the United States to harden measures discouraging foreign investment on the island. The result has been major clashes between European interests and the United States over the extraterritorial aspects of U.S. legal initiatives, such as the Helms-Burton law.

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10 For a review of European attitudes previous to the 1996 events (Brothers to the Rescue shot down, passing of Helms-Burton and EU’s Common Position), see IRELA, “Cuba: Economic
The official European attitude towards Cuba and its problems with the United States can be illustrated by three fragments of three distinct declarations of the EU. First, with reference to the human rights situation: “The European Union condemns the repeated violations of human rights in Cuba, in particular in the political field.” The second has to do with U.S. extraterritorial legislation. On the one hand, “the EU believes that the U.S. trade embargo against Cuba is primarily a matter that has to be resolved bilaterally.” On the other, “the U.S. has enacted laws that purport to regulate activities of persons under the jurisdiction of the member states of the European Union; this extra-territorial application violates international law and has adverse effects on the interest of the European Union.” And finally: “If Cuba wishes to receive a favorable treatment through a cooperation agreement, it must show progress in the democratic process.” These three references illustrate well the complex, and clear, approach of the EU.

Simultaneously with the economic reforms that were taking place in Cuba after the end of the Cold War, the former Cuban dependency on the Soviet bloc began to shift to a sort of normalization of relations with members of the EU. The history of relations between revolutionary Cuba and what was called Western Europe during the Cold War provides some of the clues for the lack of agreement between the United States and Europe in the 1990s. Although in the 1960s and 1970s there was nothing to compare with today’s incipient EU’s Common Foreign and Security Policy, a pattern of similarities was revealed in the manner that different European states were dealing with Cuba. To the delight of the Cuban government, each one maintained a link in clear violation of U.S. pressures and admonitions. In strategic terms, some observers considered that “without European links the Revolution might well have floundered.”

At the end of the 1980s Cuba’s trade with today’s EU member states was only 6 percent of the total trade between Havana and the rest of the world. By the mid-1990s, however, 38 percent of Cuban imports and 29 percent of its exports were with the European market. More than half of all joint ventures in Cuba were established with European investments.

12 European Council Regulation, November 1996.
15 Data from IRELA and European Commission.
The Failure of the Cooperation Agreement

The shooting-down of the “Brothers to the Rescue” planes on February 23, 1996, forced the discontinuation of a planned cooperation agreement between Brussels and Havana, one that was now doomed to failure. The European Council (under the Spanish presidency) held in Madrid on December 15, 1995, had given the Commission the duty of presenting a draft of a cooperation agreement to be ready during the following semester. With this purpose, Manuel Marín, the senior Spanish commissioner and the Vice President of the European Commission, visited Havana from February 8-10, 1996, when he met with Fidel Castro and other Cuban leaders. While he was leaving Havana, the Cuban government arrested leading dissidents, rejecting the call to reform human rights policies. Just a few days later, the actions of the Cuban Air Force MiGs shattered all plans. With the “Latin American option” of a cooperation agreement closed to Cuba, the alternative route of the ACP Lomé Convention was left open. This “back door” option apparently was to be energetically explored by the Cuban government.

Once the rapprochement failed, the second hard-line response from Brussels would come as a supplement to the EU criticism against Helms-Burton. While the planned blocking statute was a first in EU activities, a critical Common Position on Cuba, taken for the first time in reference to a Latin American country, would also have a place in the annals of the EU's incipient foreign policy. The spirit and the letter of the Common Position have been maintained to date, with the expected protests of the Cuban government.

On the other hand, economic activity between Cuba and Europe increased in recent years. Trade doubled. EU exports to Cuba topped €1.43 billion in 2001 (44 percent from Spain, followed by Italy and France). Cuban imports in Europe were in the amount of €581 million (54 percent in the Netherlands, followed by Spain). Two-thirds of Cuba’s imports from developed countries come from the EU. Bilateral development aid and tourism are two of the most important sources of European involvement in Cuba. Almost 70 percent of cooperation assistance has come from Europe, led by Spain (16.8 percent), followed by the Commission. Italian tourists are the leaders (13 percent) in a key sector for the Cuban economy. European direct investment in Cuba is over 50 percent of total foreign investment, with Spain alone providing 25 percent, followed by Italy with 13 percent. Of the 400 investment consortia, 105 are with Spanish companies, followed by Canada (60) and Italy (57). Only Sweden does not have a bilateral cooperation agreement with Cuba, and ten European countries have investment protection agreements with Havana. Spain leads the European pack

17 For a detailed review of these events, see: IRELA, Cuba y la Unión Europea: Las dificultades del diálogo, June 17, 1996.

with the number of agreements, followed by Italy, the country that in 1993 inaugurated the investment protection pacts.\textsuperscript{19} Clearly in economic terms, the role of European countries in Cuba is great indeed.

\textbf{The ACP: A Back Door to the EU?}

Whatever form of evaluating the relationship between Cuba and individual European countries that one takes, the stark reality is that Cuba is the only Latin American country that still does not enjoy a bilateral cooperation agreement with the EU. This anomaly was further complicated when Cuba became a member of the ACP countries without being a signatory of the Cotonou agreements, the successor of the Lomé accord. Ironically, and in spite of all difficulties, the road to securing an agreement seemed to be on a sure path, initiated in Brussels in September 1998,\textsuperscript{20} and culminating in the signing of the new agreement on June 23, 2000, in Cotonou. Havana was not dealing now with one office in Brussels but rather with a multilateral outfit of 77 countries. In essence, the switch of Cuba’s position in the EU structure from the Latin American context to the post-Lomé cooperation framework was dictated by a political decision to send a message to Cuba that the insertion in the Cotonou setting was the best option and that the political dimensions were downsized. However, the Castro government rejected the procedure, and withdrew the application intention,\textsuperscript{21} claiming the Resolution issued by the United Nations Human Rights Commission was one-sided. Ironically, the overall climate for Cuban membership in Lomé was positive, shifting towards a normalization of the EU-Cuba relationship, this time anchored in the ACP multilateral context.\textsuperscript{22} However, Cuba then branded the EU conditions as “arrogant”, “unacceptable,” and dependent on the “U.S. policy.”\textsuperscript{23}

For many, the Cuban reaction was unexpected and harsh. In fact, the decision was a slap in the face of those ACP members who had advocated Cuba’s membership. ACP diplomats in Brussels confessed on the record to being surprised, although in off-the-record comments seasoned ambassadors suspected the outcome and were not caught off guard.\textsuperscript{24}

\begin{itemize}
  \item \textsuperscript{19} IRELA, “Revision,” 34.
  \item \textsuperscript{20} Francesc Granell, “Cuba y la Unión Europea: del encuadre latinoamericano al ACP caribeño“, in Revista Española de Desarrollo y Cooperación (Madrid), núm. 3, 1998.
  \item \textsuperscript{21} For an academic analysis from the Cuban point of view, see Hilda Puerta Rodríguez, “El Acuerdo de Cotonou y el posible ingreso de Cuba,” Revista de Estudios Europeos, no. 60 (2002), 3-24.
  \item \textsuperscript{22} IRELA, Revision of the European Policy towards Cuba: Perceptions and Interests of the EU Member States, (Madrid, 2000).
  \item \textsuperscript{23} Granma, 29 abril 2000.
  \item \textsuperscript{24} Interviews carried out in Brussels and the Caribbean.
\end{itemize}
officials of the Caribbean and Central America, in unofficial comments, Fidel Castro called the deal “demasiado fastidio para tan poca plata” [too big of a nuisance for so little money]. This remark became an omen of a more serious incident to come in April of 2003, confirming the worst suspicions about the priorities of the Cuban regime regarding the European linkages.

However, some months later, in the sequel to this mini-drama, on December 14, 2000, surprisingly Cuba became the 78th member of the ACP group. The novelty of the event is that Cuba joined it without signing the Cotonou convention. This anomaly led some to believe that Cuba had in fact obtained the same benefits.

In reality, the charter of this organization had to be amended to provide for a new member that would not use the specific and unique service of the organization, namely the trade and cooperation benefits from EU member states. In comparative metaphorical terms, Cuba’s membership in the ACP is like belonging to an exclusive golf club without being able to play golf, only watching others play and walking around the facilities. This is an example of a EU compromise to make an accommodation for particular, and rather difficult, circumstances and to give the impression to the three parties (the EU member states, the ACP countries and Cuba) that they have won something in the preparation of Cuba becoming a full member at some future point.

**EU-Cuba Showcases**

In the absence of the standard bilateral cooperation framework agreement, the standing EU policy towards Cuba can be subdivided into three main areas. The first one is a relationship based on humanitarian grounds; the second is an attitude towards the anchoring of Cuba in its natural Caribbean habitat; and the third, and most complex, is the setting of the wider ACP framework.

Regarding humanitarian assistance, the EU record shows that the funds provided by the Commission have increased in the line of cooperation assistance delivered through NGOs. With respect to humanitarian aid and development assistance, this variance on a programmable basis was phased out. A comprehensive evaluation conducted in April/May 2000 concluded that Cuba was no longer in a state of emergency. Before 2000 Cuba received sums sometimes reaching €30 million per year, a level that was reduced after the failure of the cooperation agreement in 1996. Since 1993 the EU has financed close to € 125 million of assistance measures, of which nearly two-thirds have been in the field of humanitarian aid. It is estimated that some 16 percent of the

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25 Literal quote from a Caribbean high government official.

26 See statement in ACP web: [http://www.acpsec.org/gb/press/146b034e.html](http://www.acpsec.org/gb/press/146b034e.html)

Cuban population has benefited from this aid. Following the Commission’s decision to phase out humanitarian aid, measures supporting economic reform and civil society development have been increasing.28

On a more politically oriented level, during the Spanish presidency of the EU in the first semester of 2002, relations with Cuba reflected a freezing of various initiatives made during the previous Belgian presidency. The end balance was mixed. What was perceived by Cuba as a “window of opportunity” did not in fact materialize, because the presidencies of Spain, Denmark and Greece would not make Cuba-EU relations a priority in the sense expected by Havana.29

Meanwhile, the weight of Cuba’s international activity and concerns seemed to have tilted towards the Western Hemisphere, away from Europe, perceived as concentrating on more pressing issues such as enlargement, the rise of the right, and immigration on top of the crucial disagreements over the consequences of the attacks of September 11, 2001. This thesis was confirmed by the absence of Fidel Castro in the second EU-Latin American-Caribbean Summit held in Madrid on May 17-18, 2002, repeating his decision to stay away from the Ibero-American Summits held in Lima in 2001 and in the Dominican Republic in 2002, a yearly event where the Cuban leader has been the frequent main protagonist of polemics.30 Among the reasons behind his decision was his calculation of not reaping the expected benefits, and to risking a confrontation with some vocal counterparts, and most especially Spain’s Prime Minister José María Aznar. In contrast, Fidel Castro elected to travel to attend the inaugurations of the new presidents of Brazil, Argentina, and Paraguay.

The (Other) Empire Strikes Back

The year 2002 ended with two important developments in EU-Cuba relations. On the one hand, on December 8 Fidel Castro surprisingly announced that Cuba would reapply for admittance to the Cotonou agreement.31 On the other, the European Commission made official the opening of a full Delegation in Havana. Inaugurated in March 2003 by EU Commissioner Poul Nielson (then in charge of development and ACP affairs), it was entrusted to an experienced staff led by former Cuba desk chief in Brussels, Sven Von Burgsdorff, a person with direct knowledge of Cuba.32

28 Data and considerations from EU Commission sources.
As outlined above, after a six-year period of frosty relations resulting from the Common Position of 1996, the Belgian presidency led the first modest troika approach in December 2001. However, the Spanish presidency during the first semester of 2002 did not take any initiative to further the dialogue with Havana (in spite of a wide consensus recommending consultations). The Danish presidency during the second part of 2002 decided to insert the dialogue with Cuba into a wider EU-Latin America setting. While several member states expressed renewed interest in furthering bilateral commercial relations, a majority in both the Council and the European Parliament considered the Common Position as a limiting factor that conditions the potential use of available instruments in the fields of political, economic and development cooperation on progress in respecting civil and political rights in Cuba.

As a first move from the ACP Group, a request was made on September 26, 2002, to grant observer status to Cuba for the Economic Partnership Agreement negotiation process. Although the member states were divided, a clear majority was in favor of the request advocating Cuba’s regional political and economic integration. On November 4, 2002, the EU met with Cuba. Both parties were frank, but not aggressive in their positions. Disagreement continued over the EU Common Position, the human rights situation in Cuba and cooperation on the area of human rights, while Cuba did commit to pursue reforms intended to establish a more market-oriented economy. Cuba then hinted on the probability of its applying for membership in the Cotonou Agreement, a thought that was strongly encouraged by the Commission. Cuba then agreed to the Commission proposal to set up an EU-Cuba task force to identify solutions in the field of investment and trade. As a result of behind-the-scenes negotiations, a potential compromise solution suggested by the Commission and supported by the Member States was contemplated in which Cuba would be given an “informal” observer status during the “all-ACP” phase of the Economic Partnership negotiations.33

Following the XII Evaluation of the EU Common Position, all member states, for the first time, were willing to reconsider the instruments available, with a view to making them more effective in the pursuit of the objectives of the Common Position. Following a Commission proposal the Council adopted on December 10, 2002, the Conclusions reconfirming the Common Position. However, they introduced two important modifications. First, there were to be no limitations for development cooperation measures any more as long as the Cuban government attempts to meet the objectives of the Common Position (respect for human rights and democracy, improvement of living standards of the Cuban population and promotion of sustainable economic growth). Secondly,

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33 From EU Commission and Council sources.
they extended the term for periodic reviews of the Common Position from six to
twelve months, with the intention of giving both parties a longer term to pursue a
political dialogue.34

Almost simultaneously, Fidel Castro announced in Havana before a meeting
of all CARICOM Heads of Government (in Cuba to celebrate the 30th
Anniversary of the opening of diplomatic relations with the Caribbean states, and
a rejection of the U.S. embargo) that Cuba intended to join the Cotonou
Agreement. However, two fundamental questions then were: How the EU would
react to this? What were the Cuban expectations and real intentions? The record
shows that the EU would maintain its conditions, and would not offer an
evaluation of the application before it was submitted.

Because of the endemic economic crisis in Cuba, the regime was in 2002
interested in improving its relations with the EU. In spite of the Geneva
confrontation and rejection of the conditions of the EU Common Position, a
positive attitude towards Brussels developed. Allowing opposition activist
Osvaldo Payá to travel to Europe to receive the Sakharov Prize was part of the
strategy adopted. In the context of this mild EU-Cuba “honeymoon,” the
Commission was accurately perceived by Cuba as a major, cohesive force for a
deeper rapprochement. However, Brussels was well aware that Havana’s moves
were dictated by a long-term strategic interest. Fidel Castro did not expect any
special softening of the official U.S. attitude after the Republican victory in the
mid-term elections in the Fall of 2002. Hence, he needed the Europeans for
breathing space, pressed by financial shortfalls in Cuba and the rest of Latin
America. The difficulties in obtaining guaranteed (and badly needed) oil supplies
from Venezuela has been only one of the country’s troubles. Moreover, the
economic opening from the United States in allowing the exports of some items
has not come without a price, since food and medicine sales have to be purchased
on a cash basis.

In consequence, the EU Commission opted once again for a policy of
“constructive engagement.” The opening of the EU Delegation in Havana was
supposed to serve as the proper setting for the inclusion of Cuba in the new Asia-
Latin American (ALA) Regulation (in which Cuba is already inserted in its 1992
arrangement), including a technical framework agreement governing the
implementation of EU aid. However, the serious events of April 2003 drastically
changed the constructive EU approach.

With this background, on the eve of the May 1 celebration, the European
Commission considered the thorny topic of Cuba and decided to file the pending
petition of Cuba to become a member of the Cotonou Agreement. The
Commission issued a statement indicating that the situation in Cuba “has strongly
deteriorated in such a very serious manner that the Commission did not want to

remain silent.” Commissioner Poul Nielson pressed for an indefinite ban on membership, claiming that the cooperative agreement was not limited to commercial benefits, but also included the area of respect for human rights. For its part, the EU Council acted with a speedy condemnation, warning Cuba not to expect European aid. In an earlier stage, when the first arrests were announced, the Greek Presidency of the EU issued a critical declaration. On April 10, the European Parliament approved a Resolution expressing concern, criticizing the lack of due process, demanding the release of the detainees, calling on Cuba to stop “hampering human rights,” and asking the Council to “display firm resolve in tackling the issue of human rights in Cuba, and to monitor the situation very closely.”

Right after the announcement of the imprisonment of 76 dissidents, their organizations, led by leaders such as Elizardo Sánchez, Gustavo Arcos and Osvaldo Payá, opted to request the help of the EU institutions in their release. European newspapers stepped up critical commentaries against the Cuban government, while intellectuals signed declarations of condemnation on both sides of the Atlantic.

**David Responds to the New Goliath**

Cuban authorities replied to this criticism by using such blunt expressions as “blackmail” and being “soft” [on the United States] when describing the actions and attitudes of Europeans. The Cuban ambassador in Madrid branded Spanish
politicians as “opportunists” seeking electoral gains. Meanwhile, protests in Europe and Latin America degenerated into serious confrontations and aggression inflicted on press members by Cuban diplomatic staff. The EU Commission warned that the repressive measures could have a “devastating effect” on the relations with the EU. Several European countries cancelled or considerably downsized the level of scheduled participation in programs and activities to be held in Cuba. The French government, in spite of its spat with the United States over the war in Iraq, issued extremely critical statements against Castro, vouching for support of EU-wide measures, while intellectuals signed letters of protest. The Italian parliament and government, dominated by premier Berlusconi’s party, announced their intention of proposing a European-wide embargo on Cuba, in anticipation of tougher measures to be implemented when holding the EU presidency in the second semester of 2003, while at the same time reducing diplomatic relations with the island.

The Cuban Ministry of Foreign Affairs lamented that the EU was not making similar statements on the situation on the imprisonment and trial of five Cuban security agents arrested in Miami. They also indicated a double standard in the EU position on capital punishment, claiming that the European leaders had never condemned the United States for a much higher annual number of executions. Official statements and reports in the Cuban media also claimed that the sentencing of dissidents as well as executions were performed strictly according to Cuban law and were “a sad but absolute necessity for defending the vital right to national independence and sovereignty,” as the United States “is looking for a pretext for an armed intervention” in the island, by “creating the conditions for a


new massive exodus from Cuba.” Most of these arguments were reiterated by the address made by Fidel Castro on May 1.50

On May 16, the Ministry of Foreign Affairs of Cuba announced the withdrawal of Cuba’s application procedure for membership in the Cotonou Agreement of the ACP countries, thereby renouncing any opportunity to benefit from European development aid.51 In a blistering note published in Granma, the official newspaper of the Cuban Communist Party, the government blamed the EU Commission for exerting undue pressure, alleged its alignment with the policies of the United States, and rejected EU’s censure for the measures taken by Cuba during the previous weeks.52 In reality, Cuba avoided an embarrassing flat rejection of its application. This was the anti-climatic ending for a long process that can be traced back to the end of the Cold War, in a context where Cuba has been testing alternative grounds as a substitute for the overwhelming protection of the Soviet Union.

On June 5, the EU Greek Presidency issued a harsh Declaration, labeling as “deplorable” the recent Cuban actions, “aiming not only at violating fundamental freedom, but also at depriving civilians of the ultimate human right, that of life.” The EU therefore called upon Cuban authorities “to release immediately all political prisoners.” In addition it decided to limit the bilateral high-level government visits, to reduce the profile of member states’ participation in cultural events, to proceed with the reevaluation of the EU Common Position,53 and to invite Cuban dissidents to national celebrations. In fact, this policy was dramatically inaugurated when on July 14 the French embassy invited Cuban dissidents to the reception for the anniversary of the French Revolution. The Cuban government responded by boycotting the reception, establishing a parallel function to celebrate its admiration for the 1789 historical event.

Cuba’s Foreign Minister Pérez Roque qualified these EU measures as a result of a “superficial analysis” of Cuba, a “victim of an agreement between the United States and the EU,” showing “European incapacity for maintaining an

50 See commentary by Cuba’s former ambassador to the EU, Carlos Alzugaray, “Nueva etapa en las relaciones entre Cuba y la Unión Europea,” Cuban Review (Netherlands) in press, 2003.


52 Declaración del MINREX, 19 mayo 2003.

autonomous policy.” He also refused to receive the members of the EU Troika (Italy, Greece and Spain), while Cuban officials refrained from attending receptions at EU member states’ diplomatic functions. In an adaptation of a common epithet bestowed on Cuban exiles in Miami, Fidel Castro referred to the EU as a “little gang” and “a mafia allied with fascist imperialists.” U.S. Secretary of State, Colin Powell, received the latest EU measures with satisfaction, indicating that the United States might join the European Union in a common strategy towards Cuba.

This apparent U.S. invitation to form a coalition added fuel to the ongoing fire. The Cuban government increased the level of the confrontation with the EU to an unprecedented level. Fidel Castro and Foreign Minister Pérez Roque targeted Italy and, most especially, Spain as the leaders of the EU measures imposed on Cuba. The Italian government announced the termination of development programs estimated at about $40 million, and rejected Cuban personal insults against Premier Silvio Berlusconi (called “Nero” and “Benito Berlusconi”). Subsequently congressional sources demanded the withdrawal of the ambassador. France announced the termination of some cooperation programs. The Spanish government initially exercised extreme restraint when

57 For the official text of the statement, see “The European Union Capitulates to the USA,” Granma Internacional, June 11, 2003; “Declaración de Ministerio de Asuntos Exteriores,” Granma, 12 junio.
60 Luis Ayllón, “El gobierno español no entrará en una ‘escalada de provocaciones’,” ABC, 13
challenged by a government-led demonstration in front of the Spanish embassy, presided over by Fidel Castro himself. Spain’s Premier José María Aznar, accused as the main author of the “treacherous escalation against Cuba,” was labeled by the Cuban president on live television as a “caballero,” “coward,” “fascist,” and a “little Fuhrer.” He was depicted in posters as wearing a Hitler-looking moustache and a swastika. While the Spanish press reiterated critical commentaries on the Cuban reactions, former Spanish Prime Minister Felipe González branded Castro’s actions as “pathetic,” expressing doubts about the internal security of Cuba in view of the rash of aircraft and boat hijackings.

Then, accusing Spain of improperly using its facilities, the Cuban government announced the cancellation of the bi-national agreement for the Spanish Cultural Center, a unique institution funded by Madrid since 1997 at an initial cost of over $3 million for the remodeling of a beautiful and centrally located building in front of the Malecón waterfront. In an effort to divide the EU and Spanish leadership, the Cuban government accused Spain and Italy of undue influence upon European decisions. With kind references to King Juan Carlos (in contrast to the ferocious criticism of President Aznar and former Spanish anticomunist dictator Francisco Franco, who despite his right-wing politics never broke diplomatic relations with Cuba), Castro reiterated his personal inclinations. Ironically, commentators insisted on the similarities between the current Cuban situation and the last stages of the Franco regime. Behind the scenes, Cuban officials confidentially expressed concern about the international isolation of the regime and the erratic and counterproductive result of the actions and declarations implemented and issued by the top leadership, hoping that calm would finally prevail and that basic relations with the EU could be rebuilt—a thought that is shared by the EU leadership.


64 Mauricio Vicent, “La ofensiva de Castro contra la UE somete a Cuba a un completo
The EU Foreign Affairs Council rejected as “unacceptable” the insults from Havana, confirming the sanctions. Italy pressed for the termination of cooperation funding still enjoyed by Cuba, but Javier Solana, High Representative for Foreign Policy of the EU did not endorse the ending of humanitarian aid. While the Spanish government reaction was prudent, vowing not to engage in a “verbal spiral of mutual disqualifications,” the Spanish Ministry of Foreign Affairs summoned Cuba’s ambassador to Madrid, Isabel Allende, to express to her its displeasure at the general situation, the threats against the Cultural Center, and the presence of Fidel Castro at the head of the demonstrations, an activity considered “outside the margins of normal diplomatic usage.” Allende, in turn, blamed Spain for the diplomatic conflict.

In an exchange of declarations and opinions issued by Cuban and Spanish officials, the already cloudier context of relations between the two countries got even more confusing, if not contradictory. On the one hand, Spain’s Minister of Foreign Affairs, Ana Palacio stated that the Cuban regime was “exhausted” and would “not survive its founder.” Moreover, she noted that “the Cuban transition has already started”, and that “the Cuban Suárez [as a parallel to the Spanish political process] is already present in the island.” Coincidentally, the Spanish press frequently mentions Oswaldo Payá as the “Cuban Suárez.” In addition, while business delegations decided to postpone scheduled visits to Cuba waiting for a better climate, reports emanating from the governing Partido Popular signaled the intention of the Prime Minister of convening the Spanish companies dealing with tourism in Cuba in order to recommend them “not to benefit the Castro regime.”

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68 EFE, “Embajadora cubana responsabiliza a España de la crisis bilateral,” Diario las Américas, 18 junio [Note: this article wrongly identified Isabel Allende as a daughter of former Chilean President Salvador Allende]

69 Peru Egurbide, “España dice que el régimen de Cuba está agotado y que la transición ha empezado,” El País, 2 julio; Luis Ayllón, “Ana Palacio asegura que la transición a la democracia en Cuba ya ha comenzado,” ABC, 2 julio.

70 Alberto Fernández-Salido, “Oswaldo Payá, el ‘Suárez cubano’,” La Razón, 6 julio.

71 Lisette Bustamante, “El gobierno convocará al sector turístico en Cuba,” La Razón, 7 julio.
relations between Havana and Madrid, Cuban Minister of Foreign Affairs Pérez Roque assured more than a hundred Spanish and Italian companies that they would not be affected, comparing the current conflict to a personal feud. In an apparent policy of avoiding further controversies, the Spanish government elected a wait-and-see attitude expecting the Cuban government to make the next move regarding its announced plans for the intervention of the Cultural Center. While legally speaking the Castro government could use the contractual clauses to denounce the agreement with a ninety-day notice, the Spanish government could also litigate on the grounds of expenses incurred in the delivery of furniture and the over $3 million contributed for the remodeling of the building. Meanwhile, the official posture of Madrid was revealed in the collective demands and expectations inserted in the EU General Affairs Council conclusions of July 21. In Cuba, the government was about to commemorate the 50th anniversary of the attack on the Moncada barracks.

As an answer to the offer of assistance (but with conditions attached) and to the political demands of the EU, Fidel Castro dramatically ended half a century of Cuban history of confronting the United States by electing a new target—the European Union. Calculating the effective EU assistance to have been about an average of $4.2 million in recent years, reduced to less than $1 million in 2002 (of which no funds had yet arrived), Castro pointed out that Cuba had imported European goods valued at $1.5 million, while EU’s imports of Cuban products only amounted to $571 million. He not only blamed Spain’s Prime Minister Aznar for being the main instigator of the EU measures, but labeled Spanish education as a “banana republic disaster, a shame for Europe.” In an apparent deviation from his previous selective critiques and kind references to different EU commissioners, Castro also accused the professional staff of the EU institutions (“a small group of bureaucrats”) of drafting a resolution (a “cowardly and repugnant act”), allegedly without consulting their ministers. Claiming the EU is endorsing “the hostility, threats, and dangers for Cuba” of the “aggressive policy of the hegemonic superpower”, he stated that Cuba “does not need the European Union to survive,” and vowed that “neither Europe nor the United States will say the last word about the destiny of humanity.” Subsequently, the Cuban government sent a three-paragraph letter to the European Commission confirming the terms of Castro’s speech. The EU Commission answered this address by confirming the spirit and the conditions of earlier declarations, lamenting the “extreme attitude of the Cuban government,” accepting its

72 Mauricio Vicent, “Cuba tranquiliza a los empresarios españoles,” El País, 29 junio.

decision, and pledging to maintain its willingness for a political dialogue with Cuba.\textsuperscript{74}

**Conclusion**

The balance sheet of the experience of the Cuba-European Union relations reveals a mixed picture. It is composed of a coherent series of EU measures intended in the first place to maintain the lines of communication open, and secondly to contribute to facilitating the conditions for a sort of “soft landing” in the terrain of democracy and market economy in the event of a peaceful transition. This strategy has not come free of charge, as demonstrated by the persistent negative vote on Cuba at the UN Commission for Human Rights, and the maintenance of the Common Position imposed in 1996, conditioning any special cooperation and aid package upon the implementation of political reforms.

This institutional framework contrasts, on the one hand, with the apparently uncoordinated policies of the member states that trade and invest in Cuba according to their individual interests. This has made the Common Position “neither common, nor a policy,” in the words of sarcastic EU insiders.\textsuperscript{75} On the other hand, the EU collective strategy contrasts with the decades-old U.S. policy of confrontation and harassment. While the United States has been pursuing a path consisting of the embargo and extraterritorial laws such as Helms-Burton, the EU has opted for a policy of “constructive engagement.” While the European pattern has been geared toward preparing for the transition, the United States policy has concentrated on regime change.\textsuperscript{76} Both, however, share one dimension in common—Cuba’s policy has not changed or reformed according to the expected results. The European strategy can be labeled at its initial stages after the end of the Cold War as one based on good intentions and reasonable (if not excessively high) expectations. But at the end of any serious attempt to condition an offer of a special status in the EU structure (bilateral agreement, Lomé, Cotonou), the result has been a high degree of frustration.

From the European perspective, Castro’s priorities place a conditioned relationship with the EU at a lower level than the urgency to maintain a line of internal discipline. It is a useful arrangement for Cuba—but only up to a certain point. Moreover, the confrontation with the United States is considered by the Cuban regime as the ultimate *raison d’être* to justify the continuation of the

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\textsuperscript{74} Sandro Pozzi, “Cuba comunica oficialmente su renuncia a las ayudas de la UE,” *El País*, 2 agosto.

\textsuperscript{75} From EU Commission and Council sources.

\textsuperscript{76} For a review of the U.S. policy towards Cuba since the end of the Cold War, see Thomas Morley and Chris McGillion, *Unfinished Business: America and Cuba after the Cold War, 1989-2001* (NY: Cambridge University Press, 2002).
system and the refusal to modify it, or even less to change it. This ever-present theme is obsessive in all communications and declarations of the Cuban government when dealing in public and in private with EU officials. Cuba claims an alleged “aggressive,” “subversive,” “irresponsible,” and “provocative,” behavior of U.S. officials in Havana supporting “mercenaries, created, organized, trained and financed” by Washington. Questioning the policy of opposing this pattern, from Cuba’s perspective, equals a form of collaboration with their self-declared enemy. Consequently, by rejecting pressure and conditions of the EU, as Fidel Castro’s speech of July 26, 2003, explicitly decreed, Cuba’s position has resulted in making any formal cooperation agreement and ACP benefits virtually impossible to obtain. The prognosis for Cuba-European relations, at least for the foreseeable future, was not good. In retaliation for the additional measures taken by the EU in 2003, the Cuban government had frozen communications at the highest level, while no changes were made regarding the human rights conditions and the emprisonment of representatives of the dissident movement.

These shaky conditions did not discourage the EU and its member states from maintaining a wait-and-see attitude, while strengthening a permanent policy of “constructive engagement.” Consequently, in a more sign of positive moves, in view of the freezing of communications at the highest levels of the Cuban government, Spain (after the change of government as a result of the March 14, 2004, elections) led a motion in the summer of 2003 to correct the sanctions-like measures, considered as “counterproductive.” As an apparent gesture to answer this EU initiative, the Cuban government announced the release (“excarcelación”) of a group of dissidents. After much consultation, internal negotiations and compromise, the EU Council decided on January 31, 2005, to suspend the measures (while the Common Position of 1996 is still valid), while committing to schedule periodic meetings with the dissidents. In return, the EU expected the Cuban government to release all the imprisoned members of the dissident movement, while scheduling an evaluation of the results six months.

After an initial critical reaction of the Cuban government, especially through personal declarations of Fidel Castro, rejecting the EU conditions, diplomatic moves led to a visit of Cuban Foreign Minister Pérez Roque to Madrid (where he was received by Spain’s King Juan Carlos and Prime Minister Rodríguez

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77 Terms used by Cuba’s Foreign Minister Pérez Roque in letter addressed to EU Commissioner Poul Nielson, May 23, 2003, in answering his letter of concern dated April 22.


Zapatero and Brussels (where he met with Commission members and Parliament leaders. In Cuba, EU ambassadors met with dissidents in compliance of an agreement made when the EU measures were lifted. Subsequently, EU Commissioner for Development Louis Michel visited Havana in a very publicized tour that included meetings with representatives of the dissident movement, and it ended with an extended four-hour interview with Castro. The EU officials insisted on the demand for the release of prisoners and the Cuban government confirmed its stance that it would not accept conditions branded as collaboration with pressures from the United States.\(^8^1\) Simultaneously, high Spanish Ministry of Foreign Affairs officials visited Miami in an unprecedented mission to brief all sectors of the Cuban community on the recent EU and Spanish initiatives towards Cuba.\(^8^2\) This argument was highlighted at the annual UN Human Rights Commission session held in Geneva, where the EU members voted endorsed a U.S. motion against Cuba.\(^8^3\) In spite of the fact that the Cuban government banned the presence of several European parliamentarians who wanted to attend the unprecedented assembly scheduled by the dissident movement on May, the event was held without incidents.\(^8^4\) While Raúl Castro visited his paternal town escorted by Galician president Manuel Fraga,\(^8^5\) the Spanish government insisted on the need to continue with the dialogue with Cuba.\(^8^6\) Meanwhile, the dissident poet and journalist Raúl Rivero took residence in Spain.\(^8^7\) While several exile representatives lobbied the EU institutions and European NGOs endorsed the new policy, on June 13 the EU Council confirmed


\(^8^5\) AFP, “Fraga no pidió a Raúl Castro la liberación de presos”, Diario las Américas, 8 mayo 2005.


\(^8^7\) AFP, “Raúl Rivero recuerda a amigos presos en Cuba al recibir premio Tolerancia,” Diario las Américas, 19 mayo 2005.
the suspension of the measures against Cuba, reaffirming its policy of “constructive engagement.”

All this was happening in a tense contextual climate that included some key events and recurrent trends. In Cuba, the accidental fall of Fidel Castro in Santa Clara produced much speculation regarding the future of the leadership. In the U.S.-Cuba scenario, Castro banned the U.S. dollar (later officially “devalued”) as a currency in Cuba, while President Bush ordered a reduction of remittances and travel to Cuba, in a climate of mutual recrimination over diverse subjects such as decorations in the compound of the Interest Section in Havana. After the 2004 re-election, sectors of the exile community lobbied President Bush and his newly appointed Secretary of State Condoleezza Rice to increase the level and quality of pressure on Castro during his second term. In contrast, as seen above, Europe, once more, elected a prudent degree of restrain and communication. Only the record in the future will show which policy will obtain the best results to contribute to the peaceful political transition of Cuba. In this setting, speculation and predictions on the future of Cuba have increased in volume and scope, with all sorts of possibilities and outcomes. In contrast with most schemes, the EU has insisted on the anchoring of Cuba in the Caribbean ACP network. Only time will say.

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An Overview of Regional Governance Arrangements within the Caribbean Community (CARICOM)

Wendy Grenade

Introduction

The concept of governance has gained currency in recent years with the advent of the new wave of globalization and the ensuing debate on the role of the nation-state in the international system.¹ This article focuses on regional governance which, in a broad sense, involves the formal political, legal and institutional arrangements which underpin regional integration schemes. This article concentrates on regional governance within the Caribbean Community (CARICOM).² It first provides an overview of Caribbean integration. It then examines the emerging CARICOM framework. Finally, the chapter draws some broad conclusions in relation to regional governance within CARICOM, making reference to some aspects of the EU model.

Overview of Caribbean Integration

The Historical Dimension

The process of Caribbean integration has its genesis in the West Indian Federation which lasted from 1958 to 1962. This early experiment was part of a wider British project which was aimed to curtail the costs of empire for a weakened post-war Britain while seeking to minimize the impact of decolonization on the small island economies unable to survive as viable territories on their own. Writers have cited many political, economic, socio-


² CARICOM currently consists of fifteen member states: Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.
cultural and geographic factors for the short-lived federal venture.\textsuperscript{3} The end of the federation was followed by the creation of the Caribbean Free Trade Area (CARIFTA) (1968). This free trade arrangement experienced economic success, as evidenced by export expansion from US$85 million in 1970 to US$233 million in 1974. Imports expanded comparably during the same period.\textsuperscript{4} However, this trade expansion was concentrated mainly among the More Developed Countries (MDCs) which had stronger manufacturing and industrial bases, which served to reinforce the disparities between the MDCs and the Least Developed Countries (LDCs). The shortcomings of CARIFTA demonstrated that the creation of a free trade area is often inadequate to deal with the complex problems of development.\textsuperscript{5} Thus a more comprehensive approach to integration was needed.

**The Establishment of CARICOM – The Old Paradigm**

The Caribbean Community (CARICOM) was established in 1973 by the Treaty of Chaguaramas. The three main objectives of CARICOM were economic integration, through a common market, functional cooperation and foreign policy coordination. Since its establishment CARICOM has made notable achievements in the area of functional cooperation. However, it had mixed results in terms of coordinating foreign policy while economic integration was even more problematic.

In terms of foreign policy coordination, CARICOM member states were able to cooperate on a number of foreign policy issues, particularly in the area of international negotiations. CARICOM played a leading role in initiating the negotiations for the Lomé Conventions. It also benefited from collective diplomacy in the General Agreements on Tariffs and Trade/World Trade Organization (GATT/WTO), the United Nations Conference on Trade and Development (UNCTAD), the United Nations Conference on the Law of the Sea (UNCLOS) negotiations as well as in various commissions and joint councils with Canada, Cuba, Japan, Mexico, the United States, the Organization of American States (OAS), the G3 (Columbia, Venezuela and Mexico), among


\textsuperscript{5} In a path breaking work Brewster and Thomas developed this thesis. See Havelock Brewster and Clive, Y. Thomas, *The Dynamics of West Indian Economic Integration* (Kingston: Institute of Social and Economic Research, 1967).
An Overview of CARICOM

In addition, by trading each others’ support, the CARICOM countries succeeded in getting their nations elected to key international positions, such as Commonwealth Secretary-General and African Caribbean and Pacific (ACP) states Secretary-General. CARICOM has also been successful in assisting with territorial disputes in the region. The Community has been instrumental in assisting Guyana and Belize in protecting their sovereignty and territorial integrity and enabling both member states to exercise their right to sit in the councils of the OAS from which they had been debarred for many years.6

However, CARICOM was established at the height of the Cold War. Given the close proximity of CARICOM member states to the United States and the realities of the Monroe Doctrine, this region was a central theatre for Cold War politics. Thus, given the Cold War environment, there was “a marked unwillingness” to harmonize their positions in their relations with superpowers.7 Therefore, there was an ideological divide within CARICOM. Consequently, CARICOM adopted a policy of ‘ideological pluralism’ after Guyana, Jamaica and Grenada opted for socialism as distinct from the Western liberal democracy followed by the other states within the region. The Grenada revolution (1979-1983) was particularly problematic. Several Heads of the Community were openly hostile to the idea of ‘ideological pluralism.’ For the late Tom Adams, the then Prime Minister of Barbados, ideological pluralism meant “we can no longer hope to achieve one of the goals of the founders of CARICOM which is to maintain a coordinated foreign policy.”8

Nevertheless, other CARICOM leaders held an opposing view. The late President of Guyana, Forbes Burnham pointed out that “there is one thing we must get straight if we are to survive. We cannot prattle about democracy internally and not accept the facts of political and ideological pluralism within our region.” Burnham cautioned that it was time for CARICOM Heads to mature and “not be the football of outside circles.”9 The implosion of the Grenada revolution in 1983 coincided with the end of socialist experiments in Jamaica and Guyana and the subsequent end of the Cold War in 1989, which defused the ideological conflict.

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6 Kenneth O. Hall, Re-inventing CARICOM: The Road to a New Integration (Kingston: Ian Randle Publishers, 2003), xxii.


In addition to the ideological conflict, external economic forces also impacted negatively on CARICOM. The establishment of CARICOM in 1973 coincided with the world economic crisis which had a devastating impact on the small open economies of the CARICOM region. The 1981 World Bank (WB) Annual Report confirmed that:

The past decade has been a difficult one for the nations of the Caribbean. Many are newly independent and most are small islands, with fragile economies. The problems of adjustment to being independent states in a world economy would have been immense even if the world economy of the 1970s had been as stable as that of the 1960s. [However] events since 1973 - uncertain prices for the few primary products that they export, declines in earnings from tourism, dwindling foreign investment, higher energy costs, global recession and hurricane-caused destruction – have served to exacerbate the situation.\(^\text{10}\)

Therefore, by the mid-1980s most CARICOM countries had undergone Structural Adjustment Programs imposed by the International Monetary Fund (IMF) and the WB. Those austerity measures had a crippling effect on the already fragile economies of the region. This meant in effect that political leaders were preoccupied with national concerns which diverted attention from the regional project. Therefore, economic integration was problematic for CARICOM.

In addition to geopolitical and global economic factors, the historical legacy of the Caribbean and its small size also affected its quest for economic integration. For example, in terms of trade, intra-regional trade has been relatively minimal. For the years 1981 to 2001 the main market for CARICOM’s exports as well as its imports was the United States, which accounted for 40.5 percent of exports and 41.4 percent of imports. The European Community/EU was the other major market, accounting for 18.8 percent and 15.3 percent of CARICOM exports and imports respectively. For that period intra regional exports and imports amounted to 14.8 percent and 9.5 percent. In fact, CARICOM’s intra-regional exports, as a percentage of total exports – which is an index of integration – for the years 1975, 1980, 1985, 1990 and 2000 was 8.54 percent, 8.92 percent, 12.99 percent, 12.37 percent and 15.7 percent respectively.\(^\text{11}\)

This relatively minimal intra-regional trade can be attributed to CARICOM’s small size and to the historical legacy of the Caribbean. In fact at independence Anglophone Caribbean economies were immersed into the world economy at a disadvantage. Traditionally, they were monoculture economies, producing mainly agricultural products to satisfy the comparative advantage of Britain. This led to economic dependency. Further, for the most part, Caribbean countries pro-


\(^{11}\) Caribbean Community Secretariat, *CARICOM Our Community* (Kingston, Jamaica: Ian Randle Publishers, 2005), 110. See Robert Pastor this volume for comparative figures for NAFTA.
duced similar products which undermined intra-regional trade. What emerged instead were competitor economies vying for foreign investment, foreign aid etc. This impacted negatively on economic integration.

Institutionally, the original Treaty of Chaguaramas provided for a Heads of Government Conference - as the highest decision-making organ - a Common Market Council, a number of institutions and associate institutions and a Secretariat. Decision-making within all the organs of CARICOM was taken unanimously. For most of its existence CARICOM functioned within this inter-governmental framework, which revolved around the Heads of Government Conference and the CARICOM Secretariat. This structure characterized the old paradigm.

The Transition Phase – Preparing for the Twenty-first Century

CARICOM gained momentum in the late 1980s. This was triggered by the harsh realities in the global political economy. The end of the Cold War, the new wave of globalization and the intensification of trade liberalization transformed the global landscape and had the potential to further marginalize the vulnerable states in the CARICOM region. In addition, the emergence of non-traditional security threats, such as the illicit drug trade, and the attendant crime and violence as well as the spread of the HIV/AIDS pandemic also posed grave threats to member states individually and to the CARICOM region as a whole. Given limited human and financial resources, these threats presented an incentive to enhance regional cooperation within a more dynamic framework.

Therefore, on the eve of the twenty-first century, there was a gap between the regional arrangements and the demands of the new era. In fact, CARICOM found itself on the threshold of a new century relatively unprepared for the new dispensation. Therefore, this situation warranted a fresh look at Caribbean integration and the institutional arrangements which supported it. To this end, a number of declarations were made in the late 1980s through the mid 1990s. For example, in 1984 Heads of Government convened in Nassau, The Bahamas to further examine the economic condition of the region. The ‘Nassau Understanding’, which followed the Conference, represented a listing of the ills of CARICOM and a prescription for its revitalization and regeneration. Often referred to as “a survival document” the Nassau Understanding indicated that “The governments are determined to steer the economies away from a situation of economic and social breakdown.” Consequently, by the early 1990s CARICOM had opted for a strategy of ‘open regionalism’, where the development of the Community was seen as requiring a more liberalized trade regime where protectionist measures were abolished and where the thrust of the activities of the
Community was driven by the need for a secure place in the changed global economy.\textsuperscript{12}

In addition, the 1989 Grand Anse Declaration was a landmark event for CARICOM. Several key initiatives were agreed upon to chart a new path for Caribbean integration:

1. The CARICOM Single Market and Economy (CSME) to be established in ‘the shortest possible time’;
2. Free movement of CARICOM nationals;
3. Free movement of skilled and professional personnel beginning with university graduates, visual and performing arts, sports and media personnel;
4. Establishment of the Assembly of Caribbean Community Parliamentarians (ACCP);
5. Establishment of an independent West Indian Commission for advancing the goals of the Treaty of Chaguaramas.

This period also brought to the fore concerns about democracy within the CARICOM region. Therefore, through the Kingston Declaration in 1990 CARICOM Heads of Government agreed to strengthen the democratic process by “providing every opportunity for the full involvement of all … citizens in the governance of their affairs, in particular the deepening of [the] integration effort toward the achievement of a truly authentic Caribbean personality.” They also reiterated their commitment to establishing an ACCP with representatives from both government and opposition members of parliament to “be a powerful influence on the integration movement and on furthering democratic processes in the region.”\textsuperscript{13}

Another milestone event was the 1992 Report of the West Indian Commission (WIC) which assessed CARICOM and made recommendations for the way forward. The report covered a wide range of concerns and found that although CARICOM had made notable progress in the area of functional cooperation, particularly in the areas of health and education, lack of common institutions was a critical weakness of CARICOM. The WIC Report stressed that CARICOM suffered from “an implementation paralysis” which was viewed as “a chronic CARICOM deficiency.”\textsuperscript{14} The WIC drew on the EU model and recommended, among other things: a mechanism for CARICOM to speak with one voice in trade negotiations; speeding up the proposed Single Market and Economy; a Caribbean Court, a Council of Ministers, an Executive Commission,

\textsuperscript{12} Kenneth O. Hall, 2003, 5.
\textsuperscript{13} Ibid, 214.
\textsuperscript{14} West Indian Commission, Time for Action, (Kingston, Jamaica: UWI Press, 1992), 54.
a Charter of Civil society, widening of CARICOM to include Suriname and Haiti and enhanced cooperation with the Greater Caribbean. Those declarations and recommendations marked the beginning of a shift from the old paradigm to the emerging one.

The Emerging CARICOM Framework

Currently, there is consensus that more than ever before regional integration is critical for the small states in the CARICOM region. Sanders captures the general theme in the literature when he emphasizes that “smallness is powerlessness” and that Caribbean states have achieved gains in the international community only when they have acted in unison. He maintains that one way to address the crisis of being “crumbled small” is for these states to make their countries bigger through arrangements of joint governance that “are so patently necessary to make them more viable.”

According to Sanders:

The alternative is to let the culture of smallness perpetuate itself, and for hardship to eventually force them either into a new form of colonialism with larger countries, or to pawn their people’s future with the IMF and the World Bank.

Within this context, Caribbean integration is a necessary imperative in the contemporary era. As such, a regional decision-making space is emerging where the sovereign nation-states in the region are seeking to collectively devise regional strategies to better cope with common threats from the global environment. In 1992 Heads of Government agreed that the overall structure of CARICOM would continue to be a community of sovereign (independent) states. However, it was agreed that the following changes would be implemented:

- The chairperson of the Conference would be changed every six months on the basis of an agreed schedule;
- A Bureau of the Conference would be established comprising the current, the outgoing and the incoming chairpersons of the Conference as well as the Secretary-General acting in the capacity of chief executive officer;
- Each member state would designate a minister with specific responsibility for CARICOM Affairs. Together they would constitute the Caribbean Community Council of Ministers, replacing the Common

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16 Ibid.
Market Council of Ministers as the second highest organ of the Community;

- The Secretary-General would be given executive authority and the Secretariat would be reorganized in order to strengthen its ability to respond more effectively to the numerous demands being placed upon it; and

- The Treaty of Chaguaramas would be revised, to reflect the 1989 decision of Heads of Government to move from a Common Market to a Single Market and Economy.

In addition, in order to complete the process of independence from Britain, they also agreed to establish a Caribbean Court of Appeal, as the final appellate court replacing the Judicial Committee of the Privy Council based in the United Kingdom. The *New Institutional Structures of the Community* came into being in 1997 with the signing of Protocol I which was later incorporated into the Revised Treaty of Chaguaramas.17

However, prior to the Revised Treaty in 2001, four important initiatives were introduced into the CARICOM structure: the ACCP; the Charter of Civil Society, a CARICOM Quasi Cabinet and the Caribbean Regional Negotiating Machinery (CRNM). Each will be examined in turn.

First, the establishment of the ACCP was intended to be a major step towards more inclusive governance within the Caribbean Community. The objective of the ACCP was to give regional representatives of both the government and the opposition a greater say in the affairs of the integration movement. It was established as a consultative and deliberative body for the deepening of the integration movement and its objectives are clearly set out in Article IV of the Agreement:18

1. To involve the people of the Community, through their representatives, in the process of consolidating and strengthening the Community;
2. to provide opportunities for involvement in the issues of the integration process by members of parliament in each member state and associate members, in addition to those who now participate;
3. to provide a forum for people of the Community to make their views known through their representatives;

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17 CARICOM, Secretariat, 2005, 450.
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4. to provide more frequent contact in the monitoring of the policies of the Community;
5. to provide enhanced opportunities for the co-ordination of the foreign policies of member states;
6. to promote greater understanding among member states and associate members for the purpose of realizing and safeguarding the ideas and principles of democratic governments in the Community and facilitating the economic and social advancements of their peoples;
7. to encourage the adoption by the Government of member states of the Community of a common policy on economic, social, cultural, scientific and legal matters deliberated upon by the Assembly.

Since its inaugural meeting in Barbados in 1996, the ACCP has met twice in nine years: in Grenada in 1999 and Belize in 2000. The shortcomings of the ACCP reflect the wider political culture within the CARICOM region. It is pertinent to note here that there is an ongoing scholarly debate on the Westminster model as it has evolved in the Anglophone Caribbean. While some scholars argue that the Anglophone Caribbean has adapted the Westminster model and has for the most part sustained a liberal democratic tradition, others argue that what emerged in the post emancipation Caribbean were “authoritarian states” camouflaged in the trappings of formal democracy. This debate has drawn attention to the quality of democracy within the CARICOM region. Within this context, therefore, there is an emerging tendency among opposition parliamentarians to seek greater space in decision-making and there have been calls from various circles to include opposition parliamentarians in the affairs of CARICOM.

Consequently, the CARICOM leadership is being forced to address the pressing issue of democracy within the CARICOM region. As such, plans to institutionalize the ACCP to include representatives of government and opposition parliamentarians as full members and representatives of civil society as observers

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19 See Jorge Dominguez et al. (eds.), Democracy in the Caribbean (Baltimore: John Hopkins, 1993).


are high on CARICOM’s current agenda. At the Sixteenth Inter-sessional Meeting of the Conference held in Suriname on February 16 to 17, 2005, the Conference of Heads of Government considered the report from the Prime Ministerial Expert Group on Governance which included recommendations to institutionalize the ACCP. It was agreed that the recommendations would be examined by the Bureau, which would make concrete proposals for implementation to be considered at the Twenty-Sixth Meeting of the Conference in July 2005. It is still too early to assess what impact of the ACCP will have. It is hoped that the recommendations will translate into concrete action to address the democratic deficits in the regional project.

Second, the Charter of Civil Society was adopted in 1997. This instrument became necessary as the question of legitimacy and governance within member states became problematic in the late 1990s. Civil unrest in Guyana and other constitutional crises within some other member states warranted CARICOM’s intervention. The Charter aims to: enhance public confidence in governance; ensure the continuing respect for internationally recognized civil, political, economic, social and cultural rights; uphold the right of the people to make political choices to create a truly participatory political environment within the Community; promote, foster and maintain racial harmony in order to enter the twenty-first century on the basis of the best possible governance. However, the effectiveness of the Charter of Civil Society has come into question, particularly in view of the most recent Haitian crisis. In reviewing the lessons from the Haitian crisis, the Secretary-General of CARICOM acknowledges the weaknesses of CARICOM since in his view the Charter of Civil Society, which deals with human rights and democratic governance within member states, does not impose “binding obligations” on member states.

Third, as issue areas increased and became more complex there was a need to spearhead action in sectors critical to the region’s integration and development. Therefore, at the Seventh Special Meeting of the Conference of Heads of Government held in Chaguaramas, Trinidad and Tobago from October 26 to 27, 1999, Heads of Government agreed to constitute themselves into a quasi-cabinet with individual Heads having responsibility for critical portfolios. Within the last five years there have been visible signs of individual CARICOM Heads of

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Government taking the lead role in a number of specific areas. For example, St. Kitts and Nevis has been spearheading strategies to combat the spread of HIV/AIDS; Barbados has visibly displayed leadership in the area of the CSME; Grenada in the realm of Science and Technology, St. Lucia, in the area of Justice and governance, St. Vincent and the Grenadines, on the issue of bananas, Jamaica has been at the forefront of international negotiations, among others. This new component within the structure creates the possibility for greater accountability by the CARICOM leadership to Caribbean peoples.

Fourth, in relation to external negotiations, a notable development was the establishment of the Caribbean Regional Negotiating Machinery (CRNM) in 1997. The CRNM was established to coordinate external negotiations to enable the region to speak with one voice in international trade negotiations. Initially, the CRNM functioned within the framework of the CARICOM Secretariat. However, it was an “awkward relationship” and ultimately the responsibility for the management of the financial resources of the CRNM was transferred from the CARICOM Secretariat to the Government of Barbados.²⁵ Despite the conflicts, the CRNM has been instrumental in the preparations for the Doha Round of the World Trade Organization (WTO); the Economic Partnership Agreements with the EU and the proposed Free Trade Area of the Americas (FTAA). Such initiatives marked a distinct break with the past, albeit within limitations.

The Revised Treaty of Chaguaramas, 2001

The 2001 Revised Treaty of Chaguaramas marked a new impetus in Caribbean integration. The original Treaty has been supplemented by nine protocols which aim to facilitate the implementation of the CSME.²⁶ These amendments are intended to facilitate a single economic space within which the factors of production, including labor, would be able to locate to countries, regions and sectors where they can be optimally employed, and in the process improve productivity and the efficient allocation of resources while enhancing the quality of life and the standard of living of citizens of the Community. Protocol one of the Revised Treaty outlines the organizational and institutional arrangements of the Community.


²⁶ Protocol I addresses the organizational, institutional arrangements and procedures of the Community, including CSME. The other instruments are: Protocol II (rights of establishment, provision of services, Movement of Capital); Protocol III (Industrial policy); Protocol IV (Trade policy); Protocol V (agricultural policy); Protocol VI (transport policy); Protocol VII (disadvantaged countries, regions and sectors) Protocol VIII (dispute settlement); and Protocol IX (rules of competition).
The Conference of Heads of Government continues to be the supreme decision-making organ of CARICOM. Decisions of the Conference continue to be taken unanimously. It is argued that the retention of the unanimity rule 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.”

The Revised Treaty also made provision for the Bureau of the Conference, as mentioned above. In addition, the Community Council of Ministers 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 cooperation and external relations. There is a notable change in the decision-making at the level of Council of Ministers. For example, Article 29 (1) states that “…the Ministerial Councils shall take decisions by a qualified majority vote and such decisions shall be binding.” 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.

Within the new structure the principal organs of CARICOM are assisted by four Ministerial Councils:

(a) The Council for Finance and Planning (COFAP), which coordinates economic policy and financial and monetary integration of member states;

(b) The Council for Trade and Economic Development (COTED), which promotes trade and economic development of the Community and oversees the operations of the CARICOM Single Market and Economy (CSME);

(c) The Council for Foreign and Community Relations (COFCOR), which determines relations between the Community and international organizations and third states; and

(d) The Council for Human and Social Development (COHSOD), which promotes human and social development within the CARICOM region.

As the number and scope of issue areas increased, these Ministerial Councils became necessary to provide a key link between the national, regional and

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international levels. These Ministerial Councils are entrenched in the CARICOM structure and represent a more integrated approach to regional policy making than what obtained with the standing committees provided for in the original Treaty.

The Revised Treaty also made provision for three Bodies of the Community:

(a) The Legal Affairs Committee, which is responsible for providing the Organs and Bodies, either on request or on its own initiative, with advice on treaties, international legal issues, the harmonization of laws of the Community and other legal matters;
(b) The Budget Committee, which examines the draft budget and work program of the Community prepared by the Secretariat and submits recommendations to the Community Council; and
(c) The Committee of Central Bank Governors, which makes recommendations to the Ministerial Council for Finance and Planning (COFAP) on matters relating to monetary co-operation, payments arrangements, free movement of capital, integration of capital markets, monetary union and any other related matters referred to it by the organs of the Community.

Besides the organs and bodies of the Community, the Revised Treaty also provided for a number of institutions and associate institutions of CARICOM. The institutions are established by or under the auspices of the Community as outlined in Article 21. Article 22 provides for associate institutions which are entities with which the Community enjoys important functional relationships which contribute to achieving the Community’s objectives. These institutions and associate institutions create a regional network which helps to underpin Caribbean integration. They play an important role in regional governance and have greatly contributed to CARICOM’s achievements in the area of functional cooperation. This suggests that non-state actors have a role to play in regional integration.

Within the new structure, the CARICOM Secretariat continues to be the principal administrative organ of the Community. To reflect the changes in the Community, the Secretariat has been restructured to include three directorates on foreign and community relations; human and social development; and regional trade and economic integration. 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

28 Some of the institutions and associate institutions include: the Caribbean Disaster Emergency Response Agency (CEDERA), the Caribbean Agricultural Research and Development Institute (CARDI), the Caribbean Development Bank (CDB), the University of Guyana (UG) and the University of the West Indies (UWI).
and associate institutions of CARICOM. However, the Secretariat’s role is primarily administrative. Since CARICOM is a community of sovereign, independent states, the Secretariat is not empowered to implement CARICOM decisions nor is it equipped to effectively respond to the diverse challenges posed by the changing global environment. Cognizant of this reality, further options for governance are high on CARICOM’s agenda.

**Current Options for Governance**

Currently “Options for Governance” is one of the pressing issues facing CARICOM. As pointed out in the 1992 Report of the WIC, the CARICOM Treaty, unlike the Treaty establishing the EEC/EU, did not include similar institutions to monitor and implement the treaty. Consequently, the WIC recommended the creation of a CARICOM Commission, empowered with authority to implement CARICOM’s decisions. In this regard, after much preliminary work, in 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 CSME 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 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. Currently a recommendation for a four-man executive commission is on CARICOM’s agenda. It is not yet known what form the Commission will take or what impact it will have. However, this is a positive development which, can help to address the “implementation paralysis” within CARICOM.

This urgency to settle the question of governance within CARICOM is driven by the CSME. After many hurdles, it is expected that the single market will be launched in a staggered way first between Barbados, Jamaica and Trinidad and Tobago in 2005 with other member states, (except the Bahamas, Haiti and Montserrat) joining the single market by 2006. The single economy is expected to come on stream by 2007. However, as integration deepens, particularly in light of the CSME, CARICOM’s approach to integration as a community of sovereign independent states may become problematic. Some

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scholars question whether the single market is realistic without some commitment to political unity. Some politicians also question the wisdom of CARICOM’s approach to integration. According to Gonsalves:

The course we have taken to view CARICOM as a community of independent sovereign states, that is, if we proceed without a supranational authority to which some measure of sovereignty is transferred to direct the operation we can still succeed but it will take much longer and there will be greater pain and frustration. We have chosen to proceed in the most difficult way to a single market and economy. We ought to do it the way the Europeans have done it, to transfer some measure of sovereignty to a supranational entity through a single law in the independent states and have that particular supranational entity provide directives to drive the CSME. Instead, what we are seeking to do is to see if whilst we are being a community of independent states that we can have a measure of supranationality without in fact creating a central supranational authority…We need deeper political union for us to be able to provide the requisite institutional expression for our civilization.

However, others caution against adopting the EU model. Sandiford warns that:

The European countries are the former colonial masters of the Caribbean. In a sense they still carry that kind of tutelage and would want the Caribbean to do things ‘à la Europe’. But we have to create our own model based on our concrete circumstances. We can work toward having the Integrated States of the Caribbean. But it is more than just putting a structure together. It is the embodiment of nationhood among those English speaking Caribbean countries that can work together and want to work together. We need a Caribbean personality. We need that because in the building of our nation we have failed to do it and we need to find that framework which would embrace both the commitment to national aspirations as well as a larger commitment to a Caribbean nation. We need internal synergies and energies to bring about integration. We have to create our own institutions that come out of the needs of the ordinary man and woman. What is happening now is that it is a bureaucratic emphasis placed on forming institutions without looking closely at what they are supposed to do for the needs of ordinary people.

The debate on the future political and institutional expression of CARICOM is ongoing. It is often argued that the establishment of the CCJ will create the balance between CARICOM’s decision to be a community of sovereign independent states and the demands of the CSME. However, the CCJ itself is fraught with difficulties. It should have been inaugurated in 2003, but due to constitutional and political wrangling, particularly in Jamaica and Trinidad and

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32 Erskine E. Sandiford, former Prime Minister of Barbados, interview by author, St. James, Barbados, June 9, 2004.
Tobago, its inauguration was postponed several times. A Privy Council judgment delivered on February 3, 2005 ruled that the procedure followed by Jamaica to enact three pieces of legislation to bring the CCJ into force by a simple parliamentary majority, was constitutional. This ruling has created a lively debate throughout the CARICOM region which throws light on the adversarial nature of Caribbean politics and the implications for the emerging governance arrangements within CARICOM.

Conclusion

The regional space is being shaped by several factors. On the one hand, the demands in the global political economy are creating an incentive for deeper integration. However, the lingering concerns of the early federal experiment and the political culture within member states are mitigating against deeper union. The central problem is that CARICOM is in a bind. The CARICOM political leadership has agreed that even as the Caribbean deepens integration, CARICOM will continue to be a community of sovereign independent states, without a central authority to make rules which are binding on all member states. Within this framework, as integration deepens, individual member states are required to pass national laws in order to give force to regional decisions. This process often requires super majorities in national parliaments or in some cases referenda. However, given the adversarial nature of Caribbean politics, regional decisions usually become hostage to domestic power politics.

What seems to be emerging is what Sanders refers to as “a half-way house.” That is, there is a shift from the solely inter-governmental framework to an emerging model which is necessary to facilitate the CSME. The emerging framework includes the Bureau, the CARICOM Quasi-Cabinet, the Council of Ministers, Ministerial Councils and Bodies, the CCJ, the CRNM, the ACCP and the proposed Executive Commission. These initiatives are definitely a break from the past and represent a shift toward a more integrated regional project. In essence this model, while reflecting the concrete circumstances of CARICOM, is building on the recommendations of the WIC which proposed an EU-like structure for CARICOM. If one were to compare the emerging CARICOM structure with the EU, the CCJ, while designed differently and while fraught with its own difficulties, is intended to carry out functions similar to that of the European Court of Justice (ECJ). In addition, the CRNM, while not as

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34 Ronald Sanders, interview by author, Miami, Florida, February 16, 2005.
sophisticated as the European Commission, has been speaking with one voice for CARICOM in international negotiations. These are two of the central “pillars” of the emerging structure. It is too early to tell what form the proposed Executive Commission will take and what impact it will have. Suffice it to say, this is a positive step that can help to address the implementation deficiencies within CARICOM.

In summary, one possible future scenario is that in the medium to long term, external pressures will force CARICOM to deepen integration within a more cohesive political and institutional framework. That is, an effective and sustainable regional governance arrangement will become a necessary prerequisite for CARICOM’s survival as a viable region. This does not mean full political union, but greater pooling of sovereignty in critical areas. However, CARICOM’s decision to continue to be a community of independent sovereign states will continue to create tensions between the desire for deeper integration and the political, legal and institutional mechanisms needed to underpin integration. Finally, it is expected that CARICOM will continue to search for an indigenous path to development through regional integration. This is a continuous process which requires creativity and sacrifice. In my view, there is no easy or no one ‘right’ way to integrate sovereign nation-states within a regional framework. However, it is useful to compare various regional schemes to draw useful lessons, while tailoring the regional project to the concrete circumstances of the respective project. In this respect, what CARICOM can draw from the EU is that common institutions and the pooling of sovereignty are critical to sustain the integration process.

The fundamental issue is that regional integration is both necessary and problematic. However, appropriate and effective governance mechanisms can help to enhance the viability of regional integration movements.
Internal Political Tribalism and Regional Integration in the Caribbean

David Hinds

Introduction

As the Anglophone Caribbean navigates its fifth decade since the beginning of constitutional independence, international and domestic forces are threatening its survival, both as individual nation-states and as a community of states. The challenges of the current wave of globalization with its bias against small states have had serious implications for the Caribbean Political Economy. The dominant response has been a push towards deeper regional integration whereby the states could collectively coordinate and maximize their ability to compete in the global economy and protect themselves from the negative effects of globalization. Three crucial developments in this direction have been the setting up of a Caribbean Court of Justice (CCJ) and movement towards a Single Market and Economy (CSME) and an Executive Commission with powers to help implement decisions taken by the Heads of Government, the highest decision making body of CARICOM.

However, this push towards deeper integration, which is spurred in large part by the forces of international capital in consort with U.S. political and cultural hegemony, has been accompanied by a pull factor occasioned by the domestic political dynamics of the Caribbean states. This push-pull factor or the convergence of global and domestic factors is largely responsible for the nature and pace of regional integration in the Caribbean. This paper argues that while developments at the international level are critical to regional integration, of equal importance are developments at the domestic level.

During the last few years the historical polarization of Caribbean societies both at the level of government and society has played a critical role in slowing down the pace of Caribbean integration over the last few years. The chief culprit in this regard has been the persistent conflict between government and opposition, which is not helped by the Westminster winner-take-all system and the authoritarian political culture, both of which are legacies of the region’s colonial past.

The CCJ, in particular, has been a victim of this problem, particularly in Trinidad and Tobago and Jamaica, where opposition parties have linked support for the court to their partisan domestic agendas. The opposition Jamaican Labor Party (JLP), which objects to the CCJ as a court of last resort for Jamaica on the
grounds that it will be subject to partisan political influence, has called for a referendum to decide on the issue. Ironically, it was the JLP while in government in 1970 that first proposed the idea of a regional court to replace the Privy Council as the court of last resort for the region. Trinidad’s opposition United National Congress (UNC), which strongly supported regional integration when in office, though not objecting to the CCJ has nevertheless tied its support for it to constitutional reform in the country. In both instances the ruling parties have rejected these proposals, leading to a political stalemate.

While this scenario may be characterized as politicking, it points to a larger issue: the extent to which domestic politics can affect regional integration. This paper contends that where there is more political and social integration at the domestic level a more stable and viable regional integration is likely to emerge. Conversely the more the countries are politically and socially polarized domestically a stable and viable regional integration is less likely to emerge. Since a regional integration movement is a community of states, what happens within one state is bound to affect what happens at the regional level. If states seeking integration are structurally and politically geared towards one-party rule then what results is a community of ruling parties rather than a community of states. Internal integration, therefore, is a perquisite for regional integration, while internal polarization and tribalism are recipes for regional disaster. Political cooperation between government and opposition is, therefore, critical to the viability of regional integration.

In this regard three key questions must be interrogated. First, can states that are incapable of constructing a national ethos based on shared values and governance in their respective societies create a viable regional unity? How can governing parties and leaders that eschew unity with their own opposition, construct regional unity? Second is the majoritarian winner-take-all system an adequate tool for the construction of the culture of cooperation in postcolonial societies? Third, is the issue in the Caribbean really about the refusal of leaders and states to pool sovereignty or is it a refusal to surrender power?

This link between domestic politics and regional integration is pivotal to an understanding of regionalism. Mandsfield and Milner agree with this thesis. According to them:

> Various recent studies indicate that whether states enter regional trade arrangements and the economic effects of these arrangements depend on the preferences of national policymakers and interests groups, as well as the nature and strength of domestic institutions.¹

Mandsfield further contends that “any comprehensive analysis of the

international political economy would consider the effects of both international and domestic politics.” This view is shared by Hoffman who observes that “every international system owes its inner logic and its unfolding to the diversity of domestic determinants, geo-historical situations and outside aims among its units.” Expanding on this relationship he opines, “[d]omestic politics are dominated not so much by the region’s problems as by the purely local and purely global ones, which conspire to divert the region’s members from the internal affairs of their area…each nation new or old, finds itself placed in an orbit of its own, from which it is quite difficult to move away: for the attraction of the regional forces is offset by the pull of all the other forces.”

Hoffman hits the nail on the head when he observes that because the nation-state is made up of its “internal features,” when policy makers move beyond the nation-state they do so “by taking along the nation with its baggage of memories and problems – with its situation.” The contention here is that economic, political and social instability within member states have implications for the success of regional integration. Jacomé supports this approach to regional integration. She argues that integration has to be dealt with within a broader political and social framework that includes democracy and governance at the domestic level.

Domestic Politics and Governance - An Overview

Unlike Europe, the Caribbean is building a regional movement among countries that have not yet settled the national or democratic question--the question of nationhood and an acceptable body of principles, values and rules that underpin the state and society. The political history of the region did not prepare it for the cooperation and sense of oneness that are needed for building viable nation-states. The convergence of authoritarianism, class domination, an externally driven and determined political economy, racial insecurity and gender inequity lend to some degree of political dysfunctionality that retard political consensus and socio-economic development.

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3 Stanley Hoffman, “Obstinate or Obsolete? “The Fate of the Nation-State and the Case of Western Europe,” in *Daedalus* (Cambridge, Massachusetts: Journal of the American Academy of Arts and Sciences, 862-915), 864.

4 Ibid, 865.

5 Ibid, 868.

Despite some democratic modifications, the Caribbean state is as authoritarian as it was at the time of independence.\textsuperscript{7} The coercive arm has maintained its historic role as a medium of terror against the masses while serving as protector of the interests of the ruling class. This situation in conjunction with chronic poverty, narco-traffic, social alienation and corruption within the state has engendered a complex criminal enterprise that threatens to overrun the state. Some scholars have, however, attributed to the countries of the region an overly democratic profile that has not been consistent with the lived realities.\textsuperscript{8} Because the region has had a very good record of maintaining parliamentary democracy and the rule of law, these scholars have mistaken these democratic forms and procedures for democratic substance. In the process they have ignored the anti-democratic form of governance in the region; they have focused on structures while ignoring outcomes. As Ryan observes, “[t]he triumph of electoral democracy notwithstanding, the Caribbean has had its share of political charlatan and adventurers, politically inspired riots, successful and unsuccessful coups, draconian repression, politically driven victimization and assignation, election related violence, electoral thuggery, fraud and corruption, social and ethnic cleanings, and some of the other ugly, nasty and exploitative deformations that have characterized democracy elsewhere.”\textsuperscript{9}

This phenomenon is aided and exacerbated by the Westminster model, which encourages fierce competition for power. Because Westminster model in the Caribbean confers on the winning party absolute power and the losing party no power, and because the winning party is unlikely to incorporate the interests of the losing party, the stage is set for permanent conflict. Ruling parties contain or marginalize opposition parties while opposition parties try to sabotage the work of the ruling parties. This antagonism is total because what is at stake is the power of governments to control almost every aspect of the society. This has led to a crisis of governance that is reflected in the inability of the governmental system to transform formal democracy into substantive democratic outcomes and advance the cause of nationhood. Peters describes such rule as “quasi-authoritarian.” According to him:

What is peculiar about the Eastern Caribbean political system is the absolute authority that government somehow inherits. Government officials are able to circumvent


\textsuperscript{9} Selwyn Ryan, \textit{Winner Takes All: The Westminster Experience in the Caribbean} (St. Augustine, Trinidad and Tobago: UWI Press, 1999), xvi.
the laws that they have enacted. They are able to use public resources for their personal gain. While partisan politics is a normal phenomenon in modern democracies, Caribbean governments have taken the concept to its zenith. As a result, when a party is elected to power it virtually eliminates the opposition through patronage, control of the media and legislative action where necessary. These actions are in part responsible for the domination of one party for decades in most of these islands.\footnote{Donald Peters, \textit{The Democratic System in the Eastern Caribbean} (New York: Greenwood Press, 1992), 9.}

The Westminster Model, therefore, has been utilized to enforce elite domination of politics and governance and has served to institutionalize sharp polarization of the society along racial and tribal lines. Both elite dominance and polarization among the masses have served as impediments to democratization of society and politics. Barbados Prime Minister, Owen Arthur argues, “the unfortunate aspect of the Westminster model of governance is that it has encouraged “to the victors the spoils” mentality. It has ensured that at any time almost half of the population of any given Caribbean society is marginalized and alienated from participation in the development of their society.\footnote{Ryan, 1999, 317.}

The two-party system in the Caribbean mirrors the division of the societies into relatively fixed antagonistic factions. In each country there has developed an intra-class rivalry and competition among the working peoples that divides them into two antagonistic camps or political tribes. In Guyana and Trinidad these tribes have the added identification of race. The political parties have evolved into bastions of tribal and racial representation. This attachment to one political party or the other arises out of the practice of clientilism whereby political support is based on the party’s ability to grant favors to its constituencies. In the case of Guyana and Trinidad, party membership and support are based on racial considerations. In effect, therefore, the Caribbean political landscape is characterized by fixed factions or “tribes” that battle each other for control of the government and state, thus making elections a high intensity exercise and the capture of government the ultimate prize. Owen Arthur captures this reality when he opines:

\begin{quote}
There is something fundamentally flawed about a system of governance, based upon the first-past-the-post principle, in which the victor gets all the spoils, but in which all other than hard score party supporters and in fact, almost half of the population at any time feel alienated from participating in what is taking place around them.\footnote{Ibid, 47.}
\end{quote}

Ruling parties, despite some degree of constitutional checks, function as paramount entities leading to little distinction between ruling party, government and state. As Peters contends, “The system of government that emerges out of
that process is one characterized by some aspects of democracy but tightly controlled with the tradition of a quasi-authoritarian system. The countries, therefore, are recognized as democracies, but the government apparatus and the decision-making process at the national level are not democratic and cannot be capsulized within any of the broad political models that dominate the Third World.”

Arthur Lewis puts it this way:

In a small island of 50,000 to 100,000 people dominated by a single political party, it is very difficult to prevent political abuse. Everybody depends on the government for something, however small, so most are reluctant to offend it. The civil servants live in fear, the police avoid unpleasantness, the trade unions are tied to the party, newspapers depend on government advertisements and so on.

Because political power is monopolized by the leadership of the political parties in consort with the economic elites, there has developed a top-down approach to governance and politics that excludes the masses from any meaningful say in the decision making process. But even at the top, the elites compete for power and administer it not as a means to an end but as an end itself. Control of political power means absolute control of state resources and paramountcy of the party over the state. In many respects the ruling party in the Anglophone Caribbean is indistinguishable from the state. The fierce competition for power, therefore, engenders a very high intensity electoral exercise that excites the citizenry into a carnival of acrimony and violence that have been increasingly carried over into the post-election period. In between elections political parties, both governing and opposition, are motivated less by national concerns and more by the need to maintain or secure party hegemony. The exercise of politics is, therefore, an exercise in anti-development and anti-nationhood. Again Prime Minister Arthur hits the nail on the head, when he asserts that, “[i]t can also reasonably be argued that there has, in our region, been too destructive a competition for political office; too heavy a concentration of power in the hands of the ruling elites, an unhealthy preservation of anti-development party and tribal division, a focus on short term partisan political concerns rather than long-terms strategic objectives, and efficient patronage and spoils systems which work against sound and progressive government. Alienation, cynicism and marginalization have been the result, all leading to a perpetuation of underdevelopment.”

Opposition parties are, therefore, treated as outcasts and not as part of the governance structure while ruling parties assume power to govern and determine who gets what, when and where. In effect the winner determines unilaterally the fate of the rest of the society. Parties generally use their majority status to make national decisions and in the process more often than not ignore the views of opposition parties, which often represent significant minorities. According to Jamaica’s opposition leader Bruce Golding, “There is no joy in being in opposition, you know. When you are in opposition, you control nothing. If one is outside the “power loop”, one is ineffective, and impotent despite the fact that one may be a duly elected representative of the people.”

Opposition parties in turn have generally tried to undermine the government outside of the formal constitutional framework and take advantage of loopholes in the formal system to stall or torpedo government initiatives. Beginning in the 1990s the region has seen a new tendency whereby losing parties have either refused to accept the results of elections or cooperate with the government after the elections. This is a departure from the norm in post-colonial Caribbean politics. Neville Duncan sees this as a problem for regional integration. While he observes that this development is not new to the region, given their prevalence they assume greater significance at this time. This zero-sum political praxis has led to persistent political instability within the countries that invariably spills over into regional politics. It has consumed all facets of the society. The working people become pawns in a ruthless political game that subsequently compels them to see their salvation in partisan terms. The middle strata and the professional class become cheerleaders of the status quo, thus making a mockery of the concept of Civil Society. Political space is surrendered to the political parties as a matter of course. Trevor Munroe is on the ball when he says:

There are a number of serious obstacles in the way of radical reform and democratic renewal. One such is a constitutional system that, throughout the region, places excessive power in the hands of the executive, in particular in that of the office of the prime minister. The converse of this over-concentration of power are legislatures that are ineffective, electorates that have little institutional means of influencing policy between elections. In its most extreme form, this system allows constitutional dictatorship as manifested itself in the Gairy regime of the 1970s and that can lead to extra constitutional revolutionary action such as undertaken by the New Jewel Movement in the 1970s.

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16 Ibid, 11.
Domestic Politics and Integration—The CCJ

As the Caribbean pushes for deeper regional integration, the adversarial nature of the region’s politics pulls it back. This scenario is most glaring in the case of the CCJ, which should have been inaugurated in 2003. It was, however, postponed on at least three occasions until April 2005 when largely on account of disagreements at the domestic level it was launched as a trade court rather than as a replacement for the Privy Council. In particular, opposition parties in Trinidad and Tobago and Jamaica have tied their country’s participation in the CCJ to domestic constitutional reform and the holding of referendum respectively; proposals that have been rejected by the ruling parties.

Since leaders and parties are unaccustomed to operating within a culture of political cooperation, which is so pivotal to a viable regional integration, they have little appetite for it. Regionalism, therefore, is not a major consideration at the domestic level; it is a sideshow but more importantly it is transformed into a noose around the neck of the incumbent party-tribe. It becomes a political football, a casualty of tribal politics as governments and opposition parties behave more like enemies rather than partners in the developmental process. While leaders insist on cooperation and consensus at the regional level they entrench the government-opposition divide at the domestic level.

Editorializing on this issue, a Caribbean newspaper, Stabroek News, comments:

In these instances it may well be the case that CARICOM projects are being held hostage to domestic conflicts. Indeed it may well be the case that the slow pace in the implementation of decisions made by the Summit and other CARICOM bodies is due precisely to the fact that governments must steadily look over their shoulders at what political capital the opposition might make of CARICOM issues.19

What matters at the domestic level is not the collective will, but the will of the ruling party, which in turn is projected as the national will. This narrow national will, in the final analysis, is premised on a narrow legitimacy and it invariably collides with regional imperatives, which then leads to a slowing down of the pace of regionalization.

Neville Duncan picks up the relationship between national legitimacy and regional integration. According to him the sustainability of democratic procedures cannot be left solely to member states but it should also become a regional concern. He suggests that Caribbean Heads of Government should set up a regional office to deal with the question of legitimacy at the state level.20

20 Duncan, 2001, 72-74.
The Jamaica Controversy

When the Jamaica Labor Party (JLP) held office in the 1980s its then leader, Edward Seaga, had committed Jamaica to joining both the CSME and the CCJ. However when the JLP became the opposition, the party became a vocal critic and withdrew support for these institutions. In response to Prime Minister P. J. Patterson reminder of the JLP’s earlier support for the CCJ, Seaga replied that conditions had changed. In an interview with a US based Caribbean television program Seaga expressed his party’s position:

We are not convinced that we can divorce the intrusiveness that seems to pervade all aspects of our life - the political intrusiveness - in a Court that is to have final appellate jurisdiction. The way in which the Court is structured is that the Chief Justice is to be appointed politically and then he appoints all the other Judges. So you have a Chief Justice who is beholden to the political leaders who appoint him. And as such, the Justices that are appointed to empanel the Court are also beholden to the Chief Justice who is beholden. Now, the one thing that we must not have is any watering down of the purity of justice. What this country needs, and I can’t speak for the rest of the Caribbean, I think some countries in the Caribbean will fall in this category, is more justice not less justice and to the extent that we need more justice, we do not want to water down the pure form of justice that we are able to enjoy by appeals to the Privy Council. That has served us well, we have full confidence in it largely because not only the quality of justice that is there but because the members of the Privy Council are far removed from local circumstances. We do not want a Court that is going to take into account circumstances and conditions of the society in which they operate. We want a Court that takes into account two things: the law and the evidence before it.21

In relation to the larger issue of regional integration, Seaga takes an equally uncompromising nationalistic position. According to him institutions like the CCJ would weaken Jamaican sovereignty. He contends that, “We in the JLP do not wish to pursue this course and it is for this reason that we differ…by this position we mean no disrespect to our Caribbean sister states with whom we have had a strong record of cooperation at many levels for 30 years. It is not that by our stand we love them less, but we love Jamaica more.”22

Delroy Chuck, another JLP spokesperson supports Seaga’s position by situating what he sees as Jamaica’s domestic commitments in direct conflict with regional integration and hinted that the JLP was serious about the matter. According to him, “If we mean Jamaica well, then the priority would be to look after the Jamaican citizen, especially the unemployed, yet, is that being done?”23

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21 Edward Seaga, Opposition Leader, Jamaica, interview by David Hinds, Caribnation TV, No. 426, Kingston, Jamaica, August 31 2000.


Any attempt to remove the Privy Council, without putting in place a Caribbean Court of Justice in accordance with proper procedure will be resisted and it will be “bangarang inside and outside of this Parliament.”

When the JLP’s call for a referendum to decide the matter was rejected by the ruling PNP which then used its legislative majority to pass the CCJ legislation, the JLP in alliance with the Jamaica Human Rights organization took legal action. The argument before the courts was that issues such as the changing of the final court of appeals should be decided by either a two-thirds majority in parliament or a referendum and not a simple majority vote by the government side. While the Jamaican courts ruled in favor of the government, the Privy Council found that the manner in which the laws were passed did not comply with constitutional requirements and was thus unconstitutional. This ruling has had implications for other CARICOM countries which belong to the Privy Council and one can argue with much justification that it was the chief reason that the CCJ was launched in its abbreviated form.

As a result of the Privy Council’s ruling the JLP and PNP eventually agreed to enact legislation to facilitate the CCJ as a court of first resort or trade court only. However, this agreement was hammered out in bilateral negotiations between the two parties outside of the formal constitutional structures. This development only occurred after there was a change of leadership in the opposition party. When the parliamentary debate over the bill eventually started the government allegedly used its majority status to circumvent parliamentary procedure leading to opposition protests and a walkout from parliament. Although the Prime Minister eventually gave in to the opposition demands for parliamentary transparency, the bitter struggle between the two parties over this issue would have done irreparable damage to the cause of integration in the eyes of Jamaicans.

The Trinidad Scenario

In Trinidad where the CCJ is headquartered, the opposition party, the opposition United National Congress (UNC) which championed regional integration while in office initially, tied its support for the CCJ to the government’s agreement to constitutional reform. After an electoral tie that saw the President favoring the rival People’s National Movement (PNM) to run the government, the UNC had been clamoring for constitutional reform. Since the ruling PNM has ignored this when the issue of the CCJ arose and the government needed opposition support to pass legislation in this regard, the UNC seized the opportunity to hold the government at ransom and in the process held regional integration hostage. Here

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once again what is paramount for both parties is not the realization of a regional institution but their partisan political survival.

Speaking as Prime Minister of Trinidad and Tobago at the Twelfth Inter-Sessional Meeting of CARICOM Heads in February 2001 UNC leader, Basdeo Panday, was emphatic about his party’s support for the CCJ:

Let me assure the Conference of the Government of Trinidad and Tobago's continuing commitment to and support for the establishment of the Caribbean Court of Justice. Indeed, the temporary Headquarters of Port-of-Spain for the Court will be ready for occupancy by the end of April 2001.26

But following the UNC’s electoral defeat, it adapted a similar position to that of the JLP. In an about turn Panday asserted, “Our position remains unchanged. We believe that there is need for fundamental constitutional reform in Trinidad and Tobago before we could move on to anything else and unless we have that we do not intend to support the move for the setting up of the Caribbean Court. Without constitutional reform the court could be very dangerous [and] with a Government like the PNM in office and in power one has to be extremely careful in setting up that court.27

Since unlike Jamaica, Trinidad required a two-thirds majority to pass the CCJ legislation, the government had to withdraw the bill. Although Prime Minister Patrick Manning pleaded that the matter “should be above the cut and thrust of politics” and had “nothing to do with the PNM or UNC” and although CARICOM tried to mediate, the UNC was unmoved. Like the PNP which did not budge on the JLP’s referendum call, the PNM remained equally unmoved on the UNC’s call for constitutional reform in Trinidad.

When the vote was taken on the bill to enact the CCJ as a court of first resort, which required a simple parliamentary majority, the UNC MPs abstained. One opposition MP called the CCJ a “Trojan Horse” that will be a “Caribbean Court of Injustice.”28 She predicted that it will lead to a destruction of democracy and an erosion of Trinidad and Tobago’s independence and sovereignty.29 The UNC has contended that there should have been a two-thirds vote even to enact the CCJ in its original jurisdiction and has threatened to take legal action.30

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26 CARICOM Secretariat, “Statement by the Honorable Basdeo Panday, Prime Minister, Trinidad and Tobago, at the Twelfth Inter-Sessional meeting of the Conference of Heads of Government of the Caribbean Community, St. Michael, Barbados, 14 February, 2001” (Georgetown: CARICOM Secretariat, February 16, 2001).
27 Trinidad Express, “Bas says no to CCJ,” April 14, 2005.
30 Anna Ramdass, “Putting the cart before the horse,” Trinidad Express, March 11 2005.
Conclusions

The refusal of ruling parties to hold referenda to decide on regional institutions such as the CCJ and the CSME is a direct result of the nature of domestic politics. Since a referendum would be treated as a national election ruling parties are less likely to want to go in that direction. In any case, these ruling parties interpret their election victories as a source of empowerment to act on behalf of the nation even when such issues entail extraordinary implications, such as sovereignty. On the other hand, opposition parties are more eager for a referendum since it allows them a medium through which they can hold the government accountable and possibly erode their influence and confidence. Sanders makes this observation in relation to the failed attempt at political unity among the OECS countries:

> It can be seen, therefore, that by not actively seeking to involve the opposition parties fully in the process toward a political union, the governments had wrong-rooted themselves. For the parties, which never wanted union, could oppose the process on the basis that the governments were acting undemocratically.\(^{31}\)

The ruling parties’ refusal then to go to the people on regional issues opens them to opposition charges of authoritarianism. In the process, regional issues become attached to the notion of authoritarian rule. A referendum on the CCJ in Jamaica, for example, will more likely than not become a referendum not on regional integration but on the government’s stewardship. Hence he CCJ becomes a victim of the extreme tribal competition between the two major Jamaican parties.

The key issue for Caribbean governments seems not to be a loss of sovereignty, but a loss of power. In fact regional integration will enhance sovereignty for Caribbean countries, as it would provide more leverage for the individual and collective defense of Caribbean sovereignty which given the neo-colonial grip of the developed countries on the region has never been fully established. What leaders fear is the curtailment of their power since in a regional political economy their ability to dictate and influence their domestic economies and dispense favors would likely be reduced. Similarly the power to influence the composition of the courts and the outcomes of their deliberations would not be easily transferred in their dealings with a regional court as it will take unanimous approval of the Heads of Government to amend the treaty.

The Westminster majoritarian model, which assumes a spirit of consensus within the letter of majority rule, has proven disastrous for Caribbean societies. Although there were moments of unity during the decolonization process, they

have never developed any sustained consensus ethos. In the final analysis, apart from the external problem, the most worrying problem of Caribbean regionalization lies in the non-resolution of the problem of governance and decision making within member states. That is what is being played out in Jamaica and Trinidad; the CSME and CCJ are not the cause of the problem, but merely the occasion for a dramatization of it. As Hinds argues:

While regional unity is welcomed, it will falter if it is not premised on democratic practices both at the center and inside of its sub-units or individual countries. In this regard Trinidad and Tobago’s opposition UNC position of tying agreement to the CCJ to constitutional reform in that country should not be taken lightly. Similarly Jamaica's opposition JLP’s call for a referendum on the CCJ should not be ignored. These two developments point to the necessary relationship between governance in the individual countries and governance at the regional level. There is no doubt that regional governance has to be premised on shared democratic governance or consensus among the member countries. Already governance at the level of the Heads of Governments is based on consensus democracy. This consensus model is, however, at variance with the majoritarian model used in the member countries. Hence part of the reason for the tension in Trinidad and Jamaica. The views and role of the opposition in the member countries cannot and must not be ignored. If governments continue to endorse CARICOM agreements by using the "part-democratic" majoritarian principle, then CARICOM itself will be plagued by the instability that arises from majoritarianism.32

This disjoint between the decision making process within member countries and the necessities of the regional movement is, therefore, a matter of urgent concern. The implication of domestic conflicts for the regional movement is not confined to the pace of implementation of decisions; there is also the strong possibility that change of governments could lead to countries reversing decisions of their predecessors. The Jamaica case reeks of this. Imagine the negative impact on CARICOM if the JLP, which has vehemently opposed both the CSME and the CCJ, comes to power and pulls Jamaica out of these institutions. Unlike Europe, CARICOM cannot afford the absence of some of its members from the CSME. Dr Eric Williams' mathematical logic of “one from ten leaves nothing” still holds true to a large extent. Edward Seaga’s warning that if the JLP came to power it would repeal any law establishing the CCJ in Jamaica is instructive.33 Although new leader, Bruce Golding, has had a less confrontational tone, he has not wavered from the party line.34

While one may, with some justification, dismiss the JLP and the UNC as obstructionists and anti-CARICOM, the matter is much more profound. The

Hinds

Caribbean is trying to build a regional movement based on consensus but the individual countries are wedded to a majoritarianism that has served to perpetuate differences and disharmony rather than similarities and harmony. These differences are direct and indirect legacies of colonisation but they have been taken to higher heights since independence. For CARICOM to advance with any purpose this problem has to be solved both from within the states themselves and from without. Of course the leaders can proceed with integration by circumventing this issue--some would argue that they have no choice given the global imperatives--, but the process will be persistently handcuffed by the democratic contradictions within member states.

While the CCJ has highlighted the problem of regionalism in the Caribbean more than others, there are other concerns. For example, in the case of Guyana, where race is the central factor in domestic politics, the situation is even more complex. The then Indian PPP government in 1958 refused to take Guyana into the Federation. The PPP leader, Cheddi Jagan, cited as the main reason the East Indian fear of losing the majority status it enjoyed in Guyana. The present PPP government, although an active participant in CARICOM, is known to favor a Guyana-Trinidad-Suriname union that would preserve the Indian majority. That the CARICOM Secretariat is located in Guyana means that these developments have serious repercussions for regional integration. Further, Guyana’s persistent political instability resulting from its racial problems, which has attracted regional intervention in the past, must by necessity be of concern for the regional movement. In fact, CARICOM’s intervention in Guyana, Trinidad and St. Vincent to mediate domestic problems is a clear signal of the relationship between internal instability and regional viability.

Another contentious issue has been the institution of free movement of some categories of labor within the region. In St. Kitts a Guyanese national had his work permit withheld on the grounds that his job was not properly advertised. This government action occurred shortly after a general election in which the opposition raised the issue of St. Kitts commitment to regional integration at the expense of the country’s interest. A few years earlier two journalists were similarly denied work permits in Antigua and Trinidad because they were critical of the then government.

A consensus form of democratic governance will go a long way towards reducing adversarial politics, which in turn will reduce the possibility of regionalization being held at ransom. Regional consensus will always be vulnerable in the face of a lack of domestic consensus. Surely decisions on important matters such as committing sovereign countries to shared institutions should not be left to the discretion of a bare majority of the people’s representatives. Both the Jamaican and Trinidadian governments should find a framework for consensus within their countries on the CCJ and CSME before

proceeding with it. If prime ministers Patterson and Manning cannot find unity at home, how can they be serious about unity with others? Sanders is clear that the role of the opposition in regional unity is most important. To quote him:

If the people of these territories were to be persuaded to subsume their nationalist feeling for greater benefit under a political union, it would require all their political leaders to convince them; no one faction could do it alone…But the alienation of the opposition parties could not practically serve the purposes of any government which was serious about political union. For the constitutions of all the OECS territories demand an affirmative vote of two-third of the members of some parliaments and three-quarters in others before a referendum can be held on any alternation to an entrenched clause of the constitution. Therefore, before the people of each state could be asked to vote in a referendum to alter the constitution allowing for political union, members of the opposition parties would have had to support such a motion in parliament…. It is highly unlikely that any government would have been able to secure two-thirds of the votes without the support of opposition parties.36

Newly elected Prime Minister of Antigua, Baldwin Spencer, has called for involvement of the opposition in CARICOM. According to Spencer:

Very regrettably a “No Admittance to Opposition Politicians” sign continues to hang over the door of the councils of CARICOM… it is a pity that CARICOM has not yet sought to make itself a pasture in which the Region’s lambs and lions could lie down together. Think of how wonderful that would be!37

Although there is an Assembly of Caribbean Community Parliamentarians (AACP) that includes opposition parliamentarians, this does not address the problem of the opposition’s role in the regional project. Ultimately decisions both at the national and regional levels are made in the executive. So if the opposition is to play any meaningful role, it has to be within this branch of the regional body. I would propose that rather than having an opposition delegation at CARICOM meetings, each country should have a joint delegation that include government representatives and representatives from the parliamentary opposition and where necessary members of Civil Society. It would make no sense for governments and their opposition to be sparring at a CARICOM meeting; that sparring within a consensus framework and a spirit of shared interests should take place before they go to the meeting.

Finally regional unity will falter if it is not premised on democratic practices both at the center and inside of its sub-units or individual countries. Regional governance has to be premised on shared democratic governance or consensus

36 Sanders, 2005, 116-117.
37 CARICOM Secretariat, “Opening Address by the Honorable Balwin Spenser, Prime Minister of Antigua and Barbuda and Outgoing Chairman of the Caribbean Community at the Twenty-fifth Meeting of the Conference of Heads of Government, St. George’s, Grenada, July 4, 2005,” (Georgetown: CARICOM Secretariat, July 5, 2005).
among the member countries. Already governance at the level of the Heads of Governments is based on consensus democracy. This consensus model is, however, at variance with the majoritarian model used in the member countries. Hence part of the reason for the tension in Trinidad and Jamaica. The views and role of the opposition in the member countries cannot and must not be ignored. If governments continue to endorse CARICOM agreements by using the "part-democratic" majoritarian principle, then CARICOM itself will be plagued by the instability that arises from majoritarianism. In this regard, Sanders is not incorrect when based on the OECS’ experience he warns:

It also meant that political parties in those states would have to overcome their intense aversion to talking with each other. They would have had to learn that integral to operating the Westminster [style] of government, is that, on important issues of national concerns, political leaders of all sides of the house must hold dialogue as representatives of the people to whom they are accountable. If they failed to do so as they did, national consensus, which is an absolute prerequisite for altering their constitution and proceeding to a political union would never be achieved.  

It follows, therefore, that forms of shared democratic governance have to be worked out within the member countries if regional unity is to be effective. For example, there is a contradiction between Prime Minister Manning's fierce advocacy of closer regional political unity and his dismal failure to advocate and work for a similar unity with the opposition in Trinidad. There is also the democratic contradiction of the regional heads making decisions on super government when they represent just over half of their populations. One way to begin to address this problem is for the member countries to move in the direction of power sharing based on shared democratic governance to compliment the evolving power sharing at the regional level.

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38 Sanders, 2005, 118.
South America
European Union External Relations
with the Andean Community:
A Governance Approach

Aimee Kanner

Introduction

Since the Spanish colonization of most of Latin America in the sixteenth century, including the European mining center in the Andean highlands and Spain’s second viceroyalty in the Americas established in Peru in 1544, historical, economic, and cultural ties have been developing between Europe and the Andes. Relations between the two regions have been reinforced through processes of immigration, from Europe to the Andes and currently a reverse trend is being experienced from most Andean countries to Europe; increased European investments in the Andes, especially after the end of the Cold War; and the institutionalization of relations between the European Union (EU) and the Andean Community.

The Andean region was the first in Latin America with which the European Community signed a cooperation agreement in 1983. This was followed by a regional framework agreement for cooperation in 1993, the 1996 Declaration of Rome which established a formal political dialogue between the European Union and the Andean Community, the institutionalization of a high-level dialogue on drugs between the EU and the Andean Community, and the first civil society forum on EU-Andean Community relations in March 2005. Really deepening relations between the two regions and beginning negotiations for the association agreement agreed to as a “strategic common objective of the parties” at the third EU-Latin America-Caribbean Summit of Heads of State and Government\(^1\) in Guadalajara in May 2004, is still in its infancy stage. Given the delays and difficulties experienced in negotiating an association agreement between the EU and MERCOSUR\(^2\), and the apparent commitment between the EU and the

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\(^1\) Since 1999, Summits of the Heads of State and Government of the EU, Latin American and Caribbean countries have been convened every few years to strengthen and provide direction to the bi-regional relations. The first summit was in Rio de Janeiro, Brazil on 28-29 June 1999, the second in Madrid, Spain on 17-18 May 2002, and the third in Guadalajara, Mexico on 28 May 2004.

\(^2\) The Southern Cone Common Market, commonly referred to as MERCOSUR, is a regional organization created through the 1991 Treaty of Asunción. Its members are Argentina, Brazil, Paraguay, and Uruguay, and its two associate members are Bolivia and Chile. The objective of signing an interregional association agreement between the EU and MERCOSUR was included in
Andean Community to successfully and efficiently complete their negotiations for an association agreement as reiterated in the 8th meeting of the EU-Andean Community Joint Committee on 21 January 2005, investigation into potential problems and prospects will place the regions in a much better position to design a solid framework for increased cooperation and deeper interregional relations.

This paper argues that the potential problems associated with deepening EU-Andean Community relations are fundamentally related to issues of governance. It further posits that there are three interrelated levels of governance: domestic, regional and global, and relations between regions are constrained when there is difficulty in achieving good governance at any one of the interrelated levels. Constraints may be compounded when there is difficulty at more than one of the levels and may be alleviated when efforts towards good governance at one of the levels is designed to positively affect governance at another level. The three levels to be addressed in this paper are domestic governance in each one of the Andean Community countries, European (or regional) governance, and the EU’s role in global governance.

This paper is elaborated in the next section with a review of the literature on governance. In the subsequent two sections, I consider the crisis in the Andes and the Andean Community and then the EU’s external relations, both in the context of governance. Following is a consideration of EU-Andean Community relations from the perspective of interrelated levels of governance. Finally, I discuss the outlook and prospects for the future of the EU-Andean Community relations.

**Governance**

Governance is often referred to in the global context and as a response to the need to govern globalization in the absence of a world government, however, domestic and regional governance are important in and of themselves, as well as in conjunction with global governance. In terms of regional governance, a multilevel governance approach has emerged as an alternative to state-centric theories in analyzing the decision-making processes in the EU. In this view, “European integration is a policy-creating process in which authority and policy making influence are shared across multiple levels of government – subnational, national, and supranational.”

This approach, however, does not specifically consider the affects of domestic governance on European governance,

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governance with regard to the EU’s external relations, or the EU’s role in global governance.

Governance does not negate the primary role of state governments in policymaking and decision-making at any level of governance, however, it does recognize the influential role of additional agents in these processes such as corporations (domestic and transnational), non-governmental organizations, and civil society groups, to name but a few. Governance also considers formal and informal networks of state and non-state agents that affect the policymaking and decision-making processes. At the most basic level, governance is “the processes and institutions, both formal and informal, that guide and restrain the collective activities of a group.”

Given the complexities of the EU and the need to improve its standing with the European citizens, one of the four strategic objectives of the European Commission in 2000 was to reform European governance. In the Commission’s 2001 White Paper on European Governance, European governance is defined as “the rules, processes and behavior that affect the way in which powers are exercised at the European level.” The White Paper also identifies five principles of good governance that the EU works toward achieving, promotes in countries with which it has institutionalized relations and agreements, and attempts to embrace in its relations with third countries and the leadership role it is trying to develop in global governance. These five principles of good governance are openness, participation, accountability, effectiveness, and coherence. Openness involves active communication in understandable language between the EU and its citizens. Participation refers to the involvement of all those with an interest in the deliberations of a policy from its conception to its implementation, including but not limited to local and regional governments, grassroots organizations, and civil society organizations. Accountability is the distinction in roles and responsibilities of the EU and member state institutions. Timeliness, clear objectives, and evaluations are all elements of the principle of effectiveness. And cohesion is avoiding contradiction in objectives and elements of policy despite the challenges the EU faces in dealing with an increased number of policies, interests, and agents. Although the EU has recognized the benefit of good governance in obtaining many of its objectives, this goal remains a work in progress.

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6 Ibid, 27.

7 Idem.
As technology develops and brings peoples from all parts of the world closer together – since an outbreak of the bird flu in one remote town in Asia or political instability in a newly independent country has known repercussions in the largest urban agglomerations in the world – there has been increased academic attention to how these interconnected societies are, can, and should be governed. Held and McGrew suggest in conjunction with Rosenau:

Given the absence of a world government, the concept of global governance provides a language for describing the nexus of systems of rule-making, political coordination and problem-solving which transcend states and societies (Rosenau, 2000a, 2000b). It is particularly relevant to describing the structures and processes of governing beyond the state where there exists no supreme or singular political authority. . . As an analytical approach, global governance rejects the conventional state-centric conception of world politics and world order. The principal unit of analysis is taken to be global, regional or transnational systems of authoritative rule-making and implementation.8

From a more normative perspective, Keohane asserts that “governance should enhance the capability sets of the people being governed, leading to enhancements in their personal security, freedom to make choices, and welfare as measured by such indices as the UN Human Development Index.”9 He further argues that “global inequality leads to differences in capabilities that are so great as to be morally indefensible and to which concerted international action is an appropriate response.”10 The EU is determined to play a legitimate leadership role in this global governance.

Crisis in the Andes and the Andean Community

The complex and continuing problems afflicting the Andean countries are, to put it mildly, discouraging. Political instability has been the norm for at least the past five years, plagued by corrupt leadership,11 questionable elections,12 insurmount-

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10 Ibid, 328.

11 Former President Alberto Fujimori of Peru, his former intelligence chief, Vladimiro Montesinos, and numerous high-level government officials were all involved in a web of corruption that remains under investigation.
able ideological and practical divisions,\textsuperscript{13} and above all, the persistence of weak institutions. While overall economic growth and development has improved in some countries, economic and social inequalities have worsened, forcing more and more into the throes of absolute poverty\textsuperscript{14} and social exclusion. Furthermore, insecurity in the Andes is not contained within national borders and is jeopardizing regional stability. Despite years of intentions, at times supported economically, politically, and/or militarily from external sources, drug trafficking, money laundering, violent guerrilla movements, and the resulting property destruction, kidnappings and the deaths of innocent people remain commonplace in the Andes.

The diagnoses have been many, including but not limited to cultural, structural, systemic\textsuperscript{15} and the prescription has remained very much based on the structural reforms\textsuperscript{16} required by the international financial institutions in Washington, D.C., and at least a theoretical commitment to democracy and human rights.\textsuperscript{17} The fundamental problem, however, is one of governance and remedies must be designed based on the illness itself, not its symptoms. If there were better governance in the individual countries of the Andean Community, based on openness, participation, accountability, effectiveness, and cohesion; if the people were well-informed about specific policies; if all interested groups could take part in the deliberative policymaking processes; if institutions and their representatives were held accountable for their actions; if policies were clear, timely, and based on evaluations; if there were cohesion among the policies, would the prognosis...
for resolving the region’s problems not improve? With established good governance on the domestic level, shifts in government leadership would not threaten entire political systems nor create such violent opposition, because the ability to destroy formal and informal state and non-state institutionalized networks is considerably difficult and not very prudent, as the end result is more likely to be a change in the leader rather than a change in the system.

The idea of some form of integration in Latin America has existed since Simón Bolívar began his liberation campaign in the early 1800s. The first experiment of such a nature in the Westphalian era, Gran Colombia, was implemented by Bolívar himself, and although short-lived, represented the first system of integration in the Americas. In the 1960s new processes of integration were initiated both on a continental and sub-regional scale. During this decade, the Latin American Free Trade Association (later to become the Latin American Integration Association), the Central American Common Market, and the Andean Pact (later to become the Andean Community) came into being. During the 1990s, with the impetus of the creation of the Single European Act in Europe followed by the fall of the Berlin Wall, the collapse of the Soviet Union and the end of the Cold War, and the creation of the North American Free Trade Agreement, an increased focus on and interest in regional integration in the Americas became a reality.

The Andean Community, successor to the Andean Pact created through the Cartagena Agreement of 1969, is a free trade area and customs union. The current member states of the Andean Community are Bolivia, Colombia, Ecuador, Peru, and Venezuela. The Andean Integration System is a network of institutions, including a Commission, Parliament, Council of Foreign Ministers, and Court of Justice (among others) (General Secretariat Andean Community) that provides the administrative and organizational basis for all aspects of the objectives and work of the Andean Community.

One of the main objectives of the Andean Community is to reduce barriers to trade amongst the member states as a means of promoting economic liberalization and growth in the region. This process has been relatively successful as between 1990 and 1997, intra-Andean Community trade more than quadrupled. As with many other regional integration schemes around the world, including the one that is consistently referred to as the most developed, the European Union, economic integration and the institutionalization of economic exchanges between the member states has been accomplished more efficiently than integration in other sectors.

Over time, the integration process has provided for other areas in which the members of the Andean Community have decided to cooperate: border

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development, social issues, sustainable development, foreign policy, and security. On June 17, 2002, representatives of the governments of the members of the Andean Community signed the Andean Charter for Peace and Security. In March 2003, an Observer Group on Combating Drugs and Terrorism was created, consisting of the Foreign and Defense Ministers of Bolivia, Brazil, Colombia, Ecuador, Panama, Peru, and Venezuela. The members of this Group will basically receive periodic reports on the illicit trafficking of arms, control of illicit finances, border controls, intelligence cooperation, combating drugs, and legislative developments.

Despite what appear to be good-faith intentions with regard to deepening integration in additional issue areas in the Andean Community, and even in the economic sector, tangible results have not been as evident. Declarations and theoretical commitments have surpassed actions, in large part because the integration process has not become institutionalized. There is a tendency for national governments of the Andean Community member states, when under pressure or in the name of protecting their own national security interests to adopt and implement policies with little regard for their Andean partners even on issues encompassed by the framework of Andean integration.

In order for a system of cooperation to obtain optimal results, institutions need to be created to monitor and share data, build trust, solve problems and negotiate in an otherwise unorganized region. These institutions should provide information, increase interactions, monitor conformity, define cheating, facilitate linkages between various topics, and offer solutions. In a region burdened by political crises such as the current situations in Bolivia and Venezuela, where national elections take place in different member states at different times with the possibilities of leaders that have different perspectives on integration coming to power, where external events such as the terrorist attacks on the United States and subsequent policies can have a long lasting impact on seemingly uninvolved actors, the institutionalization of integration has an essential role to play: it provides a constant that creates more certainties. The process of integration

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19 Due to geographic and spillover concerns, Brazil and Panama are often included in such activities, and the European Union also recognizes the need to include these countries when discussing such regional issues.


depends on the institutionalization of relations in all sectors of the integration in order for projects to continue despite eventualities.²³

In terms of governance, institutions are important in that they provide a formal base upon which good governance can be developed. As mentioned, although the state and its institutions are not the only actors involved in decision-making and policymaking when assuming a governance perspective, they are still considered to be the main actors. The same holds true for regional governance except that the regional level (and others according to the multilevel approach) may also play a dominant role. In order for the regional level to be effective in terms of governance strong institutions provide the backbone for this development.

The European Union’s External Relations

The European Union maintains an intricate network of foreign affairs with third countries, groups of countries, and other international organizations. The EU’s external relations take on many different forms including development, enlargement, the European Neighborhood Policy, external assistance, external trade, foreign policy, and humanitarian aid. The EU and its member states together contribute more to development assistance than any other individual country or organization in the world, representing approximately half of the total yearly international disbursements in this area.

The European Commission’s External Service has 120 offices and delegations throughout the world that control and monitor the EU’s external policies and programs and serve as a liaison between the EU and foreign governments. Additionally, the EU holds institutionalized high-level meetings with several individual countries such as the United States and Russia. It also operates on a multilateral basis with groups of countries – Latin America and Caribbean countries, for example in the form of summits of heads of state and government.

Since the EU is more integrated in economic competences, its external relations have traditionally focused on trade, aid, and other international financial transactions with third countries. With the advent of the Common Foreign and Security Policy, the EU has now expanded its third country relations into the political arena, especially in terms of promoting peace and stability and cooperatively addressing cross-border concerns. As the EU’s foreign-related political decision and policymaking is essentially intergovernmental, this aspect

of its foreign affairs remains in a developmental, yet progressing, stage. The EU has been successful in requiring all of its trade and cooperation agreements to include a human rights clause, effectively combining elements of both political and economic policies in its conduct of foreign affairs.

The nature and possible units of analysis of global governance have resulted in several studies regarding the role of the EU in global governance, many of which recommend a continuation of this research agenda from an interdisciplinary perspective. Rumford and Murray claim that “the integrative dynamics of globalization are also deemed to have another dimension: presenting a range of new opportunities for the EU to assume a leading role in global governance.”

The questions remain as to the means and legitimacy of the EU in developing this leadership role, as well as whether it can ensure this global governance is indeed good global governance, an objective that has been established by the EU itself.

There appears to be a general consensus forming around the idea that in order for the European Union to develop a role as a leader in global governance, and in order for the EU to achieve good global governance, it must be considered as a legitimate actor in assuming this responsibility. Keohane argues from a liberal-democratic perspective that: “Voluntary cooperation based on honest communication and rational persuasion provides the strongest guarantee of a legitimate process… For global governance to be legitimate, global institutions must facilitate persuasion rather than coercion or reliance on sanctions as a means of influence.” The EU recognizes that much work is yet to be done in order to achieve a substantial degree of legitimacy in this respect, and therefore, committees, papers, etc. have been created in order to determine where the weaknesses are and what the EU can do to strengthen those areas. The Working Group on “Strengthening Europe’s Contribution to World Governance” submitted a contributing report to the EU’s White Paper on Governance in which they “favor the inclusion in our deliberative processes (though not decision-making) of third country players, governmental or not, with an interest in EU decisions. Such consultative inputs are crucial to the quality and legitimacy of EU policy.” As the EU continues to build its global network of politically institutionalized relations, providing an arena in which there can be a peaceful

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exchange of ideas and concerns as well as a possible convergence of interests, the prospects for the EU’s role in global governance improves.

**Interrelated Levels of Governance:**
**European Union-Andean Community Relations**

While European-Andean relations have been developing for centuries, European Community-Andean Pact relations began in the 1970s. The first few decades of these relations, until the middle of the 1990s, were predominantly economic in nature. After the members of the Andean Pact made a conscious and political effort to deepen integration, and the Andean Pact was reorganized into the Andean Community, relations between the EU and the Andean Community also assumed new meaning and dimension.

After nearly a decade of institutionalized relations in this context, consisting of a high-level political dialogue established through the 30 June 1996 Declaration of Rome; a high-level specialized dialogue on drugs which began in 1995 and since included the principle of “shared responsibility” agreed to in the 1995 Cochabamba Declaration; financial, technical and economic cooperation; most favored nation status and inclusion in the EU’s Generalized System of Preferences for the Andean countries; and development aid, the EU and Andean Community decided to work towards negotiating a 4th generation association agreement, such as the EU already has with Mexico and Chile, respectively, and is in the process of negotiating with MERCOSUR. On 21 January 2005, the European Commission and the Andean Community launched a joint assessment of regional economic integration in the Andean Community, an intermediate stage prior to the beginning of negotiations for the association agreement, agreed to during the May 2004 Guadalajara Summit.

Deepening relations between the EU and the Andean Community depends on good governance. There is an obvious and urgent need to strengthen governance on the domestic level in each one of the Andean countries. It is even more evident that in order to start to move in this more positive direction, international support and encouragement is necessary. Merilee S. Grindle contends that “the burden of finding ways to increase the capacity of developing countries to benefit from globalization does not fall only on the shoulders of developing countries and their public leadership. Certainly the academic community must be part of such efforts.”

I certainly agree with this statement and recognize its value but would further argue that the developed countries must also be part of such efforts,

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European Union and the Andean Community

not only because they have the moral imperative to do as argued by Keohane, but because positive results would be mutually beneficial.

The EU has begun to include the topic of good governance in its high-level political dialogue and cooperation with the Andean Community; however, it has received rather low levels of attention given the apparent importance of this issue to the EU. For example, good governance is mentioned only once in both the EU’s Regional Strategy Paper for the Andean Community and the EU’s Regional Indicative Programme, 2004-2006, for the Andean Community. In the EU-Andean Community Political Dialogue and Cooperation Agreement, good governance is mentioned a total of seven times:

- Recalling their commitment to the principles of the rule of law and good governance (5)
- Highlighting their commitment to work together in pursuit of the objectives of democratic institutions and good governance (5)
- The Parties reaffirm their attachment to the principles of good governance and the fight against corruption (8)
- The Parties agree that political dialogue shall cover all aspects of mutual interest and any other international issue. It shall prepare the way for new initiatives for pursuing common goals and establishing common ground in areas such as ways of strengthening democratic governance (10)
- The Parties agree that the cooperation shall focus on the objective of promotion of political and social stability through the strengthening of democratic governance and respect for human rights (12)
- The Parties agree that cooperation shall actively support governments and representatives of organized civil society through actions, in the promotion of human rights, the democratic process and good governance, including the management of electoral processes (14)

Issues and initiatives related to good governance in this agreement lack substance and clarity. Where the EU has made significant progress is in the area of civil society participation, and the first Civil Society Forum on EU-Andean Community Relations held in March 2005 is indicative of positive movement in this direction. In order for the EU to reinforce the achievements it has made and improve in other areas in terms of encouraging good domestic governance in the individual countries of the Andean Community, two of the EU’s principles of good governance are highlighted: participation and effectiveness. Additional and continuous participation of state and non-state actors in the deliberation of

policies in which they have specific interest in the final decision is key, particularly in light of the typically weak governmental institutions in the Andean countries. Furthermore, in terms of effectiveness, the development of clear objectives will establish a basis for evaluation to determine what works and where improvements are required.

The importance of evaluation in policymaking and decision-making currently seems to be underestimated in the EU, yet its value to good governance is unmistakable and must become a priority. The EU donates approximately €130 million a year in development aid to the Andean region, provides €420 million in financial, technical, and economic cooperation for the period 2002-2006, and commits what will amount to €140 million in drug-related cooperation projects. The objectives associated with this cooperation assistance include the reduction of poverty and inequalities, strengthening regional stability, and improving democracy and the respect for human rights. Positive results, however, are not evident. The EU has focused part of its strategy for regional stability in Colombia where arguably the threat to this stability is greatest. The EU developed a regional program for innovative peace-building, a peace laboratory, in the Magdalena Medio. Before a comprehensive evaluation of this project was initiated, former EU Commissioner for External Relations, Chris Patten, announced in January 2004, plans for additional peace laboratories. “With no independent evaluation yet of the first peace laboratory, some argue that the search for autonomy and visibility still comes at the expense of utility and efficiency in promoting integrated community development.”

An evaluation of this and similar projects and of the areas to which the EU development aid is directed is essential to determine if the aid should continue as originally planned or be shifted in order to meet what need to be clearly stated objectives.

In terms of the EU’s leadership role in global governance, speaking with one voice, saying what it means and doing what it says will establish a stronger foundation for the EU to legitimately assume this responsibility. This is particularly critical in the case of the EU’s relations with the Andes as there is evidence of inconsistencies. “EU policy towards the Andean region not only lacks political uniformity but is also not always coherent.” As the EU continues to develop partnerships rather than imposing unilateral requirements, and as the EU continues to depend on power rather than force to achieve its international objectives, the basis for its legitimacy as a leader in global governance already exists, and will be reinforced through the development and implementation of clear and common policies towards the Andean Community, as well as other countries and regions throughout the world.

32 Ibid, 9.
Conclusion

The prospects for the individual countries of the Andean Community developing good governance on their own are, at best, weak. On the other hand, the EU appears to be making a conscious effort to improve good governance internally as well as in its external relations and in the countries and regions with which it maintains these institutionalized relations. Currently, deepening Andean integration and EU-Andean relations is the most promising option for the Andean countries and the Andean Community in moving towards what will be an undoubtedly difficult process of developing good governance. Demonstrating the benefits associated with adopting these principles is the best way to reinforce their merit and consolidate them. Therefore, the EU should move quickly and efficiently towards beginning the negotiations for a 4th generation association agreement with the Andean Community.
The Role of Networks in the European Union’s Foreign Policy toward Colombia

Roberto Domínguez

Introduction

Based on the premises of network approaches, this paper considers that European Union (EU) foreign policymaking includes a variety of actors and competing perceptions with regard to particular themes, countries and/or regions. Taking Colombia as a case study, this analysis focuses on three stages of foreign policymaking. The first is the nature of the external issue (i.e. country, region, issue) the EU has to deal with. The second is the inter-institutional perception and debate between the Council, Commission and Parliament. The third is the creation of external networks with non-governmental organizations (NGOs), which becomes decisive in executing cooperation policies, particularly with regard to humanitarian aid.

Theoretical Note: Networks in the EU

One of the analytical problems in the study of the EU in general and its foreign policy in particular is that the integration process presents different degrees of integration depending on the specific sector under examination. While areas such as trade or monetary policy are closer to the higher stages of Balassa’s framework, foreign policy and justice and home affairs have remained rooted in the traditional logic of the Westphalian state. Under different labels, tones and nuances, the essence of the dichotomy supranational versus intergovernmental remains at the grand theory level, whereas several middle range theories have emerged in order to explain more specific areas of the European Zoon Politikon, namely, the EU.

In 2001, the European Commission published a White Paper on European Governance, in which it made the case, inter alia, for a more structured relationship with civil society, namely, the creation of policy networks. Networks are important for policy makers in general because they “create convergence of in-
formation; improve compliance with international rules (enforcement); and increase the scope, nature, and quality of international cooperation (harmonization)." Above all, the Commission proposed to “open up the policy-making process to get more people and organizations involved in the shaping and delivering of EU policy.” Thus, creating and including networks is not a matter of good will, but a pragmatic approach for legitimizing and delivering policies, as well as a means to link “Commission officials with representatives of interest groups and NGOs aiding the Commission in gauging the likely reception of future EU policies on the ground.”

There are several definitions of networks. From a governmental perspective, network “is a regular pattern of regular and purposive relations among like government units working across the border that divide countries from one another and that demarcate the domestic from the international sphere.” In the context of European integration, a definition that fits best with this particular process comes from the informal governance perspective, which states: “We consider informal governance as the operation of networks of individual and collective, public and private actors pursuing common goals --which lead to cooperation, patterned relations and public decisions—through regular non-codified and not publicly sanctioned exchanges in the context of the European Union.” In a similar vein, the “term policy network connotes a ‘cluster of actors, each of which has an interest, or stake in a given… policy sector and the capacity to help determine policy success or failures.” When specific issues are addressed by participant actors, “policy networks are arenas in which decision-makers and interests come together to mediate differences and search for solutions.”

There are several types of policy networks. On the one end, there are tightly integrated policy communities in which membership is fluid and often

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4 Slaughter, 14.

5 Thomas Christiansen, Andres Føllesdal, and Simona Piattoni, 7.


The Role of Networks in the EU’s Foreign Policy

hierarchical, external pressures have minimal impact, and actors are highly
dependent on each other for resources. These are often found in areas where a
specific EU policy is well established, organized groups exist, and decision-
makers benefit from the cooperation of interests. Examples of such policy areas
include agriculture and research and development. At the other, there are loosely
integrated issue networks, in which membership is fluid and non-hierarchical, the
network is easily permeated by external influences, and actors are highly self-
reliant. Issue networks are found where EU policy is not well developed, the
policy debate is fluid and shifting, and organized interests have few resources to
influence decision-makers. This is the case of policies within the second and the
third pillar of the European architecture.

The literature on networks has developed the concepts of vertical and
horizontal dimensions of networks. The first, or vertical dimension, “refers to the
shifting levels of policy authority and influence between international, national,
regional and even local levels of government administration. The second, or
horizontal dimension, refers to the shifting competencies of policy actors and
agencies arising as a consequence of new interpretations of government’s role in
the organization and administration of public policy.”

This conceptualization privileges the regional or domestic formation of networks. How are external (to
the European region) agents, however, included in the creation of networks in
foreign policy making?

From the perspective of the present paper, EU foreign policy is still to a great
extent determined by the willingness of the member states to act as well as by the
perceptions of the transformations in international scenarios. In the case of
Colombia, there are several actors that have created networks contributing to the
peace talks and reconstruction from different angles. In order to deliver concrete
policies, the Council, the Commission and the Parliament portray competing
and/or complementary visions about the situation in Colombia. By themselves,
considering the external “issue” (Colombia) and the expectations that they will
deliver policies, these EU institutions create an inter-institutional network. Once
concrete policies have been decided within the EU, the participation of external
actors such as NGOs in conflicting areas is increasingly more relevant in the
network policy. NGOs provide not only information about the events in the
conflicting areas, but also complement the Commission’s policies towards
Colombia. Based upon the practices of the Commission on Humanitarian Aid, for
example, the creation of external networks with local actors becomes crucial for
carrying out successful cooperation.

generally considered: the relative stability (or instability) of network memberships; the relative
insularity (or permeability) of networks; the relative strength (or weakness) of resource
dependencies.

9 Maura Adshead, Developing European Regions? Comparative Governance, Policy Networks
and European Integration (Brulington, VT: Ashgate, 2002), 1.
The Issue of the Network: Colombia in the European Context

Latin America underwent several transformations during the 1990s. From inward-looking economic models and authoritarian regimes, Latin America gradually moved towards free market economies and democratic systems. However, there is a pervasive sense of disillusionment with regard to the performance of governments, both in the economic or political arenas. In this context, the central topic of the 2004 EU-Latin America Summit was social inclusion. By choosing this aspect of the bi-regional relationship, the EU recognized a worrisome and growing problem in the Western hemisphere: social exclusion. Former External Relations Commissioner Chris Pattern described the current trends in Latin America as follows:

…. In almost all Latin American countries, only 9-15 percent of total income goes to the poorest 40% of households. Despite a decade of reforms, the gap between rich and poor is widening…. social inequalities act as a brake on economic growth as large sections of society are unable to contribute. And politically there is a danger that people’s faith in democracy will be eroded if they consider that institutional and market reforms have failed to deliver a better quality of life.¹⁰

In addition to the uncertainties brought about by the insufficient efforts of the national governments in the region, the role of Latin America in the global sphere has also been affected by the slowdown of economic growth in Europe and United States and the volatility in international financial markets. According to the Inter-American Development Bank, the strong growth of EU-LAC trade evident for most of the 1990s ended in 1999, when flows contracted by over 5 percent in value terms. Despite some recovery in the following years, inter-regional trade in 2003 was still below the levels recorded in 1998.¹¹

The EU-Andean Community of Nations (ACN) trade relationship has followed a similar pattern. “There has been virtually no growth in EU trade with the Andean Community in the past decade. Andean imports from the EU grew vigorously between 1994 and 1998, but contracted equally strongly in the following five years. The trends for exports were the opposite.”¹² Thus, whereas the EU, considered as a region, is in second place on the list of ACN trade partners, the ACN ranks 29th among the EU’s trading partners.¹³

¹⁰ Commissioner Patten and President Iglesias. Press Conference at III EU-LAC Summit (Guadalajara, Mexico, 27 May 2004 ) SPEECH/04/271
¹² Ibidem, 9.
¹³ Ibidem, 51.
The Role of Networks in the EU’s Foreign Policy

standpoint, based only on economic trends, the Andean Community does not represent a priority in its agenda. Former Commissioner Chris Patten has straightforwardly described the economic place of the Andean countries for the EU: “The EU trades more with Vietnam than with Venezuela, more with Kazakhstan than with Colombia, more with Bangladesh than with Peru, and more with Aruba than with Bolivia.”

Following the economic logic, Colombia represented 0.2 percent of total EU imports in 2002, whereas in 1980 it was 0.5 percent. Likewise, with regard to EU exports, Colombia received only 0.2 percent in 2002 in comparison with 0.4 percent in 1980. These numbers suggest that the European interest in Colombia is driven by other factors, chiefly security. Commissioner Benita Ferrero-Waldner recently stated that, “The EU has a range of interests in Colombia, from trade and investment to the problems of drug production and drug trade, criminal networks, terrorism, migration and regional dimension to conflict in Colombia (emphasis added).” In this regard, the problems derived from the internal conflict in Colombia contribute to the deterioration of the regional and international security.

The complexities of the Colombian conflict as well as the “strategic and historical distance” hamper a more active European involvement in it. To provide a glimpse of the nature of the conflict, the Norwegian Refugee Council has summarized the deep causes of the Colombian situation as follows: a) the extremely unfair division of land and other resources, b) the lack of democratic channels of influence available to the people, c) the state’s inadequate presence in certain parts of the country, d) the enormous resources from the drugs trade that have contributed to the escalation of the conflict, and e) the extremist right-wing paramilitary groups and the left-oriented guerrilla groups. In Adam Jones’ perspective, “In few countries of the world in recent decades has para-institutional violence been so pervasive as in Colombia, and in few other instances have paramilitary formations amassed so substantial share of political control and political power.”

Due to the worsening of the conflict, the 2004-2009 European Commission has based its general strategy towards the Colombian conflict on three

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fundamental principles: a) the promotion of respect for human rights and fundamental freedoms, coupled with a thorough follow-up of the humanitarian situation; b) good governance, in particular support for the Colombian Government’s efforts to strengthen the rule of law throughout the whole country; and c) sustainable development and social cohesion.\(^\text{19}\) In the past decade, the EU’s approach has developed some concrete policies towards Colombia. At the donors’ conference in April 2001, the Commission promised €140 million to Colombia between 2001 and 2006, the largest sum for a single country in Latin America. By the end of 2003, the Commission had already released €136 million and it is expected that between 2005 and 2006 extra resources will be committed.\(^\text{20}\)

The EU participation in the reconstruction and pacification of Colombia is significant. However, in comparison to the active role of the United States in the area, even without considering Plan Colombia, the European contribution is overshadowed and less substantial. Table 1 presents the perceptions of Colombian public opinion in that regard.

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According to Latinobarómetro,\(^\text{21}\) Colombian public opinion reflects the overwhelming role of the United States as a result of its involvement in the Colombian conflict through Plan Colombia, bilateral trade relations, prospects of free trade as well as active cooperation on drug trafficking issues and migration, among others. Likewise, public opinion reflects the discrete role of the EU in the pacification talks and direct intervention through humanitarian aid. It may be hypothesized that the low perception of the role of the EU in aid and development can be explained by the fact that considerable resources of the EU are allocated through the local partners of the European Office for Emergency


\(^{20}\) *Idem*.

\(^{21}\) Marta Lagos, América Latina & Unión Europea. Percepción Ciudadana. Latinobarómetro 2004. Focus Latinoamericano (Chile: Corporación Justicia y Democracia, 2004). As a side note, Panama and Dominican Republic have the most favorable perception of the United States, whereas Mexico and Chile are inclined to the EU.
Humanitarian Aid (ECHO), and their performance is not always visible to public opinion. Likewise, other factors may be the lack of any clear attempt to negotiate a free trade area between the Andean Community and the EU as well as the technical nature of the Generalized System of Preferences. On the other hand, a similar perception is shared in Europe; according to Eurobarometer, 51 percent of European public opinion feels that Europe is the actor best placed to help Africa whereas the percentage of people who think that the European Commission helps the poor in Africa, Asia and Latin America has fallen from 67 percent in 1996 to 59 in December 2004.²²

EU Inter-institutional Network

At the Community level, the architecture of the EU encompasses three main institutions in foreign policymaking. In light of the concentration of power in the decision making process, the most important institution is the Council of the EU (composed of member states), which is a collective body of decision-making. The second institution is the European Commission, defined by its tasks of monitoring compliance, providing expert regulation, facilitating policymaking, and exerting influence on the principal agents of the EU, namely, the member states and the Council of the EU. The third is the European Parliament, which shares legislative powers with the Council, basically through the assent procedure in the ratification of international agreements. These three institutions forge a horizontal inter-institutional network in the policymaking process, with standpoints that may be divergent or convergent with regard to specific issues, countries and/or regions.

The Council of the EU has been aware of the challenge the Colombian conflict represents to the international community. Two features can be identified in the policymaking in the Council with regard to Colombia. The first is the diversity of viewpoints. For instance, in the context of the debate on Plan Colombia, Belgium and Germany insisted that the EU should distance itself from such a Plan and that European assistance should be limited by a set of conditions. On the other hand, Italy, Sweden, Germany, Austria and Denmark were prone to support program funding for the protection of human rights and the involvement of civil society.²³ The second is that with the exception of two or three countries, most of the EU members consider the Colombian conflict as a low priority on their agendas. In the case of Germany, Detlef Nolte has insisted that the German policy towards Latin America fits into the EU general approach since “Many in

²² European Commission, Eurobarometer: European expect the EU to act as driving force for development (Brussels, February 25, 2005, IP/05/217)

the foreign policy community argue that German interests are better represented as part of a common European Latin America policy than individually. Others argue that this could be a way to get rid of a minor topic in foreign relations in order to save time for more serious foreign policy matters.24 In this regard, Spain, the United Kingdom, Netherlands and France are the EU members with a relatively higher interest in the Colombian conflict.

As a result of the consensus of its members, the general approach delineated by the Council is based on both support for the Colombian government and a firm condemnation of the deterioration of the humanitarian situation resulting from the long-standing conflict. In the middle of both positions, the Council has recently conditioned a further involvement depending on concrete results of the peace talks. A review of the conclusions of the General Affairs Council on Colombia suggests that there are some elements which can be considered guidelines of the EU’s strategy towards Colombia.25

The most important feature is the ‘European Union's full support for the Colombian Government, notably in its efforts to establish the rule of law throughout the country and in its fight against terrorism and illicit drug production and trafficking.’26 Along those lines, the Council welcomed the decision of the Colombian Government to pardon 23 members of the FARC in 2004 and has persistently reiterated its demand that illegal armed groups that still detain hostages must release them immediately and unconditionally. Likewise, the Council welcomed the December 15, 2004 meeting between President Uribe and representatives of civil society, which represents the implementation of some of the recommendations made by the Office of the United Nations High Commissioner for Human Rights.

In the same supportive line, the Council, based upon a briefing by former Commissioner Patten in February 2004, welcomed the reduction in the overall numbers of murders and kidnappings in Colombia as indicated by the released statistics, and hoped that this downward trend would continue. In this respect, the Council expressed its satisfaction regarding the extension of the EU Generalized System of Preferences as well as the launch of the second EU Peace Laboratory.

On the other hand, the deteriorating situation of civil society, NGOs and human rights has been stressed several times by the Council. In the Council conclusions of December 10, 2002, the Council expressed deep concern with respect to the worsening of the situation of human rights and urged the Colombian Gov-


The Role of Networks in the EU’s Foreign Policy

The role of networks in the EU’s foreign policy has been significant in addressing complex international challenges. In the context of the Colombian conflict, the role of networks has been particularly evident in promoting peace and human rights protection.

For instance, the European Union has actively engaged in supporting the Colombian government to increase its efforts against impunity. Likewise, in the context of President Uribe’s visit to Brussels in February 2004, the Council pointed out the perilous security conditions under which local and international NGOs and civil society organizations, including trade unions and human rights defenders, carry out their work in Colombia, and called on the Government to cooperate closely with all such groups to ensure their protection. In December 2004, taking as a base the Declaration of Guadalajara, the Council once again noted the importance of ensuring the safety of those individuals, organizations or institutions working for the promotion and protection of human rights. The Council has also called on the Colombian authorities for an early adoption of a comprehensive legal framework for the disarmament, demobilization and reintegration of the illegal armed groups. Such a framework should be in conformity with international commitments and take into account the right of the victims to truth, justice and reparation.

The Council has acknowledged that the Colombian conflict needs the active participation of several other international organizations and countries and has stressed its strong support for the good offices of the United Nations Secretary-General, and welcomed the engagement of the Organization of the American States, the Government of Mexico and the Group of Friends countries, as well as the efforts of the Catholic Church in the processes towards peace in Colombia. In fact, on December 13, 2004, the EU conditioned its participation depending upon the progress made by the parties:

More specifically, the Council expressed the European Union’s readiness to pursue an effective and result-oriented engagement. A more formal EU involvement could take place through timely political endorsement for the ongoing peace process once the Colombian Government has set out a comprehensive legal framework. In this respect the Council underlined that the European Union would have great difficulty in endorsing the peace talks as long as the illegal armed groups have not ceased hostilities. Following a gradual approach linked to developments on the ground, the Council also expressed its readiness to provide concrete and adequate financial support for the outcome of such talks once a comprehensive strategy concerning concentration, disarmament, demobilization and reintegration of the members of the illegal armed groups in the society has been defined.27

The European Commission not only executes the policies decided by the Council, but also actively works in the development of external networks in the areas of conflict in Colombia. With regard to the execution of policies, the Commission has insisted that the cooperation with Colombia has been too dispersed both in sectors covered and in the number of actions. Likewise, several projects in Colombia have faced delays and problems in implementation for several reasons, including problems in the identification phase caused by the complexity of the situation on the ground and in particular, the degree of

violence. The rapid changes in the situation on the ground also make it difficult to identify the programs correctly since the situation at the beginning of the project may largely differ from the one when the project was identified.\textsuperscript{28} Thus, in the execution of policies, the Commission acknowledges that the evolution of the conflict has to do with the extreme weakness of the state.\textsuperscript{29}

In addition to the technical problems in cooperating with Colombia, the Commission also made public some of its disagreements with regard to the approaches in the complex pacification process. During his visit to Colombia in January 2004, Commissioner Chris Patten expressed the European criticism on the drug eradication program, which is supported by the United States, and informed that the EU has refused to fund fumigations of the Andes citing their impact on the life and well-being of Colombians, as well as on the environment. Likewise, in a press conference in Bogota, he stated that,

\begin{quote}
Many people will want to discuss with him (Uribe) the recommendations of the United Nations… The improvement in civil liberties and human rights can and must go hand-in-hand with the overcoming of violence. Colombia’s commitment to basic freedoms is important to all of us in Europe who want to play as generous a part as possible to help Colombia overcome its problems.\textsuperscript{30}
\end{quote}

In response to Patten’s statements, Colombian Vice President, Francisco Santos, in an interview with the newspaper \textit{El Tiempo}, denounced Europe for having “a neocolonial concept of justice in Colombia” and for treating the country as a “banana republic.”

There is a pervasive criticism in the European Parliament of the Colombian government. In the 2002 electoral process, a delegation of the European Parliament warned of the risks of spreading some of the effects of the Colombian conflict in the region and advocated a regional approach as a solution of the problem.\textsuperscript{31}

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\textsuperscript{29} Ibidem, 21
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\textsuperscript{31} European Parliament. \textit{Ad hoc Delegation for Observation of Presidential Elections in Colombia. Report on the Delegation Visit to Colombia}, PE 322.258, May 26, 2002, 6. “In view of those with whom the delegation held talks, the EU should contribute by establishing better controls as regards trafficking in precursor and money-laundering of coca dollars in Europe. From the point of view of trade, greater openness of EU markets, especially as regards agricultural products, would encourage the development of alternative crops in the coca-growing areas... The delegation recalled the facilities open to Colombia through the Community’s generalized system of preferences (GSP)... An unsuitable policy would at the very least risk spreading cultivation and illegal activities to neighboring countries. Therefore, the only possible solution is a regional action plan which could also contribute to better and quicker integration of the Andean region.”
\end{flushright}
The EU Parliament has also reacted against the U.S. approach to the conflict. Under a conservative-Christian Democratic majority, it passed a resolution opposing the Plan Colombia (with 474 votes in favor, only one against, and 33 abstentions), “perceived in Europe as inspired by the United States with ‘militaristic’ and counter-insurgency purposes, with the potential of danger for spillover to other Andean neighbors.” In direct reference to the conflict itself, conservatives stress the abuses committed by the guerrillas (collectively or on an individual basis) whereas the European left emphasizes the deep roots of the conflict in the social inequality and the collapse of Colombia’s state system.

The European Parliament has been a critic of President Uribe’s policies. In February 2004, 20 parliamentarians (some people say 100) walked out of a speech by President Uribe to protest the 2004 Colombian anti-terrorism law, which grants sweeping powers to the armed forces to detain suspects without warrants, tap phones and search homes. They were headed by Monica Frassoni, leader of the Green group. This protest is explained by the fact that in 2002 the Green Federations of the Americas, Europe, Africa, and Asia Pacific, “in an unprecedented show of global Green solidarity, published a letter to FARC calling on the guerrilla movement to release kidnapped Colombian presidential candidate Ingrid Betancourt, presidential candidate by the coalition Green Oxygen Party-For a New Colombia.” Likewise, this case has been particularly relevant for European lawmakers because Betancourt is also a French citizen.

In this context, the then-President of the European Parliament, Pat Cox, received President Uribe and stated face to face that “we consider essential to develop a fully functioning democratic state. Exceptions with respect to human rights are not acceptable.”

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32 Roy, 18.
33 Ibidem, 28.
34 El Tiempo, Partidos Verdes del mundo solicitan la liberación de Ingrid Betancourt, March 5, 2003.
External Networks with NGOs

EU networks with external partners are crucial in the implementation of policies. In fact, in cases of internal conflicts, such as in Colombia, the know-how of NGOs is decisive in reaching the EU’s goals. To some extent, the relationship between NGOs and the Commission is a two-way street because they both try to get something from the other. Commissioner Siim Kallas has acknowledged the role of NGOs in the policymaking and has stated that “There is nothing wrong with lobbies because each decision-making process needs proper information from different angles.”

Similar to the U.S. political system, lobbying the EU policymakers is a way for exerting influence on the final outcomes. At the moment, there are about 15,000 lobbyists established in Brussels, while around 2,600 interest groups have permanent offices in Brussels. Lobbying activities are estimated to produce 60 to 90 million in annual revenues. In this context, the Commission channels over €2 billion to developing countries through NGOs, a situation that has led Commissioner Kallas to assert that, “The word ‘non’ is quite fictitious. Some of the NGOs receiving funds from the Commission describe from (on) their website one of their main tasks as lobbying the Commission.”

In this regard, the 2004-2009 Commission is implementing a European Transparency Initiative, which seeks to increase transparency in these networks because people have the right to know how their money is being spent, including NGOs.

Having in mind the nature of the NGOs-Commission relationship described above, the European Office for Emergency Humanitarian Aid (ECHO), which was set up in April 1992, has fostered the creation of networks with NGOs. As part of the strategy to get external partners involved, ECHO works with 210 partners worldwide, which are organizations that have signed a contract with the European Commission. Between 1992 and 1999, ECHO spent approximately €4 billion on relief operations via 170 agencies which had signed framework partnership contracts. Among these partners, NGOs accounted for 56 percent of spending, UN agencies 25 percent, other international organizations (e.g. International Red Cross) 11 percent, and the remaining percentage by ECHO or specialist member state agencies.

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37 Siim Kallas, The Need for European Transparency Initiative (Speech at the European Foundation for Management, Nottingham Business School, Nottingham, March 3, 2005), 5. Commissioner Kallas has also said, “Or to put is in the words of Sir Humphrey: ‘the Commission is paying lobbies, in order to be lobbied.”


Based upon the annual ECHO aid strategy, in 2003 ECHO accounted for a budget of €442.5 million, aimed to enhance and refine the reforms initiated in 2001, among others, the transparent dialogue with ECHO’s partners and other humanitarian agencies. Current Commissioner Michel has reiterated the need for reform of the policies of humanitarian aid, based upon three priorities. The first issue is to place development as an integral part of the external action of the EU. The second is to strengthen the practice of partnership, attempting to overcome some of the past mistakes of vertical aid cooperation. Commissioner Michel is straightforward in this regard: “Too often in the past we in the ‘north’ have set the priorities for developing countries. And partnership starts at home.” The third priority is the effectiveness of humanitarian aid.

NGOs worldwide have contributed to strengthening the role of the EU in the Third World by the multiple feedbacks (information on the ground) they provide to EU institutions and their surveillance practices over donor and receiver governments. In this regard, three main types of European NGOs can be differentiated. The first encompasses those based in the Netherlands, Scandinavian countries and UK, which have a long tradition of active civil society participation. Based upon such long-standing practices, some British NGOs have transformed themselves into multinational organizations; this is the case of OXFAM, Save the Children and Amnesty International. The second cluster is made of other countries that have recently developed policies towards NGOs because their democracies are younger; this is the case of Greece, Spain and Portugal. The third group of countries shares a strong role for the state in the activities of NGOs, such as the case of France, where NGOs coexist with a strongly centralized state, or Germany with the reemergence of NGOs supported by the state.

With regard to the performance of the NGOs beyond the European borders, Latin America is a region in the lower layers of their priorities. Influenced by colonial links, some countries give priority to specific countries. British NGOs are particularly active in Central Asia and French ones in some African countries. Quite relevant in the memory of European NGOs and EU institutions is the joint work in Central Europe. In spite of the fact that the transitions in most of post-communist countries were state-led, namely, “centrally organized democratization,” NGOs had a real impact on the political and economic areas in the region,

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41 In some cases, even within a country, the NGOs have different circumstances such as the case of Belgium, where there are 300 NGOs, most of them in the Flemish Zone with strong ties to the Catholic Church. With regard to their finances, most of the European NGOs receive support from national governments, although this is not the case with the bigger ones. For instance, in Spain 60% of the NGOs’ income comes from public budget whereas in Austria 60% of the bilateral technical assistance is executed by NGO’s. Christian Freres, C (coord.). *The European Union’s Civil Society Cooperation with Latin America.* (Madrid: Asociación de Investigación y Especialización sobre Temas Iberoamericanos (AIETI). 1998). http://www.euforic.org/aieti/cf_gb.htm
particularly in the spread of democracy as a culture. Also in geographical terms, from the perspective of ECHO and once the 2004 enlargement process took place, the most general tendency in humanitarian aid policy is to withdraw from Eastern Europe and focus more on Africa and Asia. According to the 2003 ECHO’s report, the most important operations were conducted in Africa (Great Lakes, West Africa, and Southern Africa), Afghanistan, the northern Caucasus (Chechnya), the Middle East (Palestinian Territories), and Western Sahara. The last place on the list of ECHO’s priorities was to Colombia.

In this context, during the military and authoritarian regimes in Latin America in the 1970s and 1980s, political parties, foundations and universities were important non-governmental interlocutors in Europe. In the last ten years, due to flaws in the implementation of cooperation policies, the EU and many European governments have also included some degree of decentralization in the aid to Latin America for three reasons: a) if people participate, aid policy is more legitimate in the eyes of public opinion; b) plurality strengthens democracy; and c) there is a steady surveillance among the participants in an aid project.

In the specific case of Colombia, the Commission has allocated resources of €330 million to civil society initiatives in the past five years. In February 2004, during President Uribe’s visit to Europe, a new program was launched to support the integration process and improve the living conditions of internally displaced people, with a total budget of €9.2 million for 2004-2005. This project is currently being implemented by the EU and local NGOs with the support of the Colombian government represented by the National Solidarity Network (Red de Solidaridad National).

The flagship EU project is the Peace Laboratory Magdalena Medio with the participation of local networks. Following the strategy of getting NGOs involved, the Commission has delegated the implementation of the first phase to the Development and Peace Cooperation of the Magdalena Medio, awarded Colombia’s National Prize, with a long record of intervention in the Magdalena Medio, and credibility among the Colombian population. The first Laboratory in Magdalena Medio started in March 2002 and includes four elements: 1) peace culture and integral rights, 2) productive activities, 3) productive and social infrastructures and 4) institutional re-enforcement. It foresees a Community financing of €34.8 million and will last eight years.

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44 Roy, 25.
### Table 2

<table>
<thead>
<tr>
<th>Partner</th>
<th>Aid provided</th>
<th>Department</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action Against Hunger, Spain</td>
<td>Clean water, sanitation, food, school rehabilitation</td>
<td>Magdalena</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Cordoba</td>
</tr>
<tr>
<td>Caritas Spain</td>
<td>Psychological support, shelter, good sanitation</td>
<td>Huila, Meta</td>
</tr>
<tr>
<td>Red Cross International Committee</td>
<td>Access to conflicting areas to help victims; food, essential non-food items</td>
<td>Areas in conflict</td>
</tr>
<tr>
<td>International Committee for the Development of People, Italy</td>
<td>Socioeconomic reinsertion, psychological support</td>
<td>Antioquia, Quindio, Caldas, Risaralda</td>
</tr>
<tr>
<td>Spanish Red Cross</td>
<td>Psychological support, basic health care</td>
<td>Magdalena Medio, Bolivar, Antioquia</td>
</tr>
<tr>
<td>French Red Cross</td>
<td>Basic health care</td>
<td>Narino</td>
</tr>
<tr>
<td>Dutch Red Cross</td>
<td>Psychological support, basic health care</td>
<td>Caqueta, Risaralda, Caqueta</td>
</tr>
<tr>
<td>Movimondo Italy</td>
<td>Community centers, food aid, psychological support, economic activities</td>
<td>Valle del Cauca, Cauca, Nariño</td>
</tr>
<tr>
<td>Movement for Peace, Disarmament and Freedom, Spain</td>
<td>Economic activities, sanitation, clean water</td>
<td>Cesar, Sucre, Bolivar</td>
</tr>
<tr>
<td>UN Office for the Coordination of Humanitarian Affairs (OCHA)</td>
<td>Coordination of different humanitarian agencies, evaluation of the needs, elaboration of studies</td>
<td>n/a</td>
</tr>
<tr>
<td>Oxfam, United Kingdom</td>
<td>Economic activities, clean water, public health, housing reconstruction.</td>
<td>Choco, Antioquia, Santander North</td>
</tr>
<tr>
<td>International Solidarity, Spain</td>
<td>Psychological support, economic activities, clean water, public health, housing reconstruction</td>
<td>Valle del Cauca, Cauca and Nariño</td>
</tr>
</tbody>
</table>

Source: Own elaboration based on ECHO, *Construyendo un Nuevo Futuro* (Brussels, 2003)

The role of the European Commission working with its partners through ECHO, however, goes beyond the confines of the Magdalena Medio region. Table 2 summarizes the participation of the NGOs on the ground.

In addition to ECHO’s partners, there are some other NGOs that are receiving funding from the EU and are playing a very constructive part in the pacification of Colombia. The European Commission has awarded the *Colombian Commission of Jurists* (CCJ) €650,000 for projects that aim to strengthen social and institutional capacity for the promotion and defense of civil and political rights in Colombia. On the other hand, the Office of the Human Rights Commissioner of UN (OHCHR) has received €600,000 for improving prison conditions in Colombia. Likewise, *Terre de Hommes (Italian NGO)* has been
financed by the Human Rights and Democracy Programme of the European Commission.

Other NGOs have also contributed to the debate on the pacification of Colombia. *Amnesty International*, through its annual reports, has pressured some EU members to explain suspicious double standards of their national policies with regard to Colombia. This is the case of the February 2004 *Amnesty International* report, in which this NGO demanded that the Spanish government (under J.M. Aznar) transferred arms to Colombia in violation of the 1998 Code of Conduct, signed by the EU members.

With regard to other EU members, the British government has declared their admiration for the progress made by Uribe’s administration, but they have refused to take any notice of the damaging reports released by Colombian and international NGOs (see Colombian Commission of Jurists Report) that proved that the human rights situation in Colombia had actually deteriorated, and that the government had manipulated and falsified the figures. Germany and other European governments have had a sense of disillusionment after the failure of the peace talks between the Pastrana government and the guerrilla movements in 2002. Since then, the Colombian government under Uribe has had limited success in explaining its position to European governments. Many Europeans – in the governments and in the NGOs – are arguing that the security measures adopted by the Uribe Administration are violating human rights. A focus of this criticism is the 2004 antiterrorism legislation, which grants powers of arrest and interrogation to the Colombian armed forces with limited judicial control.  

From the Commission’s standpoint, NGOs contribute to the implementation of EU policies. Former Commissioner Patten has said that

> ...we are working not only with the government support. But also directly with civil society and NGOs, whose role we recognize and support. Be it for the defense of human rights, humanitarian assistance, support for internally displaced people or the fight against poverty, we believe they are essential partners.  

In the Colombian perspective, however, the disagreement arises not over the role of NGOs, but in the legitimacy of some of them, which has created a controversy in the bilateral relationship. In the view of a specialist on Colombian politics, President Uribe has been partial in his assessments: “Uribe not only parroted paramilitary claims that Colombian non-governmental organizations were playing into the hands of leftist terrorists, but announced that paramilitary..."
leaders might receive a pardon in return for paying compensation for their atrocities.”\textsuperscript{47} In this regard, President Uribe has also states that “Here there are traffickers in human rights who spend all their time asking for support from the European Union and other institutions simply to maintain themselves, because they have made a living out of this and because they need resources to stop the state from acting.”\textsuperscript{48} Such statements only contribute to undermine the EU’s trust.

Final Thoughts

The complexity of the Colombian case has demanded from the international community the participation of a plurality of actors in order to restore the confidence for a peaceful future. Although its contribution has been modest, the EU has displayed resources in a creative fashion, particularly by giving back to the affected people the opportunity to reconstruct their lives. NGOs, local and international, have been a key player to implement on the ground some of the decisions made in Brussels.

This paper has remarked that the EU is a polity in which the policymaking process involves a variety of actors with competing visions of the world. In this vein, the inter-institutional network consisting of the Council, the Commission and the Parliament must be in the objectives of policymakers and lobbies from other continents. Likewise, Latin American NGOs must be clear that regardless of the “strategic distance” from Europe, the kind of support the EU offers can make the difference in local communities, especially those in which there are increasing human rights violations.


Understanding Mercosur and its Future

Félix Peña

Introduction

Four Main Approaches to Understand Mercosur

After almost fifteen years of its formal creation by the Asunción Treaty, it is possible to draw some lessons of the Mercosur experience and to introduce some reflections concerning its future. Mercosur is a term that is used in relation with a regional reality, a strategic idea, a formal economic integration process, and an image.

As a regional reality, Mercosur is multidimensional. It constitutes an international subsystem that results in interactions at the political, economic and cultural levels. It expresses itself through perceptions and behaviors of governments, firms and civil society organizations, and through trade and investment flows; as well as a network of interactions involving several aspects of social life. It covers a great part of South America. In its hard core, the Southern Cone of this region, there is a shared history that includes conflicts, rooted deep in history back to the Iberian Peninsula.¹

As a strategic idea, Mercosur implies an option for the logic of integration in the relationship among its member countries. It implies the building of a common ground of political stability and democracy within the region, mainly through economic preferences and common policies, with the idea of competing and negotiating together at the global level. It is not an abstract idea. It reflects concrete and dynamic national interests that are not always exactly the same for each of the member countries, due among other factors, to the significant differences of economic dimensions among them.

At the founding moment of the bilateral economic integration and cooperation program among Argentina and Brazil, in 1986, the strategic idea was

closely related to the need to consolidate the “new born” democratic processes. Later on, other goals appeared, linked to the member countries’ needs in the field of economic modernization and international trade negotiations, especially at the hemispheric level – after the launching in 1991 by President Bush of the American Enterprise Initiative. The main idea was to enlarge, through economic preferences the national markets, so firms could invest and transform them to become more competitive both at the regional and global level, and to build a more attractive environment for both domestic and foreign investments. The assumption was that these would generate a win-win situation for the four member countries, including those with small economies, as were the cases of Paraguay and Uruguay.

The idea of integration was then the result of concrete national interests. Not the result of any hypothetical supranational rationality. As well as in Europe, the idea of a regional approach to economic development started at the national level and not the other way round.²

If we go down to its deepest cultural roots, we can find the need to reaffirm the national identity in face of the challenges of globalization. This was the main idea behind the option for a strategy of working together among sovereign nations on a systematic and permanent basis. This strategic idea does not necessarily produce an irreversible phenomenon. Should this occur, we will only know it with the passing of time. But its distinctive characteristic, what turns it into a phenomenon different from a traditional friendly relationship among neighboring nations, is that it has an implied ambition to be irreversible. This is the reason why the pact that formalizes the strategy – in this case the Treaty of Asunción - is of a permanent nature. It does not generate a lineal process. On the contrary, as the European experience shows us, it implies a very winding road, which will even suffer crises and eventual setbacks.

As a formal economic integration process, Mercosur means a consensual alliance among sovereign nations, through the development of common mechanisms and rules that allow them to share markets and resources, beginning with a customs union that should become then a common market.

Common principles, criteria and rules of the game – both formal and informal - are conceived as a set of signals sent to citizens, investors and third countries, regarding the desired long term goals of the partners and the road map to achieve them.

These are not, nor could they be, instruments or rules of the game that apply only to short-term trade. For that restricted purpose, it was not necessary to

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² As regards national interest in the origins of European integration, see Alana Milward, *The European Rescue of the Nation-State* (Los Angeles and Berkeley: University of California Press, 1992); “Memorandum of Jean Monnet,” May 3, 1950, in *Le Monde*, May 9, 1970. This subject was analyzed by Félix Peña, “Previsibilidad y eficacia: la integración voluntaria entre naciones soberanas,” in *Encrucijadas*, Revista de la Universidad de Buenos Aires (February, 2001), 48.
design such a complex and ambitious project as Mercosur. On the contrary, its legitimacy lies in the long term objective, which was explicitly defined for the association: the development of a common market, as it is defined in the Treaty, and built upon the reciprocity of rights and duties among the partners. This is why its results cannot be measured only in terms of global and sector short term trade balances. These instruments and rules of the game have - at least they should have – a real influence upon the investment and strategic decisions of both domestic and foreign firms. The quality and efficiency of these instruments and rules will largely depend on the degree of predictability they offer to investors. Therefore, their deepest results should be measured in terms of its impact on investments generated in each member country as a result of the preferential access to the markets of their partners. The rule oriented nature of the integration process – if it is really achieved – is, therefore, crucial for its success and social legitimacy.

In terms of image, Mercosur is the result of the perception held by citizens, investors, and third countries, in the sense that its formal goals, mechanisms and rules of the game, are really credible because they will be enforced. It implies that they could have a real influence in expectations and behaviors of the main protagonists of the economic life at each of the member countries. The weaker, more inaccurate and volatile the signals – or the lower their quality – the poorer will be their impact. In that case, the level of efficiency - for example, the expected outcome in terms of investment decisions oriented toward the enlarged market - will be negatively affected.

Thus, the image cannot be the result only of rhetoric and idealistic approaches. As long as the image is sustained in the real life, it will certainly be an important element in the concrete behavior of economic and social actors. But the expert eye, that of the investor and third countries with whom Mercosur intends to negotiate, will assess the quality of the commitments undertaken by governments, their strength, enforceability, and potential to penetrate reality; as well as their projection and permanence over time. If there is no correlation among the instruments (for example, the unrestricted opening of markets and macroeconomic coordination) and if there is no satisfactory answer to basic questions regarding the conditions to operate within the enlarged markets, the possibilities of attaining a customs union and then a common market will remain uncertain and the investors will become more doubtful about the decisions they have to make. In that case, the credibility gap will also affect the idea of strengthening the capacity of the group to negotiate with third countries.

After Almost Fifteen Years of Mercosur Experience:
A Balance of Achievements and Failures

What is the balance we can draw from the Mercosur experience? We could consider it in relation with each of the above mentioned dimensions.
As a regional reality, Mercosur presents a significant progress in the quality of the relations among a group of neighbor’s countries. This is evidenced by the growth in trade and investments within the integrated area, especially in the 1991-1998 period. It is difficult to assess how much of this progress is due to Mercosur’s formal integration process and instruments, and how much to the geographical contiguity of countries that have significantly opened up to international trade. It is also difficult to know what may have happened with trade and investments among its members if Mercosur as a process had not been a reality.

However, it is certain that we have passed from a low level of relative interdependence – measured by different trade and direct investment indicators, as well as those that show the willingness of a joint defense of democracy (as was the case during a political crisis in Paraguay) – to a higher interdependence level. On account of this situation it is difficult that what happens in one country does not have a strong effect on the political and economic life of the others. Mercosur have not yet attained the level of economic interdependence, much less political, that the European countries had in 1950, when they created the European Community of Coal and Steel through the Treaty of Paris, or when in 1958, they started the process of what is today the European Union. It has not even attained the level of economic interdependence existing in North America, when in 1994, the NAFTA was formalized.

At present, in Mercosur, both the politicians and the citizens have the feeling of “being on the same boat.” This feeling is shared by those who have invested or placed their savings in the region. It is reflected in the contagion effect which means that what happens to the economy of one partner will be felt in the economies of the others. This is especially true if the country that suffers a problem is one of the major partners. In terms of country risk, the markets are already integrated, in spite of the attempts to focus on differences during critical situations.

It is not easy to imagine a setback in this dimension, for example a return to a low level of interdependence. What may occur, however, are variations in the levels of regional interdependence. The experience of the Mercosur and South American region and specially the experience of other international subsystems such as those in Europe and the Middle East, indicates that a growing interdependence among a group of countries that share a geographical area may have a predominantly conflicting character or a predominantly cooperative one. The economic and political value of moving from a predominantly conflicting interdependence to a predominantly cooperative one is very high, as evidenced by the European experience of the last fifty years compared to the last few centuries. This is not something that may be measured, for example, in terms of trade flows or of development of common infrastructure projects.

As a strategic idea, we can see greater continuity and consistency in the political leadership over the last twenty years in the Mercosur region. Perhaps
this is the main contribution from the so called presidential diplomacy, leading to the creation of Mercosur as an area of integration and solidarity among its members. This was evidenced at the founding moment in 1986, and then again in 1990. But this has particularly been observed during periods of crisis, for example, the car industry crisis in 1995, the 1998-1999 economic recession period, and even more recently when Argentina adopted exceptional economic measures after its crisis of 2002.

A detailed examination of those events clearly shows that in all cases the political leadership has favored the preservation of the strategic direction of the integration process. Two presidential leadership abilities appear to be outstanding: the assessment of each situation within a long term vision and in the larger framework of converging national interests, and the recognition that the most valuable element for the common project is the economic and political health of each partner (democracy, and economic growth and stability). This has led the political leaders to act in accordance with a strict sense of prudence when one of the partners is experiencing serious difficulties, accepting sometimes de-facto flexibility with respect to the implementation of the formal commitments and the time-table of the economic integration process.

But it is also in this dimension of the strategic idea, where one may observe different perceptions from the member countries with respect to the real situation and the behavior of other partners. On occasion, the perception of eventual disloyal conduct by the government of one member country or controversial assessments of the real distribution of costs and benefits of the integration process, have contributed to weakening the feeling that the strategic idea is shared with the same intensity by the different partners. Reflected by the media to each country’s public opinion, often in the middle of a crisis, this stimulates the culture of conflict rather than the culture of cooperation. Here lies one of the issues that will require a great deal of attention in the future, if the member countries desire to deepen integration in Mercosur and to increase its social legitimacy in each of them.

However, the fact that the political leaders have been normally strongly determined to support the strategic idea does not necessarily imply that each country economic policy is always consistent with Mercosur commitments. On the contrary, the growing loss of relevance of the previously frequent meetings of Economy Ministers and Central Bank Presidents, might be evidence of a significant gap between the specific economic policies of each partner and the strategy to build Mercosur. Except for the initial period during which the biannual meetings of Economy Ministers and Central Bank Presidents became a real driving force of the integration process, the Ministers appeared aloof, and eventually, not very interested in being directly involved in the Mercosur development. Sometimes they have only done this during crises. This may even account for the lack of progress in coordinating macroeconomic policies, especially since the 1994 Mercosur Summit at Ouro Preto. It may also account
for the growing deterioration of Mercosur as a formal economic integration process.

As a formal economic integration process, perhaps is where it is possible to observe that progress in building Mercosur has been even more limited. In the beginning, it seemed feasible to advance rapidly, but after the initial transition period -1991-1994- a relative ineffectiveness and inefficiency has characterized the evolution of the economic integration process. This was also the case during the bilateral integration program among Argentina and Brazil, in which it was possible to observe that after a significant progress in the first two years -1986-1988, it then stagnated largely due to the political and economic performance of the two countries.

The period initiated in 1991 with the Treaty of Asunción received a strong boost, partly because of an international and local environment favorable to these types of initiatives, and partly as a result of the automatic nature of the trade liberalization process, taking place not only between Argentina and Brazil but also extended to Paraguay and Uruguay.

Thus, we arrive at the most recent period –the roots of which may be found in Mercosur decisions adopted an even those not adopted at Ouro Preto in December 1994 (for example, regarding non-tariff barriers and safeguards), and the lack of progress in macroeconomic coordination. During this stage we observe significant institutional deficiencies, low quality rules of the game, and a growing weakness of the economic preference and of collective disciplines, for example in the field of export and investment incentives.

As an image, Mercosur has experienced in recent years, both at the national level of each member country and abroad, a deterioration of its credibility. It reflects the perception by public opinion, investors and third countries, of a weakening of the quality of the economic integration process. In 1995, the good image reached a peak when the nations overcame the effects of the Tequila crisis. In the period from 1998 -1999 (particularly during the first semester of 1999), Mercosur’s image began to deteriorate after the Brazilian devaluation of the Real. The situation deteriorated more when Argentina had its own 2002-2003 deep economic and even political crises.

In each of the member countries, Mercosur began to be perceived –with some exaggeration- as part of the problems and not necessarily of the solutions. The conflicts and crises multiplied. Gradually, the image of a stagnated process settled in. A vicious circle emerged, consisting of low effectiveness of the rules of the game (they do not correspond to reality), reduced efficiency (the expected results are not achieved), loss of credibility (citizens, investors and third countries have started to doubt if the process is feasible), and the loss of attractiveness.

In the Mercosur of this last period, we may also observe the introduction of the social illegitimacy virus. The public opinion of member countries start to doubt if the association is based on a win-win relationship and hence, if it is
convenient to continue with its development as it is today. The original strategic idea does not seem to be questioned. Yet, people do debate the methodologies of the economic integration process. Expressions, such as “Mercosur has died” or “Mercosur is useless if it remains as it is,” may seem exaggerated but have become more frequent.

We can conclude that almost fifteen years after its founding moment, Mercosur as a *regional reality* and as a *strategic idea*, maintains its relative strength. However, there is a growing concern with respect to its real capacity as an instrument to negotiate together with third countries and its efficiency to stimulate development and investments in all the member countries. This is because, as an *economic integration process* and as an *image*, Mercosur exhibits remarkable deficiencies. However, there has been a learning effect in the sense of knowing how to advance—or not to advance— in an integration process of these characteristics.

A strong political decision will be needed to overcome the relative deterioration of the economic integration process and of the Mercosur image. This would be especially necessary, if member countries want to adapt it to the challenges of the new international economic and even domestic realities. It is in this sense that the accumulated experience should be capitalized, in order to prevent the deterioration of the process and its instruments from contaminating the quality of the achieved regional interdependence, which will continue to grow at any rate.

**Three Central Questions with Respect to the Accumulated Experience**

Three central questions arise when reviewing the first fifteen year experience of Mercosur:

- What lessons can be drawn in terms of the methodology of consensual integration among sovereign neighbor nations?
- What scenarios can be drawn with respect to the future of Mercosur considering, in particular, the FTAA negotiations and those with the European Union? and
- What issues would be crucial for Mercosur’s future as a regional process that could be functional to each member country’s national objectives, particularly those related with the consolidation of democracy and the modernization of their economic and social life?

**Lessons Concerning Integration Methodologies**

With respect to the *first question*, we should pay particular attention to three essential aspects of integration methodologies. It is on these issues that the

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3 Félix Peña, “Reglas de juego, instituciones e integración económica: reflexiones desde el
protagonists—both at governmental and business level—and analysts should focus their reflections.

The first one is related with **efficiency**, in terms of how to achieve the original goals of the economic integration process, particularly in terms of building a common platform from where to compete and negotiate at the global level. This issue is related to the redefinition of some of Mercosur instruments and rules of the game in order to enhance its potential effectiveness. It is directly linked to the question of how to develop a dynamic reciprocity of national interests at stake, so that the instruments and rules of the game could produce a win-win relationship and are not perceived by any member country as originating a zero-sum game.

The second question is that of **credibility**, in terms of the perception of investors about how seriously they can consider Mercosur commitments when adopting investment and strategic business decisions, and of third countries—for example the United States and the European Union—when considering it as a valid interlocutor in international relations and negotiations. The collective memory as regards the Latin-American tradition of the “fiction-integration” influences the way citizens, investors and third countries perceive Mercosur when they have to assess its commitments, making them highly sensitive to any indicator that the member countries are not really willing to attain their agreed goals. Therefore, credibility will strongly depend on the efficiency and effectiveness of the instruments and rules of the game.

The third question is that of **social legitimacy**. It focuses on the public opinion’s perception of Mercosur’s contribution in terms of taking care of public needs, expectations and interests, related with resolving critical problems of the political, economic, and social agendas. Social legitimacy also is related to the perception of how effective the distribution of costs and benefits of the integration process is among the partners, taking into account the existing sharp economic differences. This leads to questions about Mercosur’s opportunity costs compared to other economic integration alternatives. In practice, this issue underlies the debate that from time to time is possible to observe in some member countries, between Mercosur as an integration process and the FTAA or other imaginable options for a special and preferential relationship with the United States. The permanence, efficiency and effectiveness of the economic integration process and the rules of the game will ultimately depend on their social legitimacy.

The accumulated experience is pointing out the political need to carefully approach the issues of efficiency, credibility and legitimacy, in any process of consensual integration among sovereign nations. This may not be achieved without introducing mechanisms that will allow for an effective preservation of national interests in the implementation of the integration process.

About Some Possible Future Scenarios for Mercosur

With respect to the second question we can see at least three trends for Mercosur’s future scenarios. It is even possible to imagine combinations of the different scenarios.

a) Irrelevance

The first one – possible and somewhat likely - is the trend toward a continuous deterioration of the integration process and of its image, gradually slipping into a growing irrelevance as regards the agenda of critical issues for all or some of the member countries. This would be the scenario which we would call the “aladification” of Mercosur: it continues to exist as a process but its commitments are diluted and lose effectiveness in the perspective of citizens, investors and third countries. It does not influence significantly any longer on its expectations and behaviors. In this scenario, Mercosur would continue to exist as a formal process, but it would lag behind – with so many other experiences of Latin American integration-, in a kind of museum of “the irrelevant”. Nobody else would care about it. This scenario may be dysfunctional as regards the goals of a cooperative interdependence, not only in the current Mercosur area but also at the South American region. This would end up eroding the original strategic idea.

b) Dilution

The second one – possible and also relatively likely- is the trend toward the dilution of Mercosur into an eventual integration at the hemispheric level with the FTAA. This scenario may co-exist with the former one. It may lead to a changed Mercosur – as a matter of fact or of law – in a kind of free trade area. The external common tariff would be diluted, mainly in its principal element (for example the collective disciplines in the field of trade policy). Each country would then enter individually into a large hemisphere-wide free trade area. Mercosur as an economic region would survive but the integration process and its instruments would be overcome by those adopted at the hemisphere level. This scenario, in turn, may result from the current negotiations of the FTAA or its transformation into a network of free trade agreements, in which the United States would be the trade hub. Mercosur’s current partner countries may eventually negotiate free trade agreements with the European Union, as did Mexico and Chile. Its effects on the future of South American interdependence

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are difficult to forecast. Eventually, they may be similar to the irrelevance scenario. This might also erode the original strategic idea.

c) Consolidation

The third one – possible and still likely- is the trend toward the renewal and consolidation of the Mercosur integration process and its instruments, as a regional and institutionalized subsystem, with a growing South American dimension. This is the preferred scenario of actual governments. This would be the scenario of a “serious” Mercosur, with economic preferences, collective disciplines and rules of the game that are actually enforced and that contemplate the interests of all the member countries. In this case, Mercosur as an integration process, would imply higher commitments than those undertaken in the FTAA. It would also maintain the possibility for free trade agreement negotiations with the European Union. It would strongly contribute to the social legitimacy of the hemisphere and transatlantic trade negotiations.

This is the scenario that was originally imagined for Mercosur and, in my opinion, continues to be the favored scenario, consistent with each partner’s national interest. It is also the scenario that would contribute most greatly to the development of political stability and democracy in South America.

The Future Development of Mercosur

As regards the third question, there are priority issues that should be addressed on the agenda for the renewal and consolidation of Mercosur as an integration process. Four are more relevant. The first one is related with its institutional quality, particularly its normative production process and the enforcement of its rules. The second one refers to strengthening the main collective trade disciplines and the development of a gradual coordination of macro-economic policies. The third one is related to the extension of the economic preference among member countries, covering not only trade on goods but also services and government procurement. And finally the last one is related to the need of developing concrete measures of cooperation with the smaller countries, to allow them to take advantage of the enlargement of their markets through an effective access to those of Argentina and Brazil.

Some conclusions

We may conclude by affirming that, under the original strategic idea, none of the problems existing in the Mercosur -as a formal integration process- are without reasonable solutions. This remains true as long as there is a willingness to negotiate, to really create a common market and to preserve the reciprocity of
national interests that is the only way that the association can maintain its social legitimacy.

To achieve the original strategic idea, however, it would require a strong collective political leadership, technical imagination, and the creative participation of the civil society.

A consolidated Mercosur is not contradictory to the idea of the FTAA. On the contrary, it may be a necessary condition for successful negotiations on the hemisphere level and, above all, for its social legitimacy in the member countries. Without Mercosur, the idea of free trade in the hemisphere would be more easily exposed to strong social criticisms. A consolidated Mercosur is also the best way—perhaps the only one—to achieve the goal of a bi-regional strategic association with the European Union.
Mercosur: Political Development and Comparative Issues with the European Union

Marcos Aurelio Guedes de Oliveira

Introduction

In the last ten years Mercosur has become a viable instrument for the creation of a South American pole of economic development and integration as well as to enhance regional power in face of inter-regional and global negotiations. For many Europeans, Mercosur is a child of the EU process and structures and should closely follow its model of integration; for many North-Americans it is being portrayed as nothing more than a regional political arrangement in order to better negotiate with the United States. They argue that Latin Americans do not have conditions to create a stable integration process. Surprisingly for everyone Mercosur is there and is growing despite all adversities. This essay discusses key aspects that Mercosur shares with the EU and stresses the particularities that once produced and maintain Mercosur as an original regional integration model.

Origins

It is undeniable that the project of the European common market, developed just after WWII, affected tremendously Latin American views on the need to link economic development to a free trade arrangement. Of course the European case was related to security implications not found in Latin America.

We have to look at the historic context of European states in order to understand the previous assumption. Its birth was during the 14th and 15th centuries where the Holy Roman domination started to fade away and Europe lived a succession of empires under the leadership of different European states. From the 17th Century onward Europe entered a period of continuous and growing warfare among its main states. This situation produced a concern with the future of the continent that indicated unification as a way out of the anarchic system based on war. The Congress of Vienna (1814-15) was a breakthrough by

forwarding the first relevant international system, the Concert of Europe, and its methodology, the balance of power.

A counter-force to emerging integration ideas was a new wave of nationalism, particularly in Germany and Italy, states of late consolidation. Their leaders’ actions together with the fear and aspirations of small national groups spread suspicion and produced an arms race in Europe, pre-conditions for break out of the First and the Second World Wars. By the end of the Second War there were two dominant ideas: one on the declining of European states and a second that a federal Europe was a next and needed step for the survival of the continent. The terrible consequences of the two world wars have ended the European condition as center of power, science, culture and civilization. It had become a frontier area of disputes between two superpowers, had lost its scientific and cultural hegemony and was put under the constant menace of nuclear destruction. What could have been worse? In this unforeseen context, Europeans with the support of the United States begun to take seriously the road towards integration.

South and Central Americas 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 U.S. umbrella than in the aftermath of WWII. Regional integration has 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 heritage of European domination and indicates a way to overcome this past and to foster economic and social development. Differently, the European project is associated to the historic crisis of their powerful states, to the undeniable need to stop waves of European destructive wars that created global crisis and fostered U.S. projection towards world hegemony, to the desire to rebuild Europe as the center of civilization, power and hope.

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

This perception is the key to understand 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 with U.S. denial to recognize the region as strategic in face of its growing involvement on conflicts in Asia and Europe. Gradually as a result of this dilemma Brazil, as well as Argentina, started moving in the direction of creating national development strategies that would depend less on the U.S. will and more on state-oriented guidelines.

The United Nations became in the 1950s instrumental for Latin America cries for economic support. The creation of United Nation’s CECLAC (Economic Commission for Latin America and the Caribbean) represented its
most important step. By the end of the 1950s development was at last gaining momentum in regional politics. Industrialization had firmly started in Brazil and President Kennedy – after the Cuban revolution – admitted the need for a response to regional cries. Thus, the Alliance for Progress was created.

The assassination of Kennedy and the reemergence of military dictatorships in Latin America stopped this development for two decades. The military were good in cooperating in intelligence and torture, but kept the feeling of secrecy, suspicion and national competition that transformed economic development in a national security and nationalistic matter.

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 were visible. Differently to this, ALALC (Latin American Free Trade Association) was powerless and its methods unrealistic. This situation changed only in the 1980s and 1990s with the decline and fall of the Cold War. A new global reality demanded new strategies. Europe felt secure to move towards a more daring structured union. In Latin America the creation of ALADI (Latin American Integration Association), in 1980, permitted more flexibility in regional negotiations. The general perception that the new global economic reality would reduce even more South America importance gave a new flow of energy to the existed 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. One can establish a comparison on two common sources of origins between the European (the sources behind the creation of the Coal and Steel Community are quite different from these behind the EU) and Mercosur projects: security and infrastructure (energy and communication).

(a) If one sees the conflict over the construction of Parana hydroelectric as a problem of regional security, one can affirm that in the case of Mercosur, the first drive was a matter of security. Very much as it was in the European case; (b) but if the fear of losing economic importance in the emerging globalized world is to be seen as a main force then Mercosur is a product of a post-Cold War and globalization era. Thus it corresponds to the concerns that fostered lately the European Union; (c) last but not least, if the need by Brazil and its partners to use common natural resources in order to enhance regional infrastructure is seen as a first drive then the forces behind Mercosur are similar to the force behind the Coal and Steel community and not the forces of globalization that lately drove the EU.

One can clearly argue that the origins of Mercosur reflect a combination of challenges and problems that were dominant in different moments of the European integration history. Democratic stability, security and infrastructure development are faced at the same time as the search for adaptation to global economy and to deal with new problems brought by the Twentieth century agenda. To a certain extent I agree with that. I think there is one main driving
force in it connecting and giving directions to all initiatives to deal with these challenges.

The concerns with regional security and infrastructure development date back to the 1940s and 1950s and were never sufficient relevant to provoke a common initiative towards integration. Until this date the United States was conceived 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, at last, regional elite realized that they could not count on the United States for both development and security. Although there were surely security aspects behind the emergence of Mercosur, its main drive was and still is the fear to be left behind in economic development and to become unimportant to international economy due to the negative consequences of the debt crisis and globalization.

The view of South America as a system or as a sub-system within the international system – and not as an extension of U.S. power - was enhanced and the elements that characterize it have since the end of the Cold War become more significant. They are shared beliefs about: belonging to a region with a common identity; a need to increase interaction and integration among states in order to achieve common strategic goals. Regionalization was perceived as a processes that could remake relations within the region and give it broader room for common economic and political action; in other words to follow the regional strategic move towards economic and political independence from the powerful developed countries; to enhance the South American economic and political pole or sub-system.

The Nature of Political Institutions

Quite often one criticizes Mercosur for not having political structures that resemble those of the EU. It is depicted as not being supranational, being weak and bearing powerless institutions common to intergovernmental political arrangements. These views are the product of readings of Mercosur from the dominant theories made to understand European integration. As it is being argued so far, historic background and context are key factors for understanding any integration process. Views that undermine regional context do not acknowledge the important progress of Mercosur through its intergovernmental structures and mechanisms as well as the constraints of the slow but steady transition that regional countries undertake towards democracy, economic stability and global insertion.

In the early 1990s a debate was in progress about the shape of Mercosur political mechanisms. On one hand the defenders of a supranational power supported their view very much from a functionalist perspective. For them, the need of such institutional form would give a independent dynamic to Mercosur as well as provoking a spill over process. On the other hand a less ambitious view
supported that corresponding to the level of development and to the regional external and internal economic and political limitations, a prudent and pragmatic set of intergovernmental structures should be sufficient and certainly functional to the challenges Mercosur had ahead.

From the Iguaçu Declaration in 1985 to the Assunçion Treaty in 1991 the cooperation between Argentina and Brazil moved rapidly from security to economic concerns. In seven years both countries together with Paraguay and Uruguay were convening for the creation of a common market. The immediate effect was a renewed international interest on the region and an enhancement of the democratic transition.

The 1994 Ouro Preto protocol represented the consolidation of former agreements and it gave Mercosur international legal status. It created an intergovernmental Council composed by ministers and high-level officials of all sides empowered with a decision-making process that would accommodate national interests and a set of technical committees specialized on economic areas aiming at finding solutions to forward integration in the direction of a common market. Two other important intergovernmental bodies created were: Mercosur’s Joint Parliamentary Commission and the Social and Economic Forum, a space for the participation of non-governmental actors.

Though it could be argued that Mercosur institutions resemble that of the 1949 statute of the Council of Europe, it is undeniable that since its heyday the nature of institutions in the EU has been a combination of intergovernmental and supranational while in Mercosur it is only intergovernmental.

The declining European states demanded such structures due to their need to move towards a more interconnected unity and enhance their particular cultural interests as well as economic and social standards already achieved through social democratic means. The guarantee of regional and global security; the need to attract by economic and political advantages a growing number of European countries to a unifying project were grounded on issues and interests different from that Mercosur institutions emerged.

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

A succession of neoliberal economic policies during the 1990s proved to be insufficient to deal with most of the problems above and 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. They are basically related to three points. First, the stabilization of economic structures by reducing the burden of
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the debt and orienting externally the economy. Secondly, by creating a sustainable growth that would spread benefits all over South America. Lastly, the demise of an aristocratic and unfair state, and the shaping of a democratic and less partial one.

The privatization of state companies and the initiatives on developing a social network for the very poor were positive steps taken in this decade. Nevertheless these policies were still national-centered, transitional and the region was hit by a series of international economic crises that undermined major changes. Only in 2003-04, Brazil and Argentina have begun to see first results on their move on the direction of an export-oriented model. Due to the importance of internal reforms, for a decade not much was done in order to forward common macroeconomic policies in Brazil and Argentina. In spite of a set of concrete initiatives, during nearly a decade, Mercosur was taken by a neopopulist discourse in favor of unrealistic proposals such as immediate monetary unification. Mercosur agenda was also during this period limited to a debate on the growth of inter-bloc trade and the increase of trade among South American countries.

At that time commentators were quite skeptical on the continuity of regional integration and for many Mercosur was a dying and mistaken initiative. Mercosur supporters were not silent. They reminded these critics that the EU resulted from a process of ups and downs and in Europe an even deeper skepticism was present in many moments. On the side of Mercosur, this was a period of maturation in which common business interests were consolidated, such as in the agriculture sector.

The new century brought renewed combination of soft brands of neopopulism to the region with new leftist governments. Brazil, Argentina and Uruguay are upgrading their commitment to regional integration. As a leading country, Brazil took the step to enhance Mercosur 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 daring step, what appeared for some as an unrealistic initiative, was the launch of the South American Community, a renewed version of the South American free trade initiative taken by former President Sarney and that represents an additional move to keep the debate on the need for regional integration at the center of South American countries concerns.

Mercosur negotiations with the EU and with the United States or the establishment of a free trade area gained a new impetus. It also took important steps towards Africa, Asia and North-America. There are ongoing negotiations with Australia, Canada, Mexico and with Arab countries. There are recent successful trade agreements with India and South African countries, the result of which will prove how a priority Mercosur has become for the present governments of Brazil and Argentina.

Perhaps the most important initiative has been directed to the region’s infrastructural projects, some of which are depending on financing for decades. 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 that would create and develop the integration of communications (roads, railroads, waterways 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 for the integration of South American infrastructure were presented by 12 South American countries worth US$ 5.5 billion. Most of these projects are near the frontier of Mercosur countries and they aim at transforming what used to be a security issue into an area of economic prosperity. The growing investments from big regional enterprises as well as multinationals are about to consolidate a new pole of economic growth at the heart of South America. Only in 2004 foreign investment from Brazilian business was US$ 9.5 billion and most of it went to Mercosur area.\(^2\) There has been a continuous growth on small and middle-sized regional enterprises as well as on investment from Europe, North-America and Asia. A proposal for the creation of structural funds and rules for regional governmental purchase have been approved.

On the political side COREPER was created which is a committee directed by former Argentine President Eduardo Duhalde to support members’ initiatives towards third parties. The formation of a dispute-resolution tribunal, the establishment in 2006 of a parliament for Mercosur and the newly-created Mercosur Forum of Federative States and Cities, point out that for the time being new intergovernmental mechanisms are the region’s reply to growing integration demands.

Obviously an expected consequence of this is an increase of common regional pressure groups in favor of more Mercosur political institutions. This would represent a spillover that still depends on intergovernmental action but that has already involved non-governmental actors. Thus, frontiers in South America will be less and less a matter of security and more and more a matter of development, integration and growth.

If the stability and the positive economic framework of recent years is kept, then the discussion on more effective political institutions and mechanisms will naturally emerge and the intergovernmental institutions created 15 years ago in a very hostile and uncertain environment will be replaced by more functional ones.

**Two Meanings of Deepening and Widening**

The EU has set the processes of deepening and widening as the two main challenges to consolidate itself. This fits well to the economic level and the strategic ambition Europe searched for itself. The context of Mercosur indicates

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\(^2\) *Valor Económico*, March 28, 2005.
two other meaning for deepening and widening. The first can be translated into
creating an infra-structure of communication, transport and energy to enhance
economic links among South American countries, attracting the non-Mercosur
members to join-in a common integration and regional development process. The
second is establishing as much as possible free trade agreements and common
strategies with countries and blocs of countries all over the globe.

The aims of Mercosur are to deal with regional economic development in a
way that in the end the region will become more relevant and integrated into the
global economy than it is now, to avoid being swallowed by the two huge blocs
and to keep relative interdependence in order to be capable of having options for
increasing its international economic and political power. Mercosur has lived
through different governments –five only in Brazil- and is undoubtedly a
strategic project for its member countries.

Critics argue that in order to achieve its aims, Mercosur must enhance its in-
stitutional structures. So far all important decisions taken are by the presidents
and ministers of the countries involved. This breaks and limits the institutional
dynamics of integration. Firstly, because presidents and ministers cannot meet
frequently. And when they do, instead of discussing a positive agenda, they are
forced to deal with problems that where once small ones and that could have
been solved at the level of Mercosur’s lower bodies. Secondly, all intergovern-
mental arrangement needs a dispute-solution mechanism empowered and capable
to deal with conflicts in a way that creates a pattern that is acceptable by all sides
and that is able to remove the obstructions to the flow of conflict and conciliation
proper of growing integration. There are hopes that the newly-created tribunal
will accomplish its mission.

Thirdly, there is a concern that Brazil as the most powerful partner might be
tempted to adopt an hegemonic stand and instead of enhancing regional regimes
and institutions as a mean to face regional problems, act unilaterally focusing on
its own economic and political interest and at the expenses of its neighbors. This
would increase asymmetry and in a long run would jeopardize the very precious
gains associated with the transition to democracy and the emergence of regional
integration, gains that are so fundamentally dear to all South American countries
today, Brazil included.

Finally a number of critics and supporters of supranationalism poses the
following question: can Mercosur continue to exist within its limited
intergovernmental institutions and mechanisms and be functional? My reply is
yes. Intergovernmentalism has been for centuries a viable mechanism for dealing
with international issues. It can present itself in different forms from a modest set
of periodical meetings of national leaders or policy-makers to discuss common
problems to a well-defined and bureaucratically dominated institutional body.
The option taken in favor of minimum institutions for Mercosur avoided the
creation of a large and expensive set of organizations that would not have
political power. Organizations that would conflict with national institutions that
already have special bodies dedicated to international issues. It was a concern not to create organizations that would not be functional. The transformation of national states, the search for economic stability and adaptation to an export-oriented model are preconditions still to be met and necessary for more substantial and concrete integration initiatives such as common macroeconomic policies.

The above must not be interpreted as Mercosur does not need to change. The functions of its intergovernmental institutions are not fully explored and many ongoing conflicts would not exist if these institutions were active.

Mercosur has a long way ahead in order to accomplish its ambitions. So far it has been very successful in offering a framework for responding to the region’s challenges without conceding to the temptations of adopting automatically other models. Taking into consideration the historic and political contexts of the region and taking a pragmatic approach instead of an ideological one, Mercosur project maintains alive the dream of an independent, democratic, politically and economically strong Latin America in a world increasingly asymmetrical.
Hemispheric integration
The Uniqueness of the FTAA from an EU Perspective

Joaquín Roy

Introduction: Origin and Evolution of the FTAA

The benefits associated with Miami becoming the permanent headquarters of the Free Trade Area of the Americas (FTAA) were energetically emphasized during the preparations of the trade ministerial meeting that took place in November of 2003. The overarching idea was that this Secretariat would transform Miami into “the Brussels of the Americas.”

In newspaper columns from around the world, most especially in the Americas, the goals and characteristics of the FTAA are frequently, and incorrectly, compared to those of the European Union. The repeated comparisons between these two processes of regional integration warrant a brief analysis of the current state of the FTAA and what it would need in order to be more like the European Union.

According to the organizers of the FTAA meeting in Miami, the expected reward for treating the trade representatives of the continent well was to clinch the permanent headquarters of the Secretariat. The FTAA will integrate 800 million people and a combined GDP of $14 trillion. With the Secretariat in Miami, it is estimated that 90,000 new jobs will be created, payrolls in the state will increase by $3.2 billion, and Florida’s gross state product will increase by approximately $13.6 billion.

Miami has been competing with other cities that are likely to reap similar benefits including Panama City (Panama), Puebla (Mexico), Port of Spain (Trinidad and Tobago) and Atlanta (United States). Denver, Chicago, and San Juan de Puerto Rico have recently announced new candidacies. The administrative structure (400 jobs, $27 million in combined incomes, and $12.3 million in fiscal benefits) would transform the selected city into a financial, services and political center comparable to Geneva, New York, Washington and Brussels.

∗ This portion was originally presented as a paper at a conference on “The relations of the European Union with Latin America”, organized by Bocconi University of Milan, on January 15 and 16 of 2003. In an expanded version, it was published entitled “El Area de Libre Comercio de las Américas (ALCA): Origen, evolución, consecuencias y perspectivas.” Política Internationale, Rome, Italy, año XXX, n. 1-2 (enero-abril) 2003, pp. 157-168. For the initial development of the paper I wish to thank the bibliographical contributions of Aimee Kanner and Roberto Dominguez, and the commentaries of Ambler Moss.
From the “Fortress Europe” to American Reaction

In reality, the precise context of the birth of the FTAA was much wider and it was not limited to the Western Hemisphere. The epicenter of the current ambitious project was not located in any of the capitals seeking to become permanent sites. Its origin was, paradoxically, in Brussels, in a Europe that was still much depending of the uncertainties of the Cold War. Western Europe had been protected by the double umbrella of the nuclear power of NATO and the socioeconomic cover of the EC. Some leaders skillfully predicted the epoch-making changes to be generated by the first moves to reform the Soviet system through perestroika and glasnost, resulting in the disintegration of the Soviet Union.

At the helm of the European Commission, Jacques Delors (its most influential president since Jean Monnet led the predecessor, the High Authority) decided to change the erratic EC course, marooned at the mercy of the functionalist method. Since the 60s Europe was affected by “euro sclerosis”, under the ballast of “euro-skepticism” on the integration progress. Political uncertainty demanded a drastic change. Another bold step in the best tradition of the Schuman Declaration, that set in motion the original European Community of Coal and Steel 1950, was in order.

The magic formula this time was the Single European Act (1987) which, with its precedent of the White Paper (1985) and backed by the Delors Plan (1989) set the course directly to the Maastricht Treaty of 1992. This was later reinforced by the treaties of Amsterdam and Nice in the political terrain and by the adoption of the European Monetary System leading to the adoption of the
euro as a common currency in 2002. While the Berlin Wall was collapsing, Washington began to perceive the still unborn EU with curiosity, later with some uncomfortable feeling and finally as a competitor. The construction of a “European Fortress” was the alarm that had to be met at least in the territories that were considered as the natural domain of the United States. Latin America and the Caribbean were the logical theatre of operations.

On its own, the European Union, and most significantly some of its member states with special interests in the area, proceeded at the beginning of the 90s to accelerate its relations with the Latin American subcontinent, through a pincer movement of diverse reach and objectives. Within its more active external policy, the EU increased its offers of agreements with the varied integration and economic cooperation sub-blocs around the world\(^1\). Closely related to this interest was the consolidation of the role of Spain in the community institutions, especially through Commission portfolios of relations with Latin America and development aid held by Spanish commissioners Abel Matutes and Manuel Marín. In the same time setting, the Ibero-American Community Project was launched using the impulse of the 1992 commemoration, although its energies lost a certain steam afterwards\(^2\). Politely, Washington showed uneasiness towards both moves. In the uncertain progress made by the Uruguay Round of the GATT, Washington perceived the possibility of a division of the world in blocs, instead of the creation of the World Trade Organization (WTO), a risk that could leave the United States without any bloc to belong.

Taking advantage of the necessary evolution of the Mexican regime, under an exhausted PRI after the end of the Cold War, Washington elected to extend the trade alliance it had with Canada since 1989 to cover Mexico. Well in the 90s, the United States then decided to expand the scope to Tierra del Fuego. With the Clinton administration at the helm, hemispheric leaders met in Miami in 1994 with no clear agenda, later filled by an ambitious plan never implemented in fashion\(^3\).

Still, a strategic change was set in motion, leaving aside the priorities of the past based on the fight against Marxist threats and electing instead the primacy of the market according to a code presented by the United States. This was

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\(^1\) For a panorama of the external action of the EU, see Joaquín Roy and Roberto Domínguez Rivera eds. *Las relaciones exteriores de la Unión Europea* (México: Universidad Nacional Autónoma de México -UNAM-, 2001).

\(^2\) See compilation by Roy, *The Ibero-American Space* and *El espacio iberoamericano*.

composed of fair access for U.S. goods and capitals, the implementation of stable macroeconomic policies, institutional capacity to implement them, environmental and labor criteria similar to NAFTA, and the non obligatory nature of preferential treatment for the less developed countries.  

This is the context upon which the hemispheric countries met in Miami in 1994, setting in motion an institutional process that can be described as “summitry” and meetings at different levels, implemented by an itinerant schedule though different capitals. From the start, institutional and geographical anchorages were discarded. The lack of an institutional base was seen as a mark of identity. There was a notable obsession in avoiding a physical link and location identification similar to Manhattan with the UN, Brussels with the EU, Rome with FAO, Washington with the OAS, the World Bank or the IMF, or Geneva with dozens of international organizations.

The FTAA must be a unique international network, one of a species, an emblem of the cyber era and virtual reality. As NAFTA, it does not exist anywhere, but it tries to be everywhere thanks to its virtual nature. On the other hand, it seems that the functionalist method, by which the progressive pooling of portions of sovereignty would generate a deeper integration, has been replaced by a more personal and dynamic diplomacy through periodic meetings at the highest level of the hemisphere. This procedure has then been delegated to ministers and vice-ministers who take global decisions, reinforcing the summitry method.

This aversion contrasts with the European method based on a systematic institutionalization and the precise anchoring of each one of the entities with a city, resulting in a competition to obtain the site. In the inter-American context, this voluntary escape from institutionalization has as an explanation to correct the errors of the first stage of integration, based on grandiose schemes, with a high cost of staffing, and poor results. Through the 90s a gap between the European integration model and the Western Hemisphere economic “cooperation” fashion was confirmed. This trend partially explains why the EU had to reform its projects of association with Latin American sub-blocs. Although the initial conditioning discourse has been maintained, the pressure for a deeper integration has been reduced.

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5 For an early comparative review of the European and inter-American processes, see the content of the compilation by Peter Smith The Challenge of Integration: Europe and the Americas. (Coral Gables, Fla./New Brunswick: North-South Center/Transaction Publishers, 1993).
The Uniqueness of the FTAA

The rules of the game

Through the process, a sort of code of principles has been composed to carry out the negotiations. In the first place, it is explicitly stated that decisions will be taken by consensus. This requirement applies equally to the elaboration of a new “legislation”, as well as the reshaping of sectors already committed. In other words, from the start there is no possibility that a future structure of the FTAA includes a mechanism similar to the “weighed” vote of the EU, a qualified majority, in which each one of the members has a number of votes proportionally to the population (although small countries are favored), “blocking minorities”, or “demographic clauses”. The FTAA will be subject to the threat of a veto by one single country, or it will be under the effects of the pressure of the most powerful or influential.

All negotiations will be ruled by the principle of transparency. This commitment responds to the popular pressure that has considered the experiments of free trade as a monopoly of business interests covered by the opacity of governmental negotiations. On the other hand, the process will be consistent with rules and disciplines of the WTO and it will be implemented on the basis of these disciplines when possible and appropriate. The intention is to “enrich” the WTO system, not to substitute it or contradict it.

The agreement should be a single commitment. This will avoid the construction of diverse Americas at different speeds, or with gradual accessions of some countries and others waiting. However, the FTAA may coexist with other bilateral and sub-regional agreements. Countries may negotiate or accept obligations derived from the FTAA process on an individual basis or as members of sub-regional integration groups. This issue is subject to certain evaluation and interpretation, because there is the possibility that some individual arrangement of one of the FTAA members with another world region might be in contradiction with some of the stipulations of the FTAA. The agreement also includes a commitment to pay special attention to the needs of the smaller economies. This is a dimension that has been of the utmost preoccupation of the small countries (above all, in the Caribbean and Central-America areas) that are at the mercy of the effects of globalization and are pressured to opt (without controlling the process) for one of the geographical alternatives of regional integration.

Regarding shortcomings and absences, the FTAA does not contemplate the extension of the non-existing acquis (to use the EU term for shared competences and legislation) to other sectors of the economy. Although some observers have pointed out that the FTAA profile is closer to the EU as envisioned in the Single European Act than the preceding European Community, the reality is that in the present project there is no space for either a Customs Union or a Monetary Union. There is no mention of free movement of people. As in NAFTA, this freedom is limited to goods. The FTAA was conceived for free trade, although
some social, political and even cultural aspects were added to the proposed scheme.

Structure and Organization

FTAA negotiations are carried out according to a structure previously arranged by its members, in such a manner that guarantees an ample geographical representation. This structure sets the rotation of the Presidency of the process, the sites of the negotiations and the national identification of the Presidents and Vice-presidents of the Negotiating Groups and other committees and groups.

The Presidency will rotate each 18 months, or at the moment of the conclusion of the ministerial meeting. When the process began, these presidencies were successfully appointed: Canada, Argentina, Ecuador, and finally Brazil and the United States that share the presidency in what supposedly was to be the last stage of the negotiations.

The Ministers of Trade have the responsibility of supervising the negotiations. They usually meet at intervals of 18 months at the site of the country holding the presidency.

The Vice Ministers of Trade, organized as a Trade Negotiations Committee (TNC), have a central role in the administration of the process. In this function, the TNC shapes the work of the negotiation groups and the other committees and groups and has the decision-making power over the general structure of the agreement and other institutional issues. The TNC is also responsible for assuring the full participation of all countries in the process, monitors the transparency of the negotiations, supervises the work of the Secretariat and controls the identification and implementation of the measures to facilitate business transactions. The Committee meets as often as it is necessary, at least twice a year in rotating fashion in different countries.

There are nine Negotiating Groups with specific mandates given by the ministers and the TNC to negotiate in different areas: Market Access; Services; Investment; Government Procurement; Dispute Settlement; Agriculture; Intellectual Property Rights; Subsidies, Antidumping and Countervailing Duties; and Competition Policy. The Negotiating Groups meet regularly through the year. In addition, there are other committees and groups dealing with relevant topics for the better process of the negotiations.

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6 For a revision of this aspect, see chapter by Eduardo Roldán Acosta, “El Área de Libre Comercio de las Américas: Estructura y propósitos,” in Retos e interrelaciones de la integración regional: Europa y América Latina, op. cit.

7 See details: http://www.ftaa-alca.org/tnc_e.asp/

8 See: http://www.ftaa-alca.org/ngroup_e.asp
The Consultative Group on Smaller Economies follows the evolution of the negotiations, and evaluates the interests of the small economies, issuing recommendations to the TNC. This group has identified the needs of these countries to provide them with technical assistance in trade when they have to participate in the negotiations. In addition, the Tripartite Committee maintains a Trade Education Database in trade matters.

The FTAA process also created a Committee of Government Representatives on the Participation of Civil Society with the objective of increasing the transparency of the negotiations and deepening the comprehension and public backing of the process. This Committee was also organized with the intention of facilitating the participation of the business, labor, environment and academic communities, and other sectors that may need to present their particular points of view. In the first stage of the negotiations, the Committee issued its first public invitation to the civil society of the countries to present their view in a constructive way.

Institutional Comparative Perspective

In isolation and in comparison, the institutional structure of the EU is very complex. Admittedly, the FTAA is much simpler, and it does not seem that a future and final structure will be more complicated than the temporary profiles.

From a European perspective, the equivalent to the European Council are the summits (three until the scheduled for Mar del Plata in Argentina in November of 2005) that are periodically held. In turn, the trade ministerial meetings are the equivalent of the Council of Ministers of the EU. But the absence of other institutional base is filled by the FTAA with a virtual and innovative entity, a “troika” composed no by governments, but by inter-American organizations (or as part of these) in a very sui generis format. This Tripartite Committee, with “analytical and technical support”, composed of the Inter-American Development Bank (IBD), the Organization of American States (OAS) and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). In other words, these existing entities are placed at the disposal of the new network. Their main role is to supply financial, technical and analytical support for the FTAA process. Among its functions, they include the maintenance of the official website of the FTAA, as a technical delegation of the

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9 See FTAA: http://www.ftaa-alca.org/SPCOMM/COMMSE_E.ASP

10 Inter-American Development Bank (IBD): http://www.iadb.org/exr/

11 Organization of American States (OAS): http://www.oas.org/

12 United Nations Economic Commission for Latin America and the Caribbean (ECLAC): http://www.eclac.org/
Secretariat. These institutions and organizations individually provide other technical help in matters related to the FTAA, especially to the countries with weaker economies.

Nonetheless, as in any other international organization with an intergovernmental profile, the FTAA needs to have an “administrative support”. Its location has been for a long time the object of lobbying by countries and cities, wishing to host what has been sold as a sort of “Brussels of the Americas”, a comparison much beyond the original aims of the FTAA. This Administrative Secretariat has been located in the same country site of the negotiations. This Secretariat provides logistical and administrative support and services of translation and interpretation. For its functioning, the temporary Secretariat, instead of receiving a budget from an international organization that does not exist, is financed directly by the Tripartite Committee.

The broad similarities between the two organizations’ institutional structures stop with the light comparisons between the summits and the European Councils, and equating the ministerial meetings with the EU Council of Ministers.

In an effort to demonstrate to what lengths the FTAA would have to be taken to even remotely resemble the EU, the following unrealistic scenarios should be provided, based on the current institutional state of the European Union. The following should be read as a vision as it is not what is likely to occur but what would be necessary in order for the FTAA to obtain a system of multilevel governance comparable to the EU.

**Dreaming an Enhanced FTAA**

First, we may imagine that the ministerial meetings are institutionalized, with a permanent headquarters similar to that of the Council of the European Union. The Summits are institutionalized to take place twice a year, presided over by the host country, whose rotation will be decided by an agreement based on equality between the sub-regions and the large and small states. The President of the country assuming the FTAA presidency for this period will be considered the President of the Americas, similar to the President of a Republic or the Prime Minister of a parliamentary democracy.

In this scenario, Presidential summits are restricted by the traditional intergovernmental method (necessary consensus, subject to individual veto). However, the Council of Ministers may enjoy supranational authority over trade matters through a system of qualified majority voting (much in the EU tradition), in which each country is allocated a certain number of votes based on its population while overcompensating the small states to ensure relative equality.

Thirty-four commissioners, nominated by each one of the members of the FTAA with impeccable credentials will be needed to form a sort of Inter-American Commission. Taking into account the compromise made by the EU with the expectation of the approval of the Constitution (to reduce the over 27
member Commission to 2/3 of the number of countries), this number is excessive and may be reduced in fashion. In any event, these commissioners, including one President of the Commission should be nominated by the Inter-American Council and approved by and responsible to the Inter-American Parliament. This Inter-American Commission would have its permanent headquarters in the same location as the permanent Secretariat and each commissioner will be responsible for one Directorate General representing the different competences of the trade area.

As in the EU, the Commissioners would not respond to the requests of individual national governments but would have the sole authority to propose legislation on trade matters. The Commission has its own financial resources provided through a continental tax derived from imports and exports with countries outside of the western hemisphere.

Each one of the American parliaments would select a certain number of delegates, proportional to their populations, to form the FTAA (Inter-American) Parliament (with a five-year mandate). Within a limited span of time it will be elected by universal suffrage as in the case of the European Parliament. Soon thereafter the Inter-American Parliament will gain co-decision powers, sharing the legislative decision-making process with the Council on all trade issues.

A permanent dispute tribunal would replace the ad-hoc governmental panels that currently attempt to resolve disputes in NAFTA, and supposedly will do the same in the FTAA. This American Court of Justice would uniformly interpret and apply FTAA law across all of the member states. Its decisions will be binding in all member states, and FTAA law has supremacy over national legislation. There will be one judge from each member state but the decisions will normally be made by smaller panels of judges, none of which will be from a state that is party to the dispute, in order to ensure the independence of this institution. Every five years, the justices will elect a President of the Court of Justice from amongst its member judges.

The competences of each of these institutions would be clear and respected. All of the member states will voluntarily pool their sovereignty on trade issues (and perhaps others in the future) with these supranational institutions of a higher authority.

To show that these initial measures would be only part of the first stage of a more ambitious process, the leaders of thirty-four participating states in this EU-like FTAA would make a joint declaration regarding an integration process that would lead the Americas on a path that would in fact be comparable to the European Union. A free trade area, as the FTAA today is envisioned, would have to be followed by a customs union with a common external tariff. The third stage will be the common market. These stages, implemented efficiently, guarantee a cohesive development, which is the ultimate goal of the process.

Naturally, to minimally accomplish the fourth stage of integration (the economic union), the FTAA would have to adopt a common currency similar to
the euro (€). Just as the hegemonic power of the Deutschemark was used as the base of the euro, the U.S. dollar will serve the same purpose until a common currency with a new name can be consolidated.

**Conclusion**

Now, let us come back to reality. Clearly utopian, a political union will not be consolidated in this system of regional integration in the Americas. Neither will be a truly institutionalized entity with autonomous bodies fully empowered with competences and resources.

The Single European Act of 1986 included the goal of completing the single market by 1992; a single market that provides for the free movement of goods, services, capital and people; a single market that distinguishes the European Union as the most advanced and successful system of regional integration in the world today. It is currently unimaginable that the EU would allow the free flow of goods and capital while maintaining strict regulations on the passage of people through the internal borders of the EU. While the free movement of goods becomes more probable through the FTAA, there remains a pact of silence regarding the free movement of people.

The European Union would still be in its infancy without the transfer of funds from the more developed regions to the less developed regions, not through a charitable process of conditioned financial assistance, but as a portion of the budget controlled and administered by the common institutions, as a stronger guarantee of neutrality. This is what many are asking from NAFTA. For the FTAA to be truly successful, free trade cannot be its end goal, but there must be an attempt to achieve an equal and just integration within individual participating countries and throughout the hemisphere. One way to address this is through the transfer of development funds from the richest countries and regions to the less developed areas in an effort to eradicate poverty and inequality.

This is in essence the message given by José Miguel Insulza, new Secretary General of the Organization of American States at the opening press conference and successive declarations of the General Assembly held in Fort Lauderdale, Florida, in June of 2005. Unfortunately, besides the many items of disagreement between the United States and Latin America, the U.S. representatives insisted on an agenda based on “prosperity” and “security”.

Reflections on the Development and Prospects of the FTAA: Does It Relate to the European Experience?

Ambler Moss

Introduction

What is the Free Trade Area of the Americas (FTAA) really about? What kind of integration does it consist of? What motivates Western Hemisphere countries to move in such a direction? We need to reflect on the meaning and significance of the FTAA. At this writing, as we know, it is not entirely clear when there will be one.

It is perhaps easier to say what the FTAA is not about. Most obviously, its wellspring is not analogous to the Schuman Declaration, the political origin of the European Union announced on May 9, 1950. That document said quite plainly that the pooling of coal and steel between the two main European powers would be done to prevent any future war between them:

The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible.

There have been wars between states in the Western Hemisphere during the past two centuries. However, they have been limited or minor when compared to the European conflicts of the Twentieth Century. World Wars have not rampaged through the region, and no one has suggested integration as a necessary way to insure international peace.

Yet, the idea of integration has been around in the Western Hemisphere since the independence of these republics. Their initiatives have been motivated by other sets of mutual interests. The FTAA is only a recent event in that chain. Let me mention just a brief selection of the integration efforts that have transpired. Essentially, using very disparate threads, a web of relationships has been woven over a long period, converging into the FTAA concept.

In 1826, Simon Bolivar inspired the Congress of Panama, an effort to weld together the newly free states of northern Latin America. He invited the U.S. president, John Quincy Adams, who, though not especially an admirer of Latin Americans, was eager that his government attend the sessions. A reluctant

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1 Though he did not personally attend it.
Congress, however, held up the approval of the two U.S. representatives and then delayed the funding of their trip until it was too late for them to get there before it had ended. Does that sound familiar?

The Congress of Panama was attended by four American states—Mexico, Central America, Gran Colombia, and Peru. The "Treaty of Perpetual Union, League, and Confederation" drawn up at that congress would have bound all parties to mutual defense and to the peaceful settlement of disputes. Only Colombia ratified it, however, and Bolivar’s dream failed so completely that he lamented before his death that to support revolutions was “to plough in the sea.”

A subsequent step toward integration was taken in 1889, when the First International Conference of American States, commonly known as the Pan American Conference, convened in Washington, DC. Its driving force was James G. Blaine, the American secretary of state. Its result, an initiative “for the prompt collection and distribution of commercial information” established the Commercial Bureau of the American Republics in Washington, with a secretariat. Some 18 Western Hemisphere nations, including the United States, joined it. In 1910, the Commercial Bureau became the Pan American Union, and philanthropist Andrew Carnegie donated $5 million to construct a permanent headquarters, the beautiful building in Washington, which today is the headquarters of the Organization of American States.

Other periods of United States-Latin American relations, while signifying interaction between these parts of the Hemisphere, can hardly be associated with integration. I refer to War of 1898 and Cuba, the Panama Canal, the period known as “dollar diplomacy,” and the various interventions by the United States in Central America, the Caribbean and several times in Mexico.

Franklin Roosevelt created a positive relationship with Latin America though his embracing the “non-intervention” principle, abolition of the Platt Amendment, and an ambitious program of educational and cultural interchange. It accounted for strong support from most of Latin America during World War II and set the stage for the Rio Treaty (1947) and the Organization of American States (1948) after the war. They were, for the United States, essentially security arrangements based on the Cold War. Those Latin Americans who hoped that they might be the precursor of a Marshall Plan were bitterly disappointed.

President Juscelino Kubitschek of Brazil proposed an ambitious integration scheme called “Operation Pan America” in the late 1950’s which linked economic and development components to security considerations. It stated “The more rapid development of Latin America’s economic strength will result in a growing sense of vitality and will enable it to increase its contribution to the defense of the West.” The establishment of the Inter-American Development Bank in December 1959 is a result of his efforts. The Hemisphere-wide

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2 A highly readable account of these years is in Peter H. Smith, Talons of the Eagle (New York: Oxford Univ. Press, 2000).
development theme was advocated powerfully to President Dwight D. Eisenhower by his brother, Milton Eisenhower, who prepared a report on the region.

During the Eisenhower years, in fact, plans were being drawn up to implement some of Kubitschek’s and Milton Eisenhower’s ideas. Nonetheless, it fell to the new John F. Kennedy Administration in 1961 to propose the Alliance for Progress. The Cuban revolution obviously gave it a Cold War rationale, as well, similar to that of the Marshall Plan; there must be no more Cubas. At the same time, it was clearly an integrative advance, and President Kennedy cited Operation Pan America in launching it. The Alliance’s vision was bold:

> And if we are successful, if our effort is bold enough and determined enough, then the close of this decade will mark the beginning of a new era in the American experience. The living standards of every American family will be on the rise, basic education will be available to all, hunger will be a forgotten experience, the need for massive outside help will have passed, most nations will have entered a period of self-sustaining growth, and, although there will be still much to do, every American Republic will be the master of its own revolution and its own hope and progress.  

By the late 1960’s, the Alliance had nearly run out of steam, so to speak, but one last effort aimed at a true integration project. The Organization of American States held a Meeting of American Chiefs of State in Punta del Este, Uruguay from April 12-14, 1967, which President Lyndon B. Johnson attended. Its centerpiece was none other than a genuine common market:

> Beginning in 1970, to establish progressively the Latin American Common Market, which should be substantially in operation within a period of no more than fifteen years.

The United States promised to assist this process with substantial aid. But President Johnson was increasingly bogged down in Vietnam, and the largely authoritarian countries of Latin America were not at any stage of readiness for a common market. Their economic policies became increasingly centered on

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protectionism, import-substitution industrialization, state-owned enterprise, and borrowing as preferable to foreign direct investment.

In 1969, President Richard Nixon asked Nelson Rockefeller to prepare a complete report on the state of U.S.-Latin American Relations and the region’s political, economic, financial and social conditions. Arguing for more U.S. attention to the region, it foresaw many of the issues which would later come to the forefront, including the debt crisis of the 1980’s. But the Vietnam War had not ended, and the report, along with attention to Latin America, was laid aside.

The preferred economic policies ran their course with the debt crisis of the 1980’s, properly termed a “lost decade,” until they were replaced by neo-liberal reforms, beginning in the late 1980’s and early 1990’s. Economic failure also helped effect the restoration of democratic governments. Moreover, the end of the Cold War enabled the United States to take a different view of the Hemisphere, among other things taking away the attractiveness of supporting anti-communist dictatorships.

Large steps forward occurred during the administration of President George H.W. Bush during 1990. The significant economic policy transformations in Mexico under the de la Madrid and Salinas de Gortari governments made the start of the NAFTA negotiations possible (building on the already existing FTA with Canada.) The debt workout using Brady bonds would put the debt crisis into the background. On June 27, 1990, President Bush announced the Enterprise for the Americas Initiative, resting on the tripod of debt workout (linked to environment initiatives), stimulation of new investment, and trade initiatives reaching beyond NAFTA. Bush’s vision was one of a democratic free trade region reaching from Alaska to Tierra del Fuego.

Part of the Bush motivation may have been the U.S. economic interest in a world that might be dividing up into trading blocs, if the Uruguay Round of the GATT were unsuccessful. Under such circumstances, the United States might not have a trading bloc to call its own in which it enjoyed such high market share.

But NAFTA negotiations were not the only game going on in the Hemisphere. Bilateral and regional integration efforts were breaking out all over. On March 26, 1991 the Southern Cone countries of Brazil, Argentina, Uruguay and Paraguay signed the Treaty of Asunción, establishing the MERCOSUR common market. Not just a free trade agreement, it was to be a European-style common market. The agreement provided:

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7 Other factors also obviously brought about the change. In Argentina, the defeat of the military government by the United Kingdom in the Malvinas/Falklands War of 1992 brought down the regime. By the end of the decade a referendum was finally held in Chile which ended the Pinochet dictatorship.
The States Parties hereby decide to establish a common market, which shall be in place by 31 December 1994 and shall be called the "common market of the southern cone" (MERCOSUR).

This common market shall involve:

- The free movement of goods, services and factors of production between countries through, *inter alia*, the elimination of customs duties and non-tariff restrictions on the movement of goods, and any other equivalent measures;
- The establishment of a common external tariff and the adoption of a common trade policy in relation to third States or groups of States, and the co-ordination of positions in regional and international economic and commercial forums;
- The co-ordination of macroeconomic and sectoral policies between the States Parties in the areas of foreign trade, agriculture, industry, fiscal and monetary matters, foreign exchange and capital, services, customs, transport and communications and any other areas that may be agreed upon, in order to ensure proper competition between the States Parties.8

Despite a deep division among Democrats, President Bill Clinton completed and signed the NAFTA and then waged the political fight in the Congress for its approval, which finally came in late 1993. It was a true Armageddon between those two great macro-tendencies in U.S. politics, the globalist-free traders and the protectionists. (The following year U.S. adhesion to the WTO was fought the same way, though less acrimoniously.) An interesting speculation is whether the NAFTA legislation could have passed if it were not for an expensive public relations campaign put on by the Mexican Embassy in Washington, aimed at the U.S. public.

In December 1993 Vice-President Al Gore was in Mexico City, mending fences after the rough atmospherics of the U.S. Congressional debate. There he made the surprise announcement that President Clinton would invite all of the Hemisphere’s heads of state and government to a meeting in the United States in 1994. This, of course, ultimately turned out to be the Summit of the America, in Miami, in December 1994. All countries in the Western Hemisphere were there except Cuba, and they were represented by freely-elected leaders.

The FTAA turned out to be the centerpiece of the Summit, though, strangely, that was only decided upon in October. Well, not so strangely, there were members of the Clinton Administration still licking their political wounds over NAFTA and determined that there would be “no more NAFTAS.” But, consensus prevailed at the Summit, and the long process was begun toward a FTAA. To keep momentum going, the first Trade Ministerial meeting was set for the following spring in Denver, to begin the FTAA’s implementation.

There were several obvious holes in the FTAA web from the outset which would have to be filled in.

First, it was plain that there was no commonly-held design or blueprint. In general, NAFTA countries assumed that the FTAA would be a sort of NAFTA

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8 Text reproduced on the official web site, at http://www.mercosur.org.uy/pagin1esp.htm
rolling southward until it reached Tierra del Fuego. Meanwhile, in Brasilia, other thoughts ran strong: perhaps the deeping of MERCOSUR to become a kind of SAFTA to negotiate more evenly with the North.

Second, there was no entity around which to build the FTAA; nothing which would correspond to the European institutions created from the beginning of the 1950’s. This was deliberate; countries of the Americas are highly nationalistic and would not countenance the erosion of sovereignty which has taken place in Europe. The idea of some creeping supranational authority, accepted early on in Europe, was and still is anathema on this side of the Atlantic.

Third, despite the bold declarations to the contrary, there was no successful way to bring the private sector and civil society directly into the process. When the Trade Ministerial meetings began, to be sure there were Business Forums seeking private sector input, and finally a civil society forum was held along with the Miami meeting in December 2003. Their input has not been direct, however.

Fourth, from the beginning there has been some doubt about the U.S. commitment, without which there can be no FTAA. In 1995 the “fast-track” authority ran out which allowed up-or-down voting in the Congress for trade agreements. It was only restored (under the new name Trade Promotion Authority) in the George W. Bush Administration in 2002 (but runs out again in June 2005). Although the U.S.-Chile FTA passed the Congress and has had one good year of positive accomplishment, it is not clear at this writing whether the DR-CAFTA regional FTA will be approved.

Another problem for the FTAA, of course, is the issue of the smaller economies (over half of the FTAA countries) and whether they can survive without more special arrangements than now seem to be offered. After all, the special aid offered to new European Common Market countries in the past (Ireland, Greece, Spain, Portugal) has been essential to their integration.

But after two more full Summits (Santiago, 1998 and Québec, 2001, two special summits (Santa Cruz on sustainable development in 1996 and Monterrey on security and democracy in 2004), and a projected one (Mar del Plata, November 2005, which President Bush will attend) the process continues. Never mind that it did not make its completion date of January 2005. That was an arbitrary and speculative goal when chosen at the Miami Summit.

The emphasis today in South America seems to be movement toward regional integration, as does the movement by the United States and its closer-in neighbors. Meanwhile, the idea of a North American Community, elucidated at this conference by Dr. Robert A. Pastor, may be the closest thing at this end of

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9 Immediately after the closing ceremonies of the Summit, the three NAFTA heads of state announced that Chile would be the next NAFTA member. Although Chile would proceed to sign FTA’s with Mexico and Canada, its agreement with the United States could not be reached until 2003, when “fast-track” authority was restored by the U.S. Congress.

the Hemisphere to the beginnings of European-style integration, based, as it is, on the reality of economic relationships. The recent meeting in Crawford, Texas between the three NAFTA country leaders underscored that vision, even though it produced little results.

How far and how fast will the Hemispheric relationships progress, of which the FTAA is a paradigm rather than a tangible reality? There are, of course, external relationships to be taken into account: The European Union has FTA’s with Mexico and Chile; Chile and Mexico are members of APEC. MERCOSUR and the EU have held talks, though the most recent meeting of negotiators this month ended on a dismal note.

As for the United States, as Latin Americans are well aware, its policy toward Latin America and the Caribbean has long been characterized by sporadic periods of attention punctuated by longer periods of inattention. In the view of many, the United States can and should do better in the region in pursuit of its own national interests. This country’s leadership now focuses on homeland security, the war on terrorism, and the problem of failing states around the world. The outcome (and exit plan) in Iraq is far from clear.

Moises Naim, editor of Foreign Policy magazine, said that despite President Bush’s presence at the Monterrey summit last year, which pleased Latin American leaders, “…the reality is that Latin America, usually seen as the US backyard, has become Atlantis, the lost continent.”

As in many situations, it is useful to look at U.S. relationships before and after the date of September 11, 2001, which changed the United States’ relationship with the world to such an extent. President George W. Bush began his administration in 2001 with a great deal of obvious interest in Latin America. His first foreign visit was with President Vicente Fox of Mexico, and the two discussed a special migration accord (strongly desired by Mexico but which became a non-starter). President Bush committed to achieving the FTAA on schedule in 2005 and an “early harvest” of business facilitation measures. At the Quebec Summit of the Americas, shortly after his inauguration, he endorsed a “democracy clause” for the FTAA, which, was encompassed in the “Democratic Charter” signed at Lima on September 11, 2001 by Secretary Powell. It makes democracy the only accepted norm in the Western Hemisphere, a policy which

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12 “Hopes fade for early EU trade deal with MERCOSUR,” Financial Times (US ed), March 29, 2005

President Bush had given strong endorsement. In this important respect, the FTAA process coincides with the norms and standards of the EU.

After September 11, 2001 Latin America showed its solidarity with the United States by adopting an Organization of American States (OAS) resolution proposed by Brazil on September 21 to invoke the Rio Treaty, as an attack on a member state which called for action by all members. Nevertheless, it was clear that other priorities, obviously the war against al-Qaeda and the Taliban regime in Afghanistan, dominated the scene. The special relationship with Mexico faded in importance, and there was some doubt as to whether the Congress would give Trade Promotion Authority to the President in order to stay on course with the FTAA. The general world economic downturn and especially that of the United States affected Latin America profoundly, cutting its already low growth rate to almost zero and negative in some countries.

Beginning early in 2002, however, the picture improved. On January 16, 2002, President Bush addressed the OAS, again committing this country to the FTAA and announcing his intent to pursue a free trade agreement with Central America. U.S. Trade Representative Zoellick presented a strong pro-trade testimony to the Senate on February 7. In March 2002 President Bush visited Mexico, El Salvador and Peru, and he began the final push for Trade Promotion Authority and other measures of a trade bill approved by the Congress in August. In Monterrey, Mexico, on March 14, 2003, President Bush announced the creation of the Millennium Challenge Account, which, by 2006, adds 50 percent to the core development assistance funding of 2002. From 2006 onwards, $5 billion per year would be put into that account. In the meanwhile, however, the Administration also showed a protectionist face by adopting special tariffs on steel and by supporting a $180 billion farm subsidy bill. These measures again raised doubts about U.S. credibility in free trade.

From the beginning of this administration, it has seemed that President Bush is the one person in his administration who has had the highest interest in Latin America, and that this interest is personal. His closest advisors, such as Vice President Cheney, Secretary of Defense Rumsfeld, National Security Advisor Rice and even Secretary of State Powell, were not previously known to have any special interest in the Western Hemisphere.

On a concluding note, it is evident that the United States still enjoys a great deal of goodwill in Latin America and the Caribbean. The Iraq crisis, and then the subsequent war and present occupation under violent circumstances have provoked very strong anti-U.S. attitudes in many parts of the world. Latin America and the Caribbean have constituted a region perhaps somewhat less affected by that phenomenon than in other places. Their countries have their own pressing matters to attend to, and they need help. It is also a part of the world with which the United States shares a great many goals and aspirations. It should simply find ways to expand its attention span to give the Western Hemisphere the consistent focus in its policy mix that is compatible with broader, long-term
national interests. Public opinion polls (Zogby, Latinobarómetro) reflect highly unfavorable attitudes in Latin America toward Bush Administration policies, as much as 87 percent among opinion leaders. These probably signify, as much as anything else, a sense of frustration from the relative low priority given to the region by Washington under present circumstances.

Shared values and common interests still come to the fore, however. Latin American response to this year’s Haiti crisis has been impressive. Chile sent troops within 36 hours of President Aristide’s departure, to join the U.S., Canadian and French forces in Haiti. It since sent a second increment on March 9. Brazil is now in charge of the international peacekeeping contingent. It is an impressive demonstration of shared responsibilities in the Hemisphere.

How will the relationship play out in the future? Latin America continues to hope for a greater role of partnership with the United States. At the same time, it is in a mode of deepening its economic ties with the rest of the world, especially Europe and Asia.

On another positive note, Chile, Brazil and Argentina have benefited from the rise of the Chinese economy. Although the region cannot compete with China in manufactured goods, China has become an excellent customer for agricultural products, especially soy, livestock, and mineral products such as iron ore. China is now Chile’s third-largest trading partner. President Hu spent 12 days on a tour of Latin American and Caribbean countries last year. Among other things, he promised increased investment. Chinese purchases of agricultural and mineral products are partially responsible for the upturn in the growth rates in several Latin American countries.

China is on the move in other areas as well. Because of dogged U.S. opposition to the International Criminal Court, eleven Latin American countries which once sent military officers for training and education to the United States (about 700-800 officers) are now unable to do so under a U.S. law because of their countries’ refusal to sign “Article 98” agreements (i.e., agreeing never to turn over a U.S. person to the ICC). According to U.S. military sources, many of them are now going to China at the invitation of the Peoples’ Liberation Army.

As the EU enters its bold new step of enlargement, it is all too clear that nothing similar will happen any time soon in the Western Hemisphere. The European willingness to experiment with political institutions and to trade elements of national sovereignty for closer integration, remain a distant model for this part of the world.
The FTAA: Current Status and Prospects

Jeffrey J. Schott

Introduction

Trade negotiations progress at a deliberate pace. When the task is to negotiate a free trade agreement (FTA), the process can become even more tentative. Officials must balance the interests of participating countries in terms of coverage, depth of reform, and time period to implement or phase-in the terms of the agreement. Because the objective of FTA negotiations is to eliminate trade barriers between the signatory countries, the politics of FTA negotiations can be more difficult to manage than global trade deals (where most-favored nation (MFN) liberalization can be limited or avoided entirely for import-sensitive products). Often, the negotiating timetable must be extended to resolve unexpected problems or to accommodate the domestic political calendars.

Thus, it is not surprisingly that the negotiation of a Free Trade Area of the Americas (FTAA), comprising 34 democratic countries in the Western Hemisphere, has struggled to advance over the past decade. The Summit of the Americas in Miami in December 1994 provided the original mandate for an FTAA that would progressively eliminate barriers to trade and investment in the hemisphere and targeted the completion of the negotiations no later than January 2005. After several years of consultations and preparations, the trade talks were finally launched after the Santiago Summit in April 1998. Seven years later, the original deadline for concluding the trade deal has passed and negotiations remain at an impasse. With each passing month of inactivity, doubts grow about the viability of the exercise.

By any standard, the FTAA is the most ambitious free trade initiative of the postwar trading system. The 34 FTAA participants span the world’s richest and poorest, and largest and smallest, countries. Never before have countries of such widely diverse size and level of development joined together to negotiate a reciprocal trade pact. Crafting a free trade pact among this diverse group of countries

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1 In multilateral negotiations—such as those that have taken place in the General Agreement on Tariffs and Trade (GATT) and in the World Trade Organization (WTO) over the past 55 years—negotiators accept incremental reforms that leave many trade barriers intact; this approach allows officials flexibility to manage the adjustment to freer trade and to accommodate protectionist lobbies at home.
was never going to be easy. The task has been further complicated by the financial crises and political turmoil that beset many Latin American participants since the FTAA talks began, the US economic downturn in 2001–02, and the new security imperatives of the post-9/11 world.

This short paper examines the current status of the FTAA negotiations and posits what needs to be done to get the talks back on track. To better understand the current negotiating stakes, I first briefly discuss the historical factors that precipitated the hemisphere-wide trade initiative.

**Why Did Countries Want an FTAA?**

Why did the countries of Latin America and the Caribbean (LAC) reverse decades of antipathy to formal trade ties with the United States and support—and in some cases actively lobby for—a free trade deal with the world’s industrial superpower? The answer is complex and requires more analysis than can be devoted in this short paper. But in most cases, the policy reversal reflected a sea change in national economic policies and development strategies caused by the failure of the import-substitution model of development of the 1960s and 1970s, the collapse of debt finance in the wake of the Latin American debt crisis of the 1980s, and the inexorable competitive pressures emanating from the advance of globalization.

Why did the United States promote the idea of an FTAA with the LAC region? Visions of a hemisphere-wide free trade zone were expounded by Ronald Reagan a generation ago, but were shunted aside during the lost decade of the 1980s as debt problems, high levels of trade protection, civil strife, corruption, and autocratic rule in the LAC region burdened US-Latin American relations.

While Ronald Reagan may have put the vision of hemispheric free trade into words, the leaders of Mexico deserve credit for taking decisions that provoked other LAC countries to embrace trade talks with the United States. Mexican President Miguel de la Madrid turned to economic reform in 1985 essentially because there were no other viable alternatives. Carlos Salinas followed and accelerated the reform program during his term in office. His pivotal decision to request an FTA with the United States in early 1990 can be seen as the first concrete step toward a hemispheric trade pact. Instead of slowing down the reform process to “digest” the substantial economic adjustments incurred in the 1980s, Salinas used the prospect of the FTA to accelerate the pace of economic change within Mexico and to encourage inflows of foreign direct investment (FDI). In fact, the mere announcement effect of FTA talks elicited significant new commitments of FDI in Mexico in anticipation of the new trade regime with the United States.

When Mexico and the United States announced the launch of FTA negotiations in June 1990, which evolved into the NAFTA when Canada joined
the talks several months later, other countries in the LAC region faced a new competitive challenge for market share in and FDI from the United States. The purpose of NAFTA for Mexico was to complement ongoing domestic reforms and create new trade and investment opportunities within the Mexican economy—some at the expense of neighboring countries. The prospective NAFTA preferences posed a real competitive threat to countries participating in the Caribbean Basin Initiative (CBI) and in the Andean Trade Preferences Act (ATPA). Those countries either had to emulate the Mexican (and Chilean) reforms—following a strategy of competitive liberalization—or risk losing trade and investment to countries offering a more hospitable business climate.

The United States could not say “no” to the audacious Mexican proposal, but US officials were cognizant of the potential adverse effects the NAFTA could have on nascent economic and political reform in the LAC region. Accordingly, President George H. W. Bush announced the “Enterprise for the Americas Initiative” (EAI) just a few weeks after the US-Mexico decision to develop an FTA. The EAI had three main pillars: trade, finance, and debt. It was designed to support the new commitment to democracy and market-oriented reforms throughout the LAC region by expanding regional trade and investment and helping to reduce national debt burdens (by augmenting the Brady Plan). Trade was the focal point of the EAI, with the ultimate goal of creating a Western Hemisphere FTA.\(^2\)

The EAI soon was overshadowed by ongoing negotiations of the NAFTA and the Uruguay Round, and subordinated to new initiatives involving the rapidly growing nations of the Asia Pacific Economic Cooperation (APEC) forum. The onset of annual Summit meetings of APEC leaders, starting in Seattle in November 1993, posed a sharp contrast to US relations with the LAC region. To its credit, the Clinton administration subsequently proposed a new Summit of the Americas to parallel the APEC process. The resulting meeting in Miami in December 1994 echoed the APEC commitment to free trade and investment in the region by 2010/2020 issued three weeks earlier with the mandate to negotiate a FTAA within a decade.\(^3\)

**What is the FTAA Really About?**

The FTAA was never meant to unite the economies of the Western Hemisphere; it merely sought to eliminate barriers to trade and investment among participating countries. To be sure, some officials projected a broader vision of the FTAA,

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\(^3\) For a comparative analysis of the APEC and Western Hemisphere trade initiatives, see Richard Feinberg, “Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA.” *Integration & Trade* 4, no. 10, Buenos Aires: INTAL (January-April 2000).
and sought to borrow elements of the European integration model for the FTAA process, particularly the use of regional aids to promote growth in less-developed countries. Small developing economies have called for special FTAA funds to transfer resources from North America to poorer parts of the LAC region akin to the regional development grants funded by the richer, northern European countries as inducements to get new members to join the European Community. Similarly, Mexican leaders also have sought increased NADBank financing for public infrastructure projects. None of these countries, however, buys into the political side of the European bargain—the ceding of sovereignty to supra-regional bodies—since in the Western Hemisphere context that would translate into US hegemony over the LAC region.  

For that reason, the FTAA always had a more traditional and discrete trade objective: to remove barriers to trade in goods and services between the countries of North and South America. It is not a surrogate or a channel for development aid; however, the trade and regulatory reforms implemented in response to FTAA provisions can and should be important components of national development strategies. Indeed, what distinguishes the US-LAC trade initiatives from many ventures between other developed and developing countries around the globe is the recognition of the developing countries that they need to adjust their domestic policies both to attract foreign investment and to promote competition in the home market. Without sustained economic reform—abetted by FTAs but primarily driven by domestic development imperatives—trade pacts will not generate the expected gains to trade and economic growth.

As mandated by Summit leaders, the FTAA is a self-contained negotiation among the 34 democratic countries in the hemisphere. As a practical matter, however, these countries already are moving toward free trade at different speeds with different countries in the region. There already are numerous FTAs linking countries in North and South America, FTAs or customs unions among LAC neighbors, and a variety of “partial scope” trade accords that grant sector specific benefits to bilateral trading partners. Except for the NAFTA, most of these accords involve small volumes of trade: for example, intra-Mercosur exports in 2003 totaled only $12.7 billion or 12 percent of global exports of the four countries (down from 25 percent in 1999). By contrast, intra-NAFTA exports were valued at about $609 billion in 2003, and accounted for 57 percent of total

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4 Postwar European integration has both political and economic dimensions. Countries have been willing to cede sovereignty to supra-regional authorities as part of the process of creating a more politically unified Europe. Part of the glue of the alliance was transfers mandated by the common agricultural policy. In addition, new entrants received regional aids to assist in the adjustment to the common European regime. This is obviously only a caricature of the process of European integration. However, it suffices to make the simple point that the European experience has had much broader economic and political goals than those sought in the FTAA.
exports of the three countries that year—and almost 80 percent of total trade between the Western Hemisphere countries.\(^5\)

The United States accounts for much of hemispheric trade and large shares of the total trade of the Central American and Andean countries. Moreover, much of that trade is or will be liberalized under existing and prospective FTAs. The United States already has implemented FTAs with Canada, Chile, and Mexico, has signed but not ratified pacts with the five Central American countries and the Dominican Republic; and is currently negotiating FTAs with Colombia, Ecuador, Panama, and Peru. What’s left is mainly US-Caricom and US-Mercosur trade.

Why then bother with a FTAA? The short answer is that an FTAA would yield both economic and foreign policy benefits. First, the FTAA would have beneficial effects on the conduct of overall economic policy in and economic relations among the participating countries. Second, the FTAA would link the major economies of North and South America, whose bilateral trade—as projected by gravity models—could expand two or three-fold in response to FTA-type reforms.\(^6\)

Many LAC countries already have open access to the US market for most merchandise products because of CBI and ATPA preferences, or because US MFN tariffs are zero or very low. Of course, there are a few notable exceptions, mostly involving agricultural goods; these products have been immune to deep MFN reforms and often are excluded from FTA or unilateral trade preferences. For many countries, the value of their bilateral FTAs and the FTAA is more secure access to the US market since these trade pacts turn their unilateral preferences into contractual obligations. By “locking in” open access to markets, free trade pacts help reduce uncertainty about the future course of trade and regulatory policies and thus facilitate business planning and investment. For many developing countries, this benefit is key to the success of their investment-led development strategies.

The FTAA initiative does cover one big gap in the free trade matrix of the Western Hemisphere. The largest countries of North and South America—which also are those with the lowest trade openness ratios—engage in free trade talks with each other only in the hemispheric context. Bilateral trade between the United States and Brazil is relatively small; two-way trade was $35 billion in 2004—by contrast, US-Mexico trade was valued at $266 billion.

Compared to their peak in 1997, US merchandise exports to Brazil in 2003 were 33 percent lower due to the economic crises in Brazil (and subsequently Argentina). By contrast, US imports from Brazil have continued to grow.

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markedly and were 86 percent higher in 2003 than in 1997. Bilateral trade in services also has grown rapidly; US services exports have more than doubled since 1992 and imports have almost tripled.

Gravity models indicate a large US-Brazil bilateral trade deficiency; in other words, the United States and Brazil trade less with each other than is expected given the magnitude of the two economies and the distance between them. If the United States and Brazil had access to each other’s market comparable to that existing in the NAFTA region (adjusted for market size, per capita income, and geography), US-Brazil trade could quickly double (or more). Of course, to achieve such results, the main barriers to bilateral trade would need to be liberalized.

In addition to trade gains, the United States has a sizeable investment stake in the Brazilian economy—and Brazil has an important interest in encouraging additional FDI from the United States and elsewhere. At yearend 2002, US holdings in Brazil were valued at $32 billion on a historical cost basis—though down from its peak of $39 billion in 2000. Part of this growth can be attributed to the participation of US firms in the privatization of Brazilian energy and telecommunications companies, but a significant share has been placed in manufacturing plants that serve both the large Brazilian market and other export markets. More than one third of US FDI in manufacturing in the LAC region is in Brazil.

The United States and Brazil will continue to co-chair the FTAA talks for their duration. An FTAA deal will not get done unless the two countries bridge their differences and offer concrete new opportunities for their exporters and investors in each other’s markets.

FTAA: Current Status

Bluntly put, the FTAA negotiations have been stuck in the mud since the Miami ministerial meeting of November 2003. At that time, soon after the failed WTO meeting in Cancun in September 2003 that had led to a breakdown in the Doha Round of multilateral trade negotiations, trade officials were under intense pressure “not to fail.” While the substantive differences between the major protagonists were perhaps greater on the FTAA negotiating table than in the WTO talks, the co-chairs of the FTAA process—the United States and Brazil—produced a procedural compromise that allowed them to shake hands and promise to resume negotiating in early 2004. Looked at another way, trade

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7 Compared to many US trading partners in the hemisphere, Brazil’s trade linkages with the United States are relatively modest. In 2003, Brazil’s leading trading partner was the European Union, which accounted for roughly one-quarter of total merchandise trade. Next came the United States, with almost 22 percent, the Mercosul countries with 9.4 percent (well down from pre-crisis levels in the late 1990s), and China with 5.5 percent (almost double its share from the previous year).
ministers put a governor on the carburetor of the FTAA engine so that talks could sputter but not totally stall out.

Declaration adopted a new two-track approach to the FTAA. Ministers agreed to continue talks in all the existing negotiating groups, but offered countries greater flexibility to opt out of making commitments in sensitive areas. In essence, ministers “affirmed their commitment to a comprehensive and balanced FTAA” (paragraph 5), which includes “provisions in each of the [FTAA] negotiating areas” (paragraph 10). However, they also agreed that countries could take specific issues or products off the table, and some “countries may assume different levels of commitments” (paragraph 7).

This diplomatic double-speak basically accommodated two levels of negotiation: a core FTAA in which countries could exclude sensitive issues, and supplementary accords by a subset of FTAA participants that covered “FTAA-plus” commitments—otherwise referred to as “plurilateral” agreements that only obligate those countries that sign the specific pact. Thus, if Brazil and others did not want to negotiate on investment and intellectual property issues, they could opt out of a hemispheric accord in those areas while the United States and others could adopt a more comprehensive accord among a subset of FTAA participants (probably the same countries that already have signed FTAs with the United States).

The value of the plurilateral approach is unclear, since there is little “additionality” if the pacts exclude important LAC countries like Brazil and basically replicate existing obligations in bilateral FTAs involving the United States. At best, plurilateral pacts would harmonize the terms of existing FTAs inter alia by augmenting Canadian obligations in NAFTA and unraveling politically sensitive compromises on FTA origin rules for textiles, clothing, and agricultural products. Such a result is highly unlikely. A more limited outcome would not seem sufficient to justify the political cost/risk of going back to Congress for another vote on these pacts.

The plurilateral option was introduced to accommodate the incremental development of an FTAA through a series of iterative negotiations. In so doing, however, it has made it more difficult to take the first step.

To many observers, mandate seemed to walk away from the comprehensive trade accord that hemispheric leaders promised at the Summit of the Americas in 1994, and had reiterated at their subsequent reunions in Santiago (1998) and Quebec City (2001). Some countries took mandate as license to try to remove entire areas from the talks—leading some observers to derisively label the potential outcome “FTAA-lite.” The Brazilians certainly thought that they had pared down the negotiating agenda to core issues that need not include subjects sensitive to them—particularly, investment and intellectual property rights (IPRs)—but such a result is not viable since the United States could not agree to liberalize its own border barriers to trade in the absence of reciprocal benefits for US traders and investors. If action on key trade and investment issues is deferred, will
US or Brazilian officials be able to garner political support to reform longstanding barriers protecting farmers, manufacturers, and service providers?

Simply put, the Miami Declaration complicates the task of crafting a balanced package of concessions that negotiators can sell to their respective legislatures. It took pressure off the Brazilian negotiators by giving them an excuse for their minimalist position on so-called WTO-plus issues—i.e., those that go beyond the scope of existing WTO rights and obligations. For Brazil, the Miami decision seemed to condone a FTAA that simply removed traditional border barriers and did not require commitments on new issues like investment and competition policy. At the same time, it allowed US officials to defend inaction on US farm barriers because of lack of reciprocity from their Brazilian counterparts. An “Alphonse and Gaston” routine, without the French diplomatic flair!

As a practical matter, the Miami mandate could produce a meaningful result, but it probably won’t. To succeed, the talks will have to produce concrete new opportunities for all countries, and particularly for the co-chairs in each other’s market. That means Brazil must negotiate, for example, on services, government procurement, and intellectual property issues, and that the United States must be willing to improve market access for a number of Brazilian agricultural and processed agricultural products.

To date, U.S. and Brazilian negotiators have been constrained by domestic political opposition to liberalization in areas of interest to the other:

- US officials are reluctant to discuss import-sensitive products like sugar (just ask the Australians!), and can’t address Brazilian concerns about domestic farm subsidies in the FTAA (since such problems require reform commitments from all significant producers in the world market)—and won’t be able to do so in the Doha Round until the Congress begins drafting the next US farm bill in 2006.

- Similarly, Brazil is reluctant to offer reforms in services, intellectual property rights, investment, and government procurement—not just because there is little on offer yet from the United States but, more importantly, because of domestic resistance to reform its own high border and regulatory barriers to trade.

As a result, FTAA talks have stalled. US policymakers have opted to move forward with bilateral FTAs with a number of Latin American and Caribbean countries, challenging Brazil and its Mercosur partners to catch up when they are ready to proceed in the FTAA. In essence, US officials have opted for a “surround Brazil” negotiating strategy rather than an “engage Brazil” approach.

Brazil has adopted a similar trade strategy; it has signed bare-bones FTAs with most of its LAC neighbors; product specific deals with Mexico and China;
The FTAA: Current Status and Prospects

and is negotiating a free trade pact with the European Union. To date, the Brazilian strategy has scored political points in Latin America but made little progress in advancing Brazilian export interests in the major industrial markets.

The Miami mandate does not preclude the possibility of a comprehensive free trade accord among all 34 countries. Unless the co-chairs of the negotiations work more closely together, however, the likelihood is that the ministerial directive will lead to a “hollow core” agreement that deserves the deleterious banner of “FTAA-lite.”

FTAA: What Should be Done?

In less than two years, US officials will lose their ability to invoke expedited legislative procedures to implement international trade agreements under the current trade promotion authority (TPA)—assuming Congress does not veto by June 30, 2005 the President’s request to invoke the automatic two-year extension of TPA that is already provided in the legislation. It is highly unlikely that US officials would proceed with the FTAA in the absence of TPA or a similar congressional mandate to liberalize sensitive US trade barriers. Negotiators thus need to resume work quickly.

Some countries may believe that the time constraints on the FTAA negotiations put them in a good tactical position—since if time is short, then the FTAA package will perforce include only those issues on which agreement is relatively simple. It is entirely conceivable that the negotiations will end with a whimper—producing a framework for future efforts at substantive reforms. While such a result may appease diplomatic objectives, it would fail to promote new trade and investment opportunities. So what should be done?

First, political leaders need to reiterate their objective of achieving free trade in the hemisphere; all FTAA participants except Venezuela have done so in past summits and should recommit to finish talks by the first quarter of 2007. President Bush recently voiced his determination to follow through with the Summit of the Americas commitment at the NAFTA leaders meeting in Waco, Texas; President Lula da Silva and other Latin American leaders should do so as well. This political commitment should be embodied in the declaration of the next Summit of the Americas in Argentina in November 2005.

Second, trade ministers need to update the Miami mandate to reflect recent events, including the progress on agriculture and other issues in the Doha Round of WTO negotiations. The long-delayed ministerial meeting to be hosted by Brazil should be convened by mid-2005 to revive talks in all the negotiating groups, including agriculture. The WTO framework agreed on August 1, 2004 in Geneva includes a firm commitment to eliminate agricultural export subsidies and to substantially reduce domestic support and border barriers to trade in farm products. Many of the objectives of the hemispheric pact in this sector will thus be implemented on an MFN basis once the Doha Round accords are ratified.
FTAA negotiators can thus focus almost exclusively on market access problems involving specific products traded between Western Hemisphere countries.

What could be achieved? The essence of an FTAA accord should be improved market access for goods and services. Contrary to some comments from LAC officials, however, such a deal would have to include both liberalization of trade barriers and rulemaking reforms in areas such as services, investment, government procurement, and intellectual property rights. Indeed, improving access in services often requires domestic regulatory reforms and liberalization of investment restrictions. That said, the following gives an outline of what would be needed to put together a comprehensive package of market access reforms that would balance the needs of rich and poor countries alike.

Eliminating all industrial tariffs is likely to be the basis of an FTAA deal, with some balance struck between US farm trade reforms and enhanced access to Latin American procurement and services markets. The United States originally proposed in the Doha Round eliminating all industrial tariffs within 10 years; it should be able to do so on a faster timetable for its LAC partners. On the other hand, smaller and poorer economies—particularly those that rely on trade taxes for a large share of their current government revenues—should be afforded longer transition periods to implement the free trade obligations. However, those countries should not be granted exemptions from the FTAA disciplines, since such “charity” could deter needed adjustments in the domestic economy and discourage new investment in those countries.

On agriculture, tariffs should be phased out over a 10-year period with only limited exceptions, and reforms of non-tariff barriers should yield concrete market access benefits for other sensitive products (even if some protection is left intact in the form of tariff-rate quotas). Trade problems related to domestic subsidies cannot be resolved in the context of a regional agreement but could be substantially reduced in reforms likely to be accepted in the Doha Round.

Does this mean that the United States has to offer more quota for Brazilian sugar? Perhaps, but probably not. Such a concession would elicit a loud outcry—not just in the US Congress but also among other sugar-exporting nations in the region—against reforms that would threaten the viability of the existing US sugar program and thus their sugar quota rents. The US sugar lobby already succeeded in exempting sugar reforms from an FTA with another competitive producer, Australia, and is lobbying to extend that precedent to new FTAs and to restructure other FTAs currently subject to Congressional review (e.g., the Central American FTA). While reform of the US sugar program would yield significant welfare gains for the US economy as a whole, including lower prices for US consumers, the politics of moving toward freer trade in sugar would be extremely difficult (as demonstrated in the FTA talks with Australia). At the same time, there is little appetite in Latin America for major liberalization of US sugar protection, since it would expose them to strong competition from Brazil and Australia and likely result in fewer sales and lower prices in the US
market. The situation is not quite analogous to the Chinese dominance in textiles after the expiry of quotas under the Multi-Fibre Arrangement, but many countries in Latin America would lose market share in a more competitive sugar market in the United States.

At the end of the day, I suspect that Brazil will probably not demand much on sugar in deference to its foreign policy interests with its neighbors. This rosy conclusion requires, however, that some Brazilian processed agricultural export interests (e.g., ethanol) receive some concrete benefits from the deal—which will not be easy for US officials and will require a substantial quid pro quo in terms of services/IP reforms by Brazil.

Regarding procurement, FTAA negotiators should be able to agree on principles that provide transparency for public tenders and guidelines for open tendering. Over time, such rules should be complemented by a commitment to negotiate a list of entities whose purchases would be covered by these new obligations.

Regarding services, the preferred outcome would be agreement on a “negative list” that covers all services subject to FTAA obligations except those explicitly listed, but the more likely outcome will simply augment WTO commitments on a sector-by-sector basis, with particular emphasis on infrastructure services and e-commerce. US negotiators need to take home commitments for substantial new trading opportunities in services, because the support of the US services lobby is crucial for Congressional support of an FTAA package that includes controversial changes in US farm support and protection. Note, however, that services reforms also are critical to the economic development strategies of LAC countries. Inefficient financial and telecommunications sectors impose higher transactions costs on domestic industries and impede economic growth.

In sum, the key to success in the FTAA is agreement on a big package of market access reforms, including agriculture and other goods and services. That means both liberalization of existing tariffs and quotas plus reform of regulatory and administrative practices that effectively impede the ability to sell in foreign markets (including discriminatory standards and customs procedures, sector-specific investment reforms, and import relief policies—particularly safeguards). The United States and Brazil must lead the way to a comprehensive package of trade reforms, or the FTAA will join a long line of failed integration initiatives in the hemisphere.
Strategic Hemispheric Objectives for the Next Decade from a European Perspective

Karl Buck∗

Introduction: The European Union in the World

The United States is the only military superpower in the world today, due to its huge budget for defence spending, 750 bases in the world, and its technological advantage. The United States has enormous power and influence, but not unlimited: military power is indispensable in certain situations, but does not solve political or social problems. The United States is also very strong economically, but not nearly so dominant. The European Union (EU) has a similar GDP, is an equal trading power. Also, East Asia holds 70 percent of foreign currency reserves. In addition, the United States has ballooning deficits.

In his afterword to “American power and the crisis of legitimacy,” Robert Kagan comes to the conclusion that: “Europe is too weak to be an essential ally, and it is too secure to be a potential victim.” There is much truth in this quote, just like in the following one, again from Kagan: “Europe matters because Europe and the United States remain the heart of the liberal, democratic world. The liberal, democratic essence of the United States makes it difficult, if not impossible for the Americans to ignore the fears, concerns, interests and demands of its fellow liberal democracies.” The EU may not be a global power, but it is a global player, a power in the world. True, the EU continues to punch below its weight in the United Nations and the international financial institutions. The EU provides 37 percent of the UN's regular budget and around 50 percent of all UN member states' contributions to UN funds, programs and agencies. Its impact is not commensurate with this level of contribution.

With 25 member states, the Union will comprise 15 percent of the membership of the United Nations. It is uniquely placed to formulate, agree and carry forward joint positions in the United Nations and the Bretton Woods institutions. EU-25 is potentially a world player, an actor ready to share in the responsibility for global security.

∗ This paper was originally presented at the U.S. Army War College Conference, Miami, March 17-19, 2004. While this article is very largely based on official EU policies and language, the overall responsibility for the text is of the author, and the opinions expressed in it do not necessarily reflect those of the Council of the European Union.
On the economic level, the EU is already a global player with its population of 450 million, its GDP equal to 25 percent of the world. The EU is the leading trading power, the first global donor of official development aid (ODA), with 26 billion USD in 2001 compared to the US 11.4, as well as of humanitarian aid (47 percent of global assistance vs. US36 percent). In this context, it is noteworthy that unlike some other donors, the European Union does not see ODA as a means of securing short-term foreign policy objectives. Note also that unlike US aid, EU "aid" refers only to development assistance and does not include military or private international assistance.

In Latin America, the EU is the first or second trading partner for all countries. From 1990 till 2002, EU imports from Latin America increased from 26.7 to 53.7 billion Euros, and exports to Latin America rose from 17.1 to 57.5. With the obvious exception of Mexico, the EU is the first investor, particularly in nontraditional sectors, thus allowing for considerable added value in the countries. After a peak in 2000, European FDI diminished; however, the total stock grew from 176.5 billion to 206.1 billion Euros. The EU is by far the most important donor of civil aid, more than the United States and Japan together (about 60 percent). Since 1996, the EC budget alone (i.e. without individual donations from the 15 member states) has totalled more than 500 million per year. Latin America receives three times more EU aid per capita than other developing areas in the world. To quote the recently adopted European Security Strategy -ESS:- Trade and development policies can be powerful tools for promoting reform. The EU and the member states are well placed to pursue both goals, trade and aid.

The EU is also a powerful political actor, although it still has some way to go, even more so as concerns military capacities. I shall therefore concentrate more on non-military policies. To put it simple: the EU certainly has far more carrot than stick capacities - but not just because of lack of the latter. It is also a matter of approach. And there is an intrinsic value in being a non-military power. Take as an example the EU's role together with some Latin American partners in putting an end to civil wars in Central America and in the post-conflict area. In our relations with Latin America – including with more "difficult " partners – whenever possible, we prefer dialogue, persuasion, cooperation, yet we are not naïve: dialogue does not always settle problems in this complex world. But, I dare a pun: rather than denouncing an "axis of evil", we try to get “access to evil” to change things. Where the United States sees a dangerous world, many in the EU, until recently, saw a complex world. But it is also true that a large part of the EU population was somewhat unclear if it really wanted a multipolar world or one led by the United States, with the EU in a privileged position.
The New Situation in Latin America

Democracy has become the normal way of installing governments and doing politics. Latin America has made enormous efforts in opening its economies to the world. They have the right to expect now that globalisation is not a zero-sum game. Latin American countries strongly assert themselves politically as a region striving for an active, independent role including as a global actor and the EU supported this from the start. Let me stress in this context the coordination between the EU and Latin American countries on a number of matters of common interest in international fora, in particular the UN system; they are becoming more and more regular exercises to sound out common ground.

There are, however, persistent shortcomings which obviously start having an impact on the security situation: continued grave social inequality and exclusion, suboptimal economic interrelatedness; regional integration processes seem more advanced in Presidential declarations than on the ground.

The European Security Strategy (ESS): The Voice of the European Union on Security Matters

We sometimes forget that our ambition to build a common foreign and security policy is still in the early stage. We began this task only in 1993, with the entry into force of the Maastricht Treaty. Being a relative newcomer on the global scene, drawbacks were regrettable, but not altogether unexpected. They did not prove that a common foreign policy is impossible, they showed how badly we needed one! The European Security Strategy is a direct response to that conclusion. We did our homework, and we have achieved a lot in a short time. In the security field, we have "someone whom you can phone when you want to talk to Europe", the High Representative Javier Solana. We have created new structures, including our Institute for Strategic Studies, and developed new capabilities. We have deployed those capabilities in the field, in the Western Balkans and in Africa. We have moved from a phase of theory to a phase of practice. The ESS is the result of a remarkable convergence of views on security issues between EU member states, coming from various historical backgrounds and with a vast array of government coalitions and public opinions on military matters. An authentic and distinctive European voice in security issues has been confirmed.

The old “set” of dangers in the world has been enlarged; not only are we confronted with failed or failing states, but new dangers are found in the combinations of threats: terrorism capitalising on the persistence of regional conflicts; criminal organisations acquiring weapons of mass destruction, whether through theft or collaboration with States, or through collapse of State structures; collusion between fundamentalists, cyber-terrorists and international criminal organisations. Distant threats have the potential to gravely affect Europe's
security. There are no more borders – neither for threats and crises, nor for solidarity and the shared will to create an other world.

The geo-strategic scene has been transformed. The process we describe as "globalisation" has facilitated the easy movement of people, goods and ideas, but also of grievances, criminality and weapons. I strongly recommend reading the report of the ILO Commission on the Social Dimension of Globalisation, recently published. The Union has not stood impassive as the world around it changes. The imminent enlargement of the Union is itself a response to the contemporary challenges, reinforcing political stability and economic security on our own continent. One of the core elements of the international system is the transatlantic relationship. This is not only in our bilateral interest but strengthens the international community as a whole.

What are the major elements of the ESS?

1. **Responsibility**: as the EU grows, we have a duty to assume our responsibilities for security – to our own citizens, to our neighbours and, more widely, for global security. We could, in theory, walk away from these responsibilities – but we could not escape the consequences of doing so. The recent horrible attacks in Spain showed EU countries are now part of the terrorist battlefield.

2. **Neighbourhood**: I would not go into it here, but for an enlarged EU, countries such as Georgia are neither remote nor distant.

3. **Effective multilateralism**: it is not enough to say we support multilateralism. We must be prepared to make it work. Making it work means extending the scope of international law. It means reforming and strengthening multilateral institutions. Kissinger’s recommendation is right, but not only for the US policy: “The dominant trend in American foreign policy must be to transform power into consensus, so that the international order is based on agreement rather than reluctant acquiescence.”

You are aware that the EU is strongly in favour of promoting rule-based order through international law. Effective multilateralism requires a strong commitment to upholding, developing and implementing international law. It has an indispensable role to play in fostering good governance and domestic rule of law, thereby making an important contribution to prevent state failure; it helps to address the inter-related problems of conflict, poverty, underdevelopment and the absence of human security. Where international order is based on agreed rules, we must be prepared to ensure the respect of these rules when they are broken.

In this context, a functioning International Criminal Court is also essential for the EU, which strongly encourages Latin American and Caribbean partners to join us in ensuring the principles of universality and integrity of the Rome Statute. Like many of them, we see no convincing reason in bilateral non-surrender agreements on the basis of Art.98. I note with much interest General Hill’s remarks on counterproductive effects of the U.S. legislation against those countries who do not “comply.”
In the light of recurrent financial crises in Latin America, the reform discussion within the International Financial Institutions should be strongly supported in view of increasing their universal legitimacy and effectiveness. We should consider ways to enhance the voice and effective participation of developing and transition countries, for example by rebalancing voting powers. To quote the Commission on Social Dimension of Globalization: "There is a serious democratic deficit at the heart of the system." Others would say, a need to reform it. Let me add in this context, that the EU is also examining Latin American and Caribbean proposals for international funds supporting democracy or alleviating poverty.

4. Effective multilateralism also implies fostering closer regional co-operation. Action, coherence and capability will be vital, but will not be enough unless Europe strengthens relations with its strategic partners. Threats are never more dangerous than when the international community is divided. For this reason in particular, the transatlantic link between Europe, the United States and Canada is irreplaceable. For forty years we were partners for reasons of geopolitical necessity. Today we are partners of choice. As such, we must choose to work together to address our shared responsibilities, since none of us, however powerful, can deal with all the problems alone. Better co-operation is the key to effective multilateralism, and is our best weapon against the threats we jointly face. Regional organisations also strengthen global governance, e.g., ASEAN and MERCOSUR can make an important contribution to a more orderly world. We encourage and cooperate with them to do so.

5. ESS has a comprehensive approach to security; one that pays as much attention to the causes of threats as to their consequences. Globalisation brings more freedom and wealth, but millions have been excluded from its benefits. Globalisation's potential to generate new frustrations must be addressed. To quote again the Commission on Social Dimension of Globalization: "We seek a process of globalization with a strong social dimension based on universally shared values, and respect for human rights and individual dignity; one that is fair, inclusive, democratically governed and provides opportunities and tangible benefits for all countries and people."

Poverty is not the only source of conflict, nor is it a justification for conflict. Indeed, social research shows that it is rather frustrated expectations that cause rebellion. But poverty and deprivation are breeding grounds for discontent and anger. A world that is fairer is also a world that is more secure. Security is a precondition for development. Democracies do make the world safer. Conflict not only destroys infrastructure, including social infrastructure; it also encourages criminality, deters investment and makes normal economic activity impossible.

6. A final theme is prevention, a particularly difficult task, but essential. Today's threats are dynamic ones. Left alone, they will become more dangerous. In the case of Haiti, there was agreement that this should no longer be allowed to happen - but reactions from the region show how difficult this is not only on a
military level, but also because of political sensitivities. I mentioned earlier that the European Union is already operative in peacekeeping and police missions, in particular in the Balkans and Africa. In Haiti we are in the process of reactivating possibly hundreds of million Euros, some of which had been frozen because of persistent violations of human and civil rights in the recent past. In Latin America, the EU’s assistance covers conflict prevention projects notably in the Andean region.

The EU has an early warning mechanism, a regularly updated watchlist of countries. There is general agreement in the EU institutions and member states that using all policy areas and achieving the appropriate policy mix is key to increasing the Union's impact in international affairs.

Looking ahead: The EU’s 2010 Headline Goal actually under discussion, has the objective that in 2010, the European Union should be able to respond with rapid and decisive action in the whole spectrum of crisis management operations covered by the Treaty of the European Union. This would include humanitarian and rescue tasks, peace-keeping, combat forces including in crisis management, joint disarmament operations, support for third countries in combating terrorism, and security sector reform. The European Union must be able to act before a crisis occurs, and retain the ability to conduct several operations simultaneously.

Security Progress in Latin America

Reading the outcome of the recent OAS Special Conference on Security in Mexico in October, 2003 shows that our analyses and objectives are very similar. Differences lay mainly in capacities, instruments or some priorities. At the EU level, there are few contacts with Latin America on security, and mostly in the past. (But even US SOUTH COM Chief General Hill complained he had to operate with a mere 0.22 percent of the defense budget). However, some of our member states are known to have such contacts, to offer advise, help, support and intelligence in certain countries, e.g. in Colombia. A dialogue on confidence-building measures, agreed between EU and RIO Group Ministers in 1994, had a promising start, but was put to rest after few high-level seminars.

We strongly appreciate the commitments of all Latin American countries, such as the Tlatelolco Treaty, making it a denuclearized region. The EU has given support to the implementation of the Compromiso de Lima (17 June 2002) and the Andean Charter for peace and security and the limitation and control of the expenditure on foreign defence. The United Nations Center for peace, disarmament and development in Latin America and the Caribbean, in Lima, deserves our support.

Regular conferences of defense ministers of the Americas can be important contributions to regional security. Regional confidence-building measures in recent years did substantially improve relations and security in the hemisphere, in
addition to growing yet insufficient economic interrelatedness. Just recall some years ago, during a border conflict between Argentina and Chile, energy transfer continued over the Andes just as normal business. This is the kind of concrete implementation of the spirit of joint security perception.

The EU has actively participated in the meeting of the UN Department of Political Affairs on Governance of Security sector in Latin America, in early 2003, and will continue to do so; in this context, the EU Council Presidency established first contacts with OAS in late 2003. The EU welcomes and financially supports subregional initiatives, such as control and reduction of small arms. This is an important, concrete contribution to security - after all, there are more daily victims in Latin America by small arms than, as it were, by atomic weapons. What is needed, is that such initiatives in Latin America are effectively implemented. There are some worrying signs of recent resurgence of some ghosts of the race towards armament – this would be the wrong answer to the wrong kind of today's threat perception.

I shall now discuss more in detail, and with examples for certain countries, some aspects of how the EU is dealing with the political, economic and social causes of security problems.

**Fight Against Terrorism**

Long before becoming itself a victim of large-scale terrorist acts, the EU has underlined, with words and actions, its solidarity in the fight against terrorism. Following 9/11, the EU regularly assesses risks of terrorism, including in Latin America and the Caribbean. In recent agreements with third countries, Political Dialogue and/or cooperation on terrorism is foreseen. In addition, the EU decided that as an essential clause, non-proliferation of Weapons of Mass Destruction shall be inserted in future agreements, or added to existing ones. The EU's clearing house has a list of what the EU considers terrorist groups. We also have good cooperation with the United States. In the light of the terrorist attacks in Spain, as well as of internal reports - made public - on insufficient use of existing instruments, the EU has taken more concrete steps end of March.

The EU is strongly convinced that the fight against terrorism cannot be waged at the expense of established, basic, shared values such as respect for human rights and the rule of law. Not doing so, risks to prolong or create new conflicts. This is, for example, the essence of the EU's message to Colombia, which was renewed in the EU Council's conclusions on Colombia in January 2004, just before President Uribe's visit to Europe. The EU strongly supports President Uribe's efforts for political, economic and social reforms, to develop a fully functioning democratic state throughout the territory of Colombia, consistent with the rule of law, respect for human rights and international humanitarian law, and the welfare and safety of the citizens of Colombia. The EU also fully supports his fight against terrorism, illegal drugs and related crimes, and his search
for a negotiated solution to the internal armed conflict. The EU reiterates its willingness to assist a peaceful solution, within the framework of a comprehensive peace strategy the Government should work out. The EU has actively cooperated at the 10 July London conference of international support for Colombia. In 2003 alone, the EU's non-military contributions amounted to some 300 million Euros, the figures for 1998-2002 are 556 million Euros - which makes us the leading ODA donor.

On the other hand, the EU recommended to modify the ley alternativa, which some wrongly call the law on impunity, and is not at ease with the passing of judicial powers to security forces. We consider that the recommendations of the London Conference as well as those of the UNHCHR deserve better than being rather selectively followed. There is international concern that the paramilitaries are just trying to buy their way out politically. Any large-scale amnesty, in particular if covering serious crimes, would be a very bad signal not only to the FARC and ELN. The EU asks Colombia to also respect the rights of victims, not because we are bleeding-heart softies, manipulated by NGO's, as some seem to see it, but for reasons of sustainability of the peace process and of the rule of law. Let's be concrete: otherwise, according to reports of the International Crisis Group, paramilitary leaders would be on the way to become a new political and economic elite: according to the International Crisis Group, in addition to land-stealing by extortion and forced emigration, landbuying has become a most effective way of drug money-laundering. In fertile areas, 40 percent of the best land were acquired this way.

Various EU countries are part of the Group of Friends. The EU strongly supports international good services and efforts, notably by the UNSG and the Catholic Church, to maintain contacts for a peaceful solution with the illegal armed groups. We cannot but regret that actually there is little, or even negative and provocative response mainly from the FARC. As concerns the ELN, contacts are also difficult – it seems to have lost interest or confidence in Cuba's mediating role.

A final word on the listing of terrorist groups. Unlike the FARC and AU, the ELN was not on the EU’s list, until the EU Council decided so on April 4 2004. This certainly looked inconsistent, but was due to historic circumstances, and linked to hopes for humanitarian solutions. We are all in a dilemma: while listing such groups is well founded on moral or political grounds and well received by the public, political and humanitarian contacts are nearly impossible if they are listed.

**Drugs**

Drugs are not only a continuous threat to life and health, but also to democracy and even regional security because of the close links between drug cartels and terrorist groups, “narcoterrorism.” These links exist not only in Latin America.
The European Union is committed to the fight against drugs on the basis of principles of co-responsibility, it favors positive, i.e. non-repressive action in producing countries, a global and balanced approach tackling both demand and supply. The EU tries to tackle the problem with various instruments and at multiple levels: political or expert dialogue, trade, cooperation.

The Mechanism for Co-ordination and Cooperation on Drug-related Matters between the EU, Latin America and the Caribbean, an initiative that originated at the meeting of the European Council in Madrid in December 1995, is the framework for dialogue to deal with the drug problem and related crimes in an effective and consensual way. At the first EU-LAC Summit 1999 in Rio, both sides adopted an action plan. The Mechanism's 5th high-level meeting was held in Cartagena/Colombia on 29-30 May 2003. Over seventy projects or activities are under way in this context. Special attention is given to four priority areas: demand reduction, money laundering, alternative development and maritime cooperation, and to control of precursor chemical diversion, criminal networks and exchange of information and experiences on new illicit drug trends, in particular synthetic drugs.

Together with Latin America, we undertake joint efforts to dismantle the components of the world drug problem as an important contribution to the fight against terrorism. Some Latin American and Caribbean countries develop relations with Europol and with Eurojust. Recently, an agreement was signed between Europol and Colombia. In addition, the EU has a specialised dialogue and cooperation with the Andean Community: Alternative development projects are ongoing in Colombia, Bolivia and Peru, a monitoring centre was supported in Venezuela. An important project on precursors control is run in the Andean area.

The EU is more than the United States centred on “soft eradication,” linked with fostering alternative production. Drug cooperation projects with Latin America and the Caribbean total some 120 Meuros. Our Peace Laboratories in Colombia are not just a societal utopia, but a concrete way of alternative living. To avoid negative impact for these by US fumigation measures, we established a functioning dialogue at Bogota. For many years the EU has granted a Special anti-drug Generalized System of Preferences to the Andean and Central American countries. This means in reality, that 70-90 percent of Andean exports already enter the EU tax free.

Dialogue, trade and aid aspects are also essential components in recent agreements with Latin America. We have concluded and put into practice “Association Agreements,” which include Free Trade Areas, with Mexico and Chile, negotiations with Mercosur are under way and should be concluded this year. Central America and the Andean ask for similar agreements. In the light of its own experience, we also strongly support regional integration, which not only reinforces a region's impact on the international playing field, but is also a strong expression of confidence, mutual understanding, shared objectives, and more and more important in the fight against the mobile drug producers.
Recent analyses tend to confirm the EU’s approach to drugs: According to the Andes 2020 study of the Council on Foreign Relations, the U.S. Plan Colombia risks to fail in the long haul, with drug production merely shifting to other countries, notably Bolivia. John Heimann, former Comptroller of the U.S. Treasury and one of the report’s authors, stressed that security issues, drugs, corruption, poor land distribution, income inequalities and other problems need to be tackled multilaterally; addressing these issues on a country-by-country basis is doomed to failure. Lieutenant General Daniel Christman (retired), senior Vice President for International Relations of the U.S. Chamber of Commerce, said the current plan did little to prevent replanting and affected poor farmers more than rich drug cartels. We share the view of Peter Hakim, President of the Inter-American Dialogue: Destroying the livelihood of coca growers without providing alternatives is likely to be self-defeating and undermining the governments’ capacity and credibility – including ours!

Before moving to other subjects, let me stress again our common interest in combating drugs everywhere. According to DEA Chief Karen Tandy, U.S. drug users supply the international drug trade with 65 billion per year; the Madrid attacks were financed by hashish trade - in this situation, for our own security, we all must focus ever more on demand.

Economic development, social cohesion, democratisation and regional integration are priorities which most thoughtful policy makers in Latin America see as inextricably linked, mutually dependent and have an impact on security. There is a certain amount that the EU can do, and does, to help. But since the focus is on causes, not symptoms, it is absolutely clear, and only right, to acknowledge that real change is in the hands of Latin American governments’ countries themselves.

**Good Governance and Development**

The Joint Council and Commission Statement of November 2000 on EC development policy identified institutional capacity-building in the area of good governance as one of the six priority areas for EC development policy. Council conclusions on governance and development in September 2003 further operationalised this approach. The ESS states the following:

> The quality of international society depends on the quality of the governments that are its foundation. The best protection for our security is a world of well-governed democratic states. Spreading good governance, supporting social and political reform, dealing with corruption and abuse of power, establishing the rule of law and protecting human rights are the best means of strengthening the international order.

In all its agreements, the EU negotiated as an essential clause (in terms of the Vienna Convention, i.e. allowing to suspend the agreement in case) that the
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 respect of the principles of democracy and Human Rights underpin the internal and external policies of the parties. It is worth highlighting that this clause originated from requests of Chile and Argentina in the early 1990s, to protect themselves against any return to dictatorship. We are glad we did not have to apply it.

Meanwhile, we added a clause on Good Governance. Similar, more elaborate clauses figure in the Cotonou agreement with ACP, and were in the past applied i.e. on Haiti. Our agreements also include a clause on corruption, certainly a worldwide problem all societies have: but the effects of corruption are worse the poorer a country is. Nobody, and in particular not a democratically elected President should not be allowed to get away with hundreds of millions stolen from his people or received from drug trafficking. Through such clauses, the EU is aiming at a worldwide community, a global public opinion supporting democracy, human rights and good governance.

In recent EU-US consultations on Latin America in Washington, ASS Noriega stressed that Latin American governments, with income from trade, FDI and remittances have considerable means to pass through to their people, and that countries with good governance, like Chile, demonstrably show better performance – we cannot but agree!

In this context, we note an evolution which could have worrying effects on regional security, particularly but not only in the Andean area and Central America. Old elites and their parties lost confidence, and new, so far excluded segments of society came to power. This is in its own way a welcome proof of democracy, but highlights old and new problems which must be adressed urgently. Old elites are out of power, but still have structures links and experience. New elites are in power, but lack efficient underlying structures and organisations. There are some risks of undemocratic challenge for power and frustration. True, there is some impact of effects of globalisation to which Latin American elites made important advance steps by opening up economies. But not all can be blamed on Globalisation. The EU tries to support good governance through the instruments I already mentioned:

- policy dialogue for defining priority areas on governance-related matters on the basis of each partner country's priorities.

- development assistance including projects, sector programs, budget support and trade agreements. Budget support can be given where appropriate, for example to Bolivia, one of the main beneficiaries of EU ODA in Latin America: since 1976, this country received over 500 Meuros from the European Community alone (i.e. not counting aid by our individual member states). In recent years, Bolivia got an average 300 Meuros from EC and bilateral aid from member states.
- The Country Strategy Paper for 2002-06 foresees 126 million more; the EU also contributes to the actual budget deficit crisis.

- The "Country and Regional Strategy Papers" give the countries/regions concerned a clear view of what they can expect for a number of years, and for which priorities. Some of these have recently been reoriented towards good governance and institution-building. These Papers are subject to mid-term reviews, and jointly established with sovereign partners who keep "ownership" of their national development strategies.

Bolivia also benefitted from the HIPC Initiative: since 1998, it received 1.8 billion USD in debt relief. Phil Chicola of the State Department stressed that the country, so rich in gas and more, does have considerable resources - it must use them and quickly decide so. To give a further example: as concerns Peru, at a donors' conference held in October 2001 in Madrid, the EU pledged around 600 Million Euros in support of the Government's Social Emergency Programme "A Trabajar".

Let me end this chapter with a reference to migration - often an outcome of insufficient development and chances. The EU and Latin America and the Caribbean have started a dialogue on this problem, a very real one: in Spain alone there are said to be nearly half a million of Ecuadorians. Spain has started to legalise many foreigners at a rhythm of up to 1,000 a day.

**Equality, Social Cohesion**

Social exclusion and inequality are time bombs. I don't want to sound sanctimonious or paternalistic: fighting inequality and securing cohesive societies are overriding priorities not only for Latin America but for the EU as well. For all our rhetoric about European social policy, visible and unacceptable inequalities also remain within European societies. Some 15 percent of EU inhabitants (56 million people) in 1999 were at risk of living in poverty and over half of those (33 million) suffered from a persistent risk of poverty. It takes me a 10 minutes walk from my house to enter Brussels' Third World; true, it does look different from favelas or callampas.

But the problems of social cohesion are ever more acute in the Latin American continent. On a scale of 0 to 100, where 100 represents total inequality, Latin America sits at 53.9, much higher than the world's average (38), and even higher than Africa! The World Bank estimates that the richest 10 percent of the population of Latin America earn 48 percent of total income, while the poorest tenth earn only 1.6 percent. And as the Inter American Development Bank has pointed out, if income in Latin America were distributed just as it is in the countries of South East Asia, poverty in the region today would be only a fifth of what it actually is. This is important not only on humanitarian grounds, but also as advise for practical, self-interested politics. Halving the population of poor
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people means doubling the size of the market; and strengthening the commitment of those who are currently marginalised by the democratic system. There is little dispute over the negative correlation between inequality and growth.

As a friendly observer, I believe Latin America can no longer put off social and fiscal measures that respond to the needs of a significant part of the population. In our cooperation programs, negotiated with beneficiaries, we respect a country's sovereignty - but this means in reverse, that how/if they want to develop is primarily their choice and responsibility. International solidarity can be decisive, but not a substitute. The cynic definition of development aid of the 1960's “Taxing the poor in the rich countries to pay the rich in the poor countries” shall no longer apply.

The relation between sound economic performance and political stability is clear-cut, and works both ways. A worrying recent poll by the Latino Barometer indicated that 52 percent of the population in the continent felt that they could live under an authoritarian regime if it delivered better economic conditions for their daily lives. How to counter this? As former Brazilian president Henrique Cardoso said, governments should boost their effectiveness, and citizens must learn to demand their rights without violence. I couldn't agree more.

Cardoso raises the two important questions:

- First, effectiveness. It is not enough to set up democratic institutions; they must work. Electoral systems must function properly. Political parties must be truly representative. Government policies should reflect a genuine social contract, which includes not just the protection of individual rights but also social solidarity to support the most vulnerable. The independence of the judiciary must be guaranteed. There are sometimes situations difficult to assess and to react to, namely when a democratically elected President is obviously not respecting the rule of law. The German/British professor Lord Dahrendorf recently raised this dilemma - and concluded that, if a choice were to be made, rule of law should prevail.
- The second question is the civil, peaceful exercise of political and social rights. In democratic societies there should be no place for violence. Citizens must feel confident in legal and institutional channels to exercise their rights. Violence and social turmoil can be symptoms of a lack of an effective political system. The resulting instability further discourages investment and growth.

Regional Integration and the EU-LAC Bi-Regional Strategic Partnership

One way to tackle social cohesion can be regional integration. Economic integration will create a bigger market and attract more foreign investment, growing but fair competition, and greater negotiating clout. It is also important for stability
and conflict prevention. Closer co-operation can be a catalyst for democracy and improved human rights; regional integration is an expression of compatible, and even common objectives, giving priority to what unites us.

Regional integration reduces dependency and vulnerability, and offers protection against external shocks. Current trade between Latin American countries is weak and declining: according to the WTO, the percentage of intra-regional merchandise exports in Latin America fell by 10 percent in 2002; 7 percent in the Andean countries; and an alarming 33 percent in MERCOSUR. In 2002, intra-regional exports in Latin America amounted to only 15.4 percent of total exports (and a mere 6.6 percent in the case of Peru), compared with 40.3 percent in North America, 48.9 percent in Asia, and 67.3 percent in Western Europe. Unless this trend can be reversed, Latin American markets will continue to operate well below their potential. We probably need less Presidential conferences in Latin America and more seminars of experts on customs, trade nomenclature, single export forms etc. We need "efficient", not just legally valid decisions in integration, as Peru's MFA recently set out in his speech on Andean integration. To illustrate that individual Latin American countries have limited trading clout: Brazil is the number one trade partner for the European Union in Latin America, but globally only our trade partner number fourteen. The EU trades more with Vietnam than with Venezuela, more with Kazakhstan than with Colombia, more with Bangladesh than with Peru, more with Mauritius than with Ecuador, and more with Aruba than with Bolivia.

Let me add that in the European experience, economic integration without accompanying measures for social and regional solidarity risks to create centres and marginalised areas, winners and loosers. Integration should not simply follow a commercial logic. The EU is not the consequence of the market, but of political decisions.

The EU-Presidency in the first half of 2004 (Ireland) was an outstanding example of the impact of the combined effect of our solidarity instruments and sound national policies for development. From some 65 percent of the EU average GDP per capita at the moment of accession just 30 years ago, Ireland has skyrocketed to nearly 130 percent. The EU wants regional integration to be a win-win situation. It gives considerable advise and support to such processes in Latin America. However, sometimes we feel like the preacher in the desert.

Our bi-regional Strategic Partnership with Latin America and the Caribbean was created at the First EU-LAC Summit 1999 in Rio, strongly promoted by Spain and Portugal, but with the support by all 15 and through a very active German EU-Presidency. This Partnership, as well as our agreements with Latin American countries and regions, including our FTA's are not silent on internal disparities. Unlike NAFTA, they foresee manyfold cooperation sectors and instruments and aid over and above trade.
Our cooperation assistance ranges from projects on institutional support, customs harmonisation, technical norms and standards, statistical harmonisation, to the involvement of civil society.

Besides effective multilateralism, social cohesion is the major item on the agenda of the Third EU-LAC Summit, to be held end of May in Guadalajara. In collaboration with the World Bank, the Inter American Development Bank, the UNDP, ECLAC, and relevant experts, we drafted concrete proposals for policies fostering social cohesion for approval by our Heads of State Summit in Guadalajara, e.g. in areas like social and fiscal policy and regional and international co-operation. Before the Summit, the European Commission intends to launch an additional €30 million programme aimed at developing public administration networks, in particular in the sectors of justice, health, education and taxation.

Let me end with a quote from the ESS: Working with partners: There are few if any problems we can deal with on our own. The threats described above are common threats, shared with all our closest partners. International cooperation is a necessity. We need to pursue our objectives both through multilateral cooperation in international organisations and through partnerships with key actors.

The transatlantic relationship is irreplaceable. Acting together, the EU and the United States can be a formidable force for good in the world. Our aim should be an effective and balanced partnership with the United States. This is an additional reason for the European Union to further build up its capabilities and increase its coherence.
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