



# The Association Agreement between the European Union and Central America: a potential to be exploited

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## Abstract

The case of the Association Agreement (AA) signed in 2013 between the European Union (EU) and Central America is very relevant within the framework of EU-Latin America relations. It is the first bi-regional agreement and builds on the precedents of the San José Process in the framework of the Esquipulas Agreements, a success story of the EU's positive impact on international relations. This document analyses the development of the trade pillar and the difficulties in developing the political dialogue and cooperation pillars, which are pending ratification. The preliminary results of the agreement are positive, but of low intensity for the two regions. They have not lived up to expectations regarding the EU's impact in supporting Central American development and have not generated significant incentives to improve Central America's prominence among EU member states. Recovering the more informal but more dynamic mechanisms of political dialogue between the two regions prior to the agreement seems to be an indispensable condition for the agreement to develop its potential.

## Keywords

Association Agreement, Central America, European foreign policy, regionalism, trade agreement, political dialogue.

## Resumen

El caso del acuerdo de asociación (AA) firmado en 2013 entre la Unión Europea (UE) y Centroamérica es muy relevante en el marco de las relaciones entre la UE y América Latina. Es el primer acuerdo birregional y se apoya en los antecedentes del Proceso de San José en el marco de los Acuerdos de Esquipulas, un caso de éxito sobre el impacto positivo de la UE en las relaciones internacionales. Este documento analiza el desarrollo del pilar comercial y las dificultades para desarrollar los pilares del diálogo político y cooperación, pendientes de ratificación. Los resultados preliminares del acuerdo son positivos, pero de baja intensidad para las dos regiones. No han respondido a las expectativas sobre la incidencia de la UE para apoyar el desarrollo centroamericano y no han generado incentivos significativos para mejorar el protagonismo de Centroamérica entre los Estados miembros de la UE. Recuperar los mecanismos de diálogo político previos al acuerdo entre las dos regiones, más informales pero más dinámicos, parece condición indispensable para que el acuerdo desarrolle su potencial.

## Palabras clave

Acuerdo de Asociación, Centroamérica, política exterior europea, regionalismo, acuerdo comercial, diálogo político.

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## 1. Introduction

The relationship between the European Union (EU) and Central America has unique features in the external relations of both blocs of countries. The Association Agreement (AA) between them is the EU's most comprehensive interregional agreement, and comes on the back of an intense and deep historical relationship. Beyond the instruments used and their impact and influence, it is easy to affirm that the EU has maintained a permanent and complicit attention to the region and its interests. The relationship with Central America is a special case for the EU because it is an area that tests the capacity of foreign policy to simultaneously address the interests of EU Member States and the specific interests of a developing region.

With all the necessary precautions, the relationship between Central America and the EU reinforces Europe's aspiration to be a positive hegemon in some regions of the world. Or, focusing on the expression of European foreign policy objectives, we can recall the proposal of the 2016 Global and Security Strategy on “principled pragmatism for the EU to be both a geopolitical actor and a normative power, seeking to harmonize the values of strategic interests” (Sanahuja, 2021a: 105).

Latin America is a region of great relevance for the EU, not so much because of its prominence in European foreign policy as a whole—nor in quantitative terms in the EU budget—but because of the political nature of the dialogue that characterises relations between the two blocs.

The interregional nature of the relationship between the EU and Latin America is one of its main characteristics. The two regional blocs have chosen integration as a framework for responding to their historical and strategic problems, for the joint development of their member states and their insertion into global society. Articulation through regional integration processes is a main feature of the relationship between Latin America and the EU. The same is true for Central America, and the ties between the two integration processes, EU and SICA, are a determining factor. The Association Agreement between the EU and Central America (AAUECA) is important in this context because it is the first bi-regional agreement to integrate the elements of political dialogue, cooperation and trade.

Central America is a region of small and developing countries, with a geographic location that for centuries has made it a transit zone and a necessary passage for the development of continents and countries. The nature and history of the region is the foundation of its common identity, always present in the collective imagination and intellectual networks of the region.

Regional integration is a defining phenomenon of Central American identity. The regional dimension has been a constant in the two hundred years of independence that the region celebrated in 2021, from the various attempts at federations and unions in the 19th and early 20th centuries, to the consolidation of integration following the signing of ODECA in 1951, the General Treaty on Economic Integration (TGIE) in 1960, the Tegucigalpa Protocols to the ODECA Charter in 1991 and the Guatemala Protocol to the TGIE in 1993.

Regional integration, SICA, is the main emblematic recipient of the common elements of the region's identity, although these go beyond the process itself and extend to the region's culture to be present in all spheres of Central American society. For this reason, this document will primarily use the term Central America to refer to the six signatories of the AAUECA. The term SICA region will also be used to include Belize and the Dominican Republic, which, although members of the system, are not signatories to the Partnership Agreement because their relations with the EU are channelled within the framework of the recent Partnership Agreement between the EU and the members of the Organisation of African, Caribbean and Pacific Group of States (OASECP, formerly known as the ACP Group of States), which succeeds the Cotonou Agreement, following its signing on 15 April 2021.

The EU-SICA relationship implies, therefore, the articulation of a block of 27 developed countries with eight SICA countries, included in the block of medium human development countries, with the exception of Panama and Costa Rica, with very high human development indicators (57 and 62 in the 2020 ranking), and the Dominican Republic and Belize in the high human development group. The eight SICA countries are divided into upper-middle income countries (Guatemala, Costa Rica, Panama and the Dominican Republic) and lower-middle income countries (Belize, Honduras, El Salvador and Nicaragua).

The region seems to have run out of narrative after thirty years of Esquipulas (Sánchez Ancochea and Martí, 2014) and is in search of a new formulation of evolution. The years of the so-called Central American Common Market (CACM) in the 1960s and 1970s have a common and consolidated narrative in the region and beyond, which explains the foundations of economic integration, based on the import substitution model, with a sequence of historical events that distances the process from the political conflicts that the region was experiencing in those years. It presents the underlying modernisation strategy very well. The narrative has also incorporated, perhaps with some overemphasis, the negative effects of the process in its last phase. The passage of time since the 1980s seems to have tempered the critical vision of those years to offer a more even-handed view.

Central America also has a structured and much-repeated narrative around the Peace Agreements and the Esquipulas Process to explain the reactivation and restructuring of regional integration with the creation of SICA as an instrument of the regional strategy for peace, development and freedom enshrined in the agreements and protocols. But the common narrative gradually came to a halt after the symbolic interruption brought about by the proposal of the Free Trade Area of the Americas in 1994. Since then, affected by various moments and episodes —and within the framework of the predominance of open regionalism associated with the period of neoliberal predominance—, SICA and the region have had difficulties in offering a joint vision on integration, beyond their persistence in promoting it.

For the regional dimension of the common Central American identity, the EU is a key partner. Its accompaniment from the early years of the San José Process to the peace accords marked a close relationship between two regions that is probably the most solid and coherent in interregionalism, despite the relative importance of the Central American countries as a global actor. Since then and until now, the EU's closeness to Central America has been intense, multidimensional and constant, as its Association Agreement was initialled, and its development is based on its three pillars: trade, cooperation and political dialogue.

The EU is not only a major partner for Central America, but also a reference as a regional integration process. It has been frequently discussed (Söderbaum and De Lombaerde, 2013; Malamud, 2011) whether taking the EU as a reference has been a conceptual and methodological mistake for Latin American regionalism, and there seems to be some consensus that this has been the case. However, the history

of Central American integration has been quite parallel in time with that of Europe, from 1951 to date. The evolution of the two processes is radically different, but there is no doubt that SICA is indebted to the design of the process, its objectives and phases, and its institutional design.

The EU has also been, therefore, a fundamental reference in the narrative of the integration process. The parallels are also evident, especially now that Central America is seeking continuity for its story. The EU has developed a narrative that presents integration as the most effective instrument to avoid new conflicts in Europe after the world wars (Caldentey and Romero, 2010). In a post-war environment, it has been committed to economic pragmatism from the 1951 Coal and Steel Community Treaty (ECSC) to the 2009 Lisbon Treaty. Integration is presented as a model for articulating conflicting interests in order to generate a community with the capacity to adequately resolve its conflicts.

The pandemic crisis of 2020 and 2021 will become an extraordinary milestone for both regions, especially in the EU, where it has triggered major transformations. After overcoming the euro crisis with a not too optimistic balance sheet, despite the relevance of the unconventional monetary policy led by Mario Draghi's European Central Bank (ECB) and the modifications incorporated into the management of EMU fiscal affairs (close coordination rules such as the European Semester).

The EU's response to the pandemic has had a mobilising effect on the European project and represents an unexpected commitment to deepening integration after years of hesitation and in significant contrast to the reactions to the Great Recession and debt crises. In addition to the commitment to the deepening of the European project, there is the new development agenda that, both at national and regional level, Next Generation EU promotes on the basis of the Green Pact, the digitalisation of the economy and social cohesion, and also in a recovered strategic autonomy (Sanahuja, 2021b).

Together with the new agenda, the expansionary fiscal policies of the Member States, the continuity of the ECB's quantitative easing, the Next Generation EU program and the issuance of Eurobonds convey the image of a Union that this time is showing its capacity to react early and with the necessary intensity. The EU's joint and decisive reaction to the Russian invasion of Ukraine in February 2022 shows the effect of this new stage in European foreign policy.

On the other hand, the pandemic found Central America at a difficult moment that combined the end of the period inspired by the Esquipulas Agreements with a moment of transition of SICA, difficult to manage due to the coincidence of several complex and questioned national leaderships in a scenario of democratic regression and serious political tensions. However, while the overall response to the pandemic in Latin America has been primarily national in nature, and the actions promoted by the Pacific Alliance, Mercosur or CAN have been limited to little more than a few decisions on trade and biosecurity, SICA was able to offer a significant joint response based on its institutional architecture and some of its regional policy instruments, and its regional coordination and management mechanisms.

The confluence of milestones in 2021 also extends to relations between the EU and Central America. The Union, revitalised by its reaction to the pandemic, is working on the regional cooperation strategy with Central America for the period 2021-2027 and has carried out an *ex post* evaluation process of the trade agreement between the two regions.

The three pillars of the AA have developed unevenly. Undoubtedly, the difficulty of ratifying the pillars of political dialogue and cooperation reduce their impact. This is not the case for the trade pillar, which operates on a provisional basis because it can work with the mandate received by the Commission and the ratification of the six Central American signatories.

The 2021 environment offers the possibility for Central America and the EU to further develop the objectives and instruments of the three pillars of the agreement. The global scenario of post-pandemic recovery could connect the full development of this by connecting it to the challenges that both regions face together, such as the definition of a new global and bi-regional agenda. Or with its particular challenges, such as the definition of a specific agenda for Central America in the coming decades, which implies a relaunching of integration based on its effectiveness in multiplying the capacity of the governments and policies of its member countries.

The main hypothesis of this paper is that the Association Agreement between the EU and Central America is a promising instrument by its nature and the expectations it generates, but that it is still far from developing its potential in the bi-regional relationship.

To this end, this paper analyses the background of the relationship between the EU and Central American countries prior to the signing of the Association Agreement in 2013. It then reviews the recent milestones and circumstances of the Central American integration process, and the EU's participation and contribution in the development of some of its debates, instruments and policies. The following is a summary of the negotiation process of the AA and the circumstances of its signing and implementation, in order to systematize the expectations generated in each of the parties regarding its development and objectives.

Finally, the paper assesses the relevance of the AA for the bi-regional relationship and in particular for the Central American integration system and its member countries, pointing out some recommendations for the 2021-2027 period in which the AA could play a very important role.

## **2. The background of the relationship between the EU and Central America. The San José Dialogue**

The relationship between the EU and Central America dates back to the so-called San José Dialogue, whose first milestone took place in San José, Costa Rica, on 28 September 1984, in the context of the political instability and economic problems of Central America in the 1980s. That moment marked the beginning of the EU's commitment to the problems of Central America, a commitment that it is fair to say it has not abandoned or reduced since that date, 36 years ago.

From 1984 to 2005, 21 ministerial conferences of the foreign ministers of the countries of both regions were held. In the first stage of the process, the presence of Mexico, Colombia and Venezuela as members of the Contadora Group is particularly important. They do not cease to participate in all dialogues, but their presence loses weight after the peace accords, since 1994, when they are no longer mentioned in the formal denomination of the meeting but as cooperating partners.

The San José Dialogue was a pioneering instrument in Euro-Latin American relations, of great relevance because its annual periodicity gave it an uncommon depth for a space for political dialogue. The frequency of the meetings allowed their content to cover all areas of the bi-regional relationship and a notable impact of the EU on all issues on the agenda of pacification, recovery of democracy and economic development in Central America. It is no exaggeration to say that the San Jose Dialogue made the EU a major player in Central America's external relations, even ahead of the United States. It also gave special significance to bi-regional relations within the framework of international relations.

The contents of the XXI Ministerial Conferences were very broad; they regularly covered all the critical elements of the bi-regional agenda, especially the Central American agenda, and created a vast space

for cooperation, which is a fundamental antecedent of the AA and its three pillars. Within the framework of the San José Dialogue process, a first Interregional Cooperation Framework Agreement was signed, formalising the relationship between the two regions. It was signed in Luxembourg in November 1985 and remained in force until February 1993 when, in El Salvador, a new Framework Cooperation Agreement was signed between the EC and the Central American countries.

A third Political Dialogue and Cooperation Agreement between the EU and its member states and Central American countries was signed in December 2003. It should be noted that although Belize had been a member of SICA since 2002, it did not become part of the agreement due to its simultaneous membership in CARICOM. The three aforementioned agreements shared the problem of slow ratification, especially by EU Member States. The 1993 agreement did not enter into force until 1999, and the 2003 agreement did not enter into force until 2004, with the AA already signed. Something similar has happened to the AA's pillars of dialogue, policy and cooperation. For practical purposes, the impact of this significant delay is not serious, but symbolically and formally it conveys a sense of instability that does not correspond to the will expressed by the parties.

In all these agreements, two of the pillars of the current AA, political dialogue and cooperation, already stand out, although progressively more trade-related references are being incorporated into the agreements, such as Central American participation in the generalised system of preferences. The agreements generate joint commission meetings of the agreement, which are also a valuable source of information for analysing the evolution of EU-Central America relations.

Hurricane Mitch and its devastating effects on several countries in the region were reflected in the ministerial conferences that reflect some of the actions taken in response to the natural disaster. The three Consultative Groups in Stockholm (1998), Washington (1999) and Madrid (2001) distracted from the San José Dialogue and probably marked its end, although the conferences were extended for a few more years.

Following the San José Dialogue, the mechanism of the EU-Latin America and the Caribbean Summits, which channel a significant part of the bi-regional dialogue, has also emerged in the bi-regional relationship. The first summit took place in Rio de Janeiro (Brazil) in 1999, the second in Madrid (Spain) in 2002, and the third in Guadalajara (Mexico) in 2002, the fourth in Guadalajara (Mexico) in 2004 and the fifth in Vienna (Austria) in 2006. The fifth took place from 13 to 17 May 2008 at Lima (Peru) and the sixth was held in Madrid (Spain) in May 2010.

Some specific characteristics of these summits gave them a special value. Their nature as high-level summits, their biannual periodicity, the mechanisms for civil society participation in them, or the processes and documents for following up on the agreements, are some of them. So is the creation of the EU-LAC Foundation with the objective of analysing relations and becoming an eventual instrument for preparing summits and agreements. As highlighted by Félix Peña, three axes articulated the relationship between the EU and Latin America and the Caribbean to ensure the development of a relationship based on common foundations on society or relations between countries: to have a bi-regional dialogue oriented to concrete action, based on a common bi-regional agenda and supported by a fabric of bi-regional agreements capable of capturing all the interests of both regions (Peña, 2008).

The mechanism changed when the Latin American and Caribbean countries launched the Community of Latin American and Caribbean States (CELAC) in December 2011, which became the EU's regional interlocutor. The following summits are now called EU-CELAC Summits. The first took place in Santiago de Chile in 2013 and the second was held in Brussels in 2015; the latter has been the last one held

to date. The lack of vigour of CELAC after the crises of post-liberal regionalism is a risk element for the bi-regional relationship because it affects the mechanisms of interlocution.

The Europe-Latin America summits resulted in the Association Agreement between Central America and the EU. The Guadalajara Summit in 2004 initiated the evaluation process for a future partnership between the EU and Central America (also between the EU and the Andean Community). The IV Summit in Vienna in 2006 officially launched the negotiations. These lasted three years because, although they began in October 2007, they had to be interrupted by the Honduran coup d'état against the Zelaya government in 2009. After its resumption in February 2010, the agreement was terminated in May 2010, coinciding with the VI Europe-Latin America Summit held in Madrid. It was signed on 29 June 2012, within the framework of the 39th Summit of Heads of State and Government of SICA, held in Tegucigalpa.

The negotiation involved nine general rounds and seven extraordinary meetings at the commercial level. For the Central American countries, the exercise was a major effort because they had to attend—with rather small ministerial structures and limited resources—the nine rounds of EU-CA negotiations, with intermediate Central American rounds of negotiations between the member countries and a broad consultation process with productive sectors and organisations representing civil society. The incentive to reach the agreement mobilised the two parties to complete a broad and complex negotiation, without major disagreements on the more specific contents and some more discussion on the preconditions for the negotiation (region by region) and the subsequent incorporation of Panama.

### **3. Development challenges in Central America**

#### ***3.1. Central America's challenges in the wake of the Great Recession and pandemic***

As noted in the introduction, the region is facing a moment marked by serious problems with a complex response. Several issues stand out among the most important problems facing Central American countries (ETEA Foundation, 2020). First, the risk of democratic regression in the face of the risks associated with the political scenario in several countries in the region. The attacks on democracy and the separation of powers, the weakness of electoral processes, the lack of impartiality in the justice system, the unexpected threat to basic human rights, the corruption of elites or their extractive nature, or the penetration of organised crime are recent manifestations of these risks and setbacks.

Second, the persistence of poverty and inequality in a development model that tends to generate inequity and exclusion. In addition to the worsening of social vulnerabilities, there are environmental vulnerabilities, both due to the lack of government assistance and protection for at-risk groups and to the region's geographical position, which is susceptible to the natural phenomena that frequently affect the region. Prevention and mitigation tools are insufficient, and climate change regularly threatens to devastate the family and collective future plans of the Central American population. In addition, the pressure of violence and organised crime—which is taking root in the region and disrupting the daily lives of large sectors of the population—prevents the most vulnerable sectors of the population from developing their lives normally.

Third, in the economic sphere, the coexistence of highly productive sectors with a large majority of low productivity and low value-added sectors generates a pattern of low income and high concentration of benefits, in an economic system that is capable of generating the jobs required by a large young population. The international insertion of the region's economies continues to respond to a model that favours a low value-added insertion in the GVCs and the global economy.



Fourth, the State faces this scenario with significant limitations in terms of capacity and efficiency, which compromises the quality and extension of services and basic needs. Despite the progress made in recent decades, the reform and strengthening of the State continue to be urgent issues on the development agenda. The fiscal crisis is an extraordinarily important dimension in this debate, and is characterised by low tax burdens and insufficient public spending to guarantee services and rights or to correct inequality. The lack of transparency in the face of the threat of corruption or a growing public debt are elements that contribute to instability.

And, finally, the persistence of particular interests versus the general interest, captured by economic elites with negative influence on the design and implementation of public policies and levels of taxation, or on the promotion of a more inclusive development (Sánchez Ancochea and Martí, 2014). Despite this complex scenario, some opportunities are also present in the region to build an effective development model to face the challenges mentioned above (ETEA Foundation, 2020). It is in the face of these opportunities that the bi-regional relationship and the AA could have a positive impact.

One of the most obvious and at the same time complex trends is the transformation of the globalisation paradigm. From the era of exponential growth of global trade in the early 1990s, we have moved on to a kind of *slowbalisation*, a retreat from globalisation that encourages policy decisions aimed at a model of greater industrial and national autonomy in order to limit the disaggregation of production processes and long-distance value chains, with processes of relocation and renationalisation of some links in the GVCs.

The new development agenda that the pandemic has awakened is also an opportunity for Central American countries and for the bi-regional relationship. The Green Pact or digitalisation can be a focus of international cooperation that can also become an engine of change, productivity and inclusion in Central America (Sanahuja, 2021b).

The global outlook also offers us a recomposition of geopolitical balances and relations between the major powers. The external relations of the countries of the region depend on how the United States, the EU, China and Mexico position themselves in these balances. Relations with South America, the Caribbean and Southeast Asia will also depend on them.

It also seems that multilateralism is recovering, under the principle of *building back better* after the pandemic, and can once again offer collective and global solutions that respond, with the incentive of recovering from the pandemic, to the fight against inequality, the climate crisis, or the probable sovereign debt crisis, as well as to the new risks associated with biosecurity and others that require more international cooperation.

In this context, new options for regionalism could open up, not only as a spur to international cooperation, but also because protectionist impulses can only be confronted by small economies in expanded regional spaces that allow them access to greater economies of scale. This context makes it necessary to rethink the objectives, tools and thematic priorities of regionalism and interregionalism.

### ***3.2. Is regional integration still a favorable framework for promoting regional development in Central America?***

The question arises as to how Central American integration can help its member countries at this global crossroads. As is well known, Central American integration renewed its foundations and agreements between 1990 and 1995, following the Esquipulas Agreements, replacing the framework of ODECA and CACM to form the multidimensional scheme of SICA. The appearance in 1994 of the United Sta-

tes' hemispheric free trade proposal, the FTAA, put the brakes on the enthusiasm for integration and caused a change of direction in the strategy of governments, which turned their interests to the U.S. proposal.

The process regained momentum after the turning point of Hurricane Mitch. The three consultative groups for the reconstruction, transformation and modernisation of Central America brought together the region and its international cooperation partners, making it possible to recover integration as a framework and instrument for development under the conviction that the region's structural vulnerabilities could not be addressed through national approaches. Around the year 2000 and until the end of the decade, a period of recovery of the regional approach to development and, therefore, of SICA's institutional and political instruments began.

Central America took advantage of the momentum, and the years 2002 to 2008 were marked by the reforms promoted by the *ad hoc* Commission for institutional reform and their happy coincidence with important cooperation programs in support of institutional reform (EU programs and the Spain-SICA Fund of Spanish cooperation) forged in the momentum of the aforementioned consultative groups and by the design of a framework of regional agendas of priorities and objectives. The approval in 2005 of the Fisheries and Aquaculture Integration Policy 2005-2015 marks the beginning of a cycle of construction of regional policy instruments. Subsequently, it would also be this policy that would mark the beginning of a second round with its 2015-2025 proposal.

In the midst of the recovery of the leading role of integration and the regional agenda as instruments for development, the difficulty of dealing with a multiple crisis arose. In 2008, the international economic crisis erupted with its negative effects on the region's sources of financing (remittances, exports and maquilas). This was compounded by the political crisis in Honduras with its confusing coup attempt against Zelaya in 2009. SICA was also greatly affected by the tensions between Costa Rica and Nicaragua over the Río San Juan case in 2010. These three problems were compounded by the explosion of the security crisis that has progressively and relentlessly turned Central America into one of the most violent regions in the world, which has led to episodes of massive immigration (child migrants, caravans, etc.) that mark the relationship with the United States.

Despite all this, the multidimensional crisis did not slow the growth of integration. Two processes allowed the region, in spite of these crises, to have a clearly positive decade for SICA from 2002 to 2012. The first was the International Security Strategy Support Conference. The second is known as the relaunching of Central American integration, promoted by the governments of El Salvador and Guatemala following the extraordinary summit held on 20 July 2010 in El Salvador.

The 2011 International Security Strategy Support Conference generated enormous expectation among Central American countries. But after its first commitments and results, it may have led to some frustration in the countries because the funds have been heavily focused on prevention and institutional strengthening and not so much on combating organised crime, which the countries perceive as more urgent. Also because, in practice, member countries have not seen confirmed the main expectation of the conference, which was to see their capacities directly increased with additional resources for their institutions. Most of the funds approved are managed by international cooperation and by the SICA General Secretariat with other regional or multilateral institutions.

The effect of the process of relaunching integration should be viewed positively because it has resulted in a more orderly agenda based on its five priorities: democratic security, economic integration, social integration, climate change, risk management and institutional strengthening. Its effect on the orga-

nisation of the agenda has been very positive and has detailed joint objectives, but it has not been able to make major contributions in terms of effectiveness and execution of regional instruments.

SICA's expansionary cycle changed after 2012, and subsequent years were marked until 2017 by a certain paralysing inertia —without excessive results— that broke the system's expansionary dynamic, which was then more focused on the search for strategic positions by member countries. Through, for example, the regulations for appointing authorities in the institutions of the system, which not only do not seem to have renewed the interest of the countries in integration nor have had a positive impact on the quality of the management of the institutions, but have also led to the deadlock in the renewal of the General Secretariat of SICA.

The years immediately following the first decade of the century (2013-2016) were marked by frustration resulting from the ineffectiveness of most of these policies, manifesting itself in government and international cooperation fatigue. The paradigm of open regionalism fulfilled its functions, but it also confirmed the false promises about its capacity to solve the region's structural problems beyond international insertion. Both Central American and external stakeholders seem to agree that the current development model needs to be revised. The national leadership of these years does not allow us to be optimistic. The region is now engaged in crisis contingency planning and reconstruction plans.

The appointment in 2017 as secretary general of SICA of the former president of Guatemala, Vinicio Cerezo, one of the protagonists of the Peace Accords, opened the way for the necessary renewal of the integration process and its purposes.

Central American integration seems to have a scheme of sectoral policy instruments. The set of regional policy instruments is very valuable, despite their excessive number and the irrelevance of some of them. Several have been the result of a valuable formulation exercise with the participation of extra-regional partners and some very interesting consultation processes. Its results are, however, limited in terms of efficacy. This set of regional policy instruments provides a wealth of common diagnoses, joint problem definition and joint initiatives to solve them. Some of them have been able to attract a broad collaboration of internal and external partners, as well as funding to meet some of their objectives. There is a germ of intersectoriality in the set of instruments that can be very valuable for the system.

However, the institutions and member countries of SICA have already identified that the resulting agenda poses serious problems of heterogeneity, implementation and compatibility of efforts. Various presidential and ministerial mandates, based on this type of diagnosis, call for a prioritisation exercise in the current strategic agenda<sup>1</sup>.

SICA was about to attempt a review of its regional agenda under the impetus of its General Secretariat. Within the framework of the bicentennial of independence and the anniversaries mentioned in the introduction, the Secretary General, Vinicio Cerezo, promoted the Esquipulas III Agenda, taking up the experience of the agreements in which he played a leading role. The proposal was walking between the relevance of defining a new 2021-2030 agenda and the natural misgivings of the member countries, when the COVID-19 crisis broke out.

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<sup>1</sup> In particular, based on the mandate of the 2016 Roatan Presidential Declaration and that of the May 2017 Council of Foreign Ministers, a proposed Strategic Agenda was discussed in the meetings leading up to the XLIX Meeting of Presidents in June 2017. The mandate of this meeting underscored the interest in their demand for a functional transformation of the system.

Also related to the need to define a new agenda was the proposal promoted by Mexican President López Obrador of the Integral Development Plan (PDI from its acronym in Spanish) for El Salvador, Guatemala, Honduras and the south-southeast of Mexico, focused on attacking the structural causes of irregular migration with a development and integration perspective. This proposal, drafted with the support of ECLAC, had the confusing interest of the Trump administration, and generated extraordinary attention from international cooperation. It seems to have lost strength after the pandemic.

However, based on the political tension caused in the United States by Central American migrations and the caravan episodes that have occurred since 2019, the region has a new proposal, the Biden Plan, promoted by Vice President Harris, which could generate very significant U.S. investment to foster opportunities to prosper without emigrating. It is an offer of great interest for the region (limited to the so-called Northern Triangle), but it is worth taking some precautions in case its implementation does not meet expectations, as happened with President Obama's 2014 Prosperity Partnership.

The General Secretariat of SICA, for its part, launched the Charter on the Future of Central America in October 2020, outlining the axes of a development agenda with a regional approach for Central America. Its impact has been moderate in the midst of the pandemic, but it is one more input for this pending task. Integration seems today, however, to be focused on responding to the mandate of presidents and ministers to develop post-pandemic recovery plans, following the experience of the contingency plan in response to the first manifestations of the pandemic.

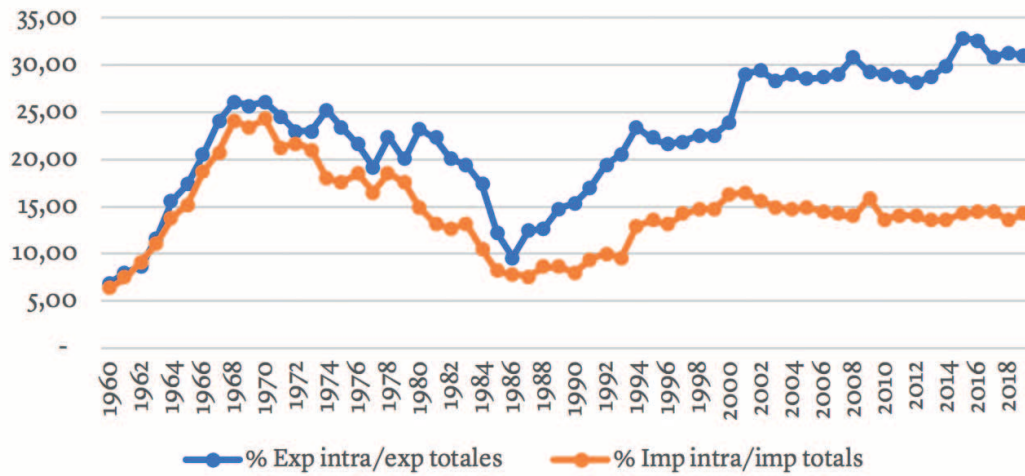
### ***3.3. Progress towards the Central American Customs Union, the backdrop for the trade agreement***

The dynamism seems to be more concentrated in the economic dimension of Central American integration, which is so relevant for the AA and is a priority for the EU. Since the signing of the Guatemala Protocol to the TGIE in 1993, three periods of Central American economic integration can be distinguished:

1. The decade 1993-2003, characterised especially by the development of the Guatemala Protocol and especially by the progress made in the establishment of the Customs Union.
2. The decade 2003-2013, characterised especially by the negotiation and signing of North-South trade agreements with the United States and the EU.
3. The years 2013-2020, characterised especially by trade facilitation agreements and by the strengthening of coordination within the economic subsystem.

Since the entry into force of the protocol, the trend in the share of intra-regional trade has been steadily increasing in relation to extra-regional trade. Graph 1 illustrates how intra-regional exports are growing compared to total exports. After the conflicts of the 1980s, the intra-regional share of exports has surpassed the intra-regional trade figures achieved by the CACM and seems to be consolidating at around 30-35%. The evolution of intra-regional imports is also significant at a lower level. The share seems to have stabilized at around 15% and shows no tendency to improve, which constitutes a challenge for the future of Central American integration.

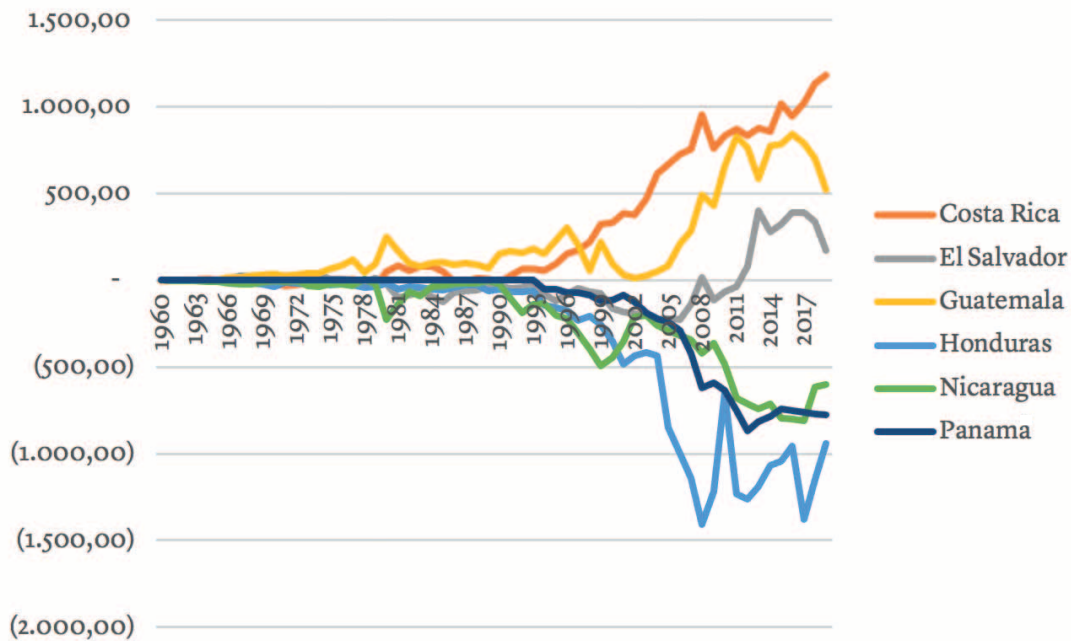
**GRAPH 1. Intraregional exports and imports as a percentage of total exports and imports of Central America (in percent, 1960-2019)**



Source: SIECA (2020).

Intraregional trade balance data (Graph 2) are also very significant in illustrating the dynamics of integration and development in Central America. The scale of the graph minimises the period prior to the 1990s. The graph confirms the trade surplus regularly experienced by Costa Rica, El Salvador and Guatemala, in that order, and the traditional trade deficits of Nicaragua and Honduras. Also from Panama, although the main reason in this case would be the country's limited level of trade with its partners.

**GRAPH 2. Trade balance, intraregional market (US\$ millions, 1960-2019)**



Source: Prepared by the authors based on data from CEIE (2020).

It is worth noting some particularly relevant milestones in the development of economic integration that mark its evolution after 1993 (Caldentey, 2021):

- a) Free Trade Agreement between the United States and Central America and the Dominican Republic (DR-CAFTA), negotiated in 2003, signed in 2004 and ratified in 2005 in each of the signatory countries to enter into force on different dates for each country starting in 2006.
- b) Framework Agreement for the Customs Union, approved by COMIECO in Guatemala on 12 December 2007, which approves that the Customs Union will be established gradually and progressively, and its establishment will be the result of the development of three stages: i) promotion of the free circulation of goods and trade facilitation, ii) modernisation and regulatory convergence, and iii) institutional development. The definition of these three stages is marked as a framework for defining objectives in many of the subsequent documents and milestones in economic integration.
- c) Panama joined the Central American economic subsystem in July 2010 and signed the Protocol of incorporation of Panama into the SICA economic integration subsystem in July 2012.
- d) Signing of the Association Agreement between Central America and the EU on 29 June 2012 in the framework of the XXXIX Meeting of Presidents of SICA. The agreement provisionally entered into force in its Part IV, relating to trade, for the EU, Nicaragua, Honduras and Panama as of August 1, 2013, and for El Salvador and Costa Rica as of 1 October 2013. The rest of the agreement is in the process of ratification.
- e) Approval in 2015 of the Central American Strategy for Trade Facilitation and Competitiveness with Emphasis on Coordinated Border Management which is approved by COMIECO in its agreement No. 01-2015 (COMIECO LXXIII) and which instructs the members of the Technical Group on Trade Facilitation to finalize implementation plans, in accordance with the strategy and policies of the Central American governments.
- f) Roadmap to advance the Customs Union 2015-2024, commissioned by the XLIV. Meeting of Heads of State and Government of SICA member countries (Declaration of Placencia, Belize, December 2014) and received by the same body at its XLV meeting in June 2015, and which contains the activities to be developed to achieve the Customs Union, in the three stages established in the Framework Agreement for the Customs Union.
- g) Signing of the General Framework of the Work for the Establishment of the Customs Union between the Republic of Guatemala and the Republic of Honduras, by the presidents of both countries on 26 February 2015. This general framework points out the route to follow for the constitution of the Customs Union between both countries and gives rise to the so-called deep integration process between them. Following the general framework, the presidents and foreign ministers of both States signed on 10 April 2015 the Enabling Protocol for the process of deep integration towards the free transit of goods and natural persons between the republics of Guatemala and Honduras. In June 2017, the deep integration agreement enters into force. And in July 2018, El Salvador joined the process after signing and ratifying the Protocol of Accession of El Salvador to the Enabling Protocol for Deep Integration between Guatemala and Honduras.

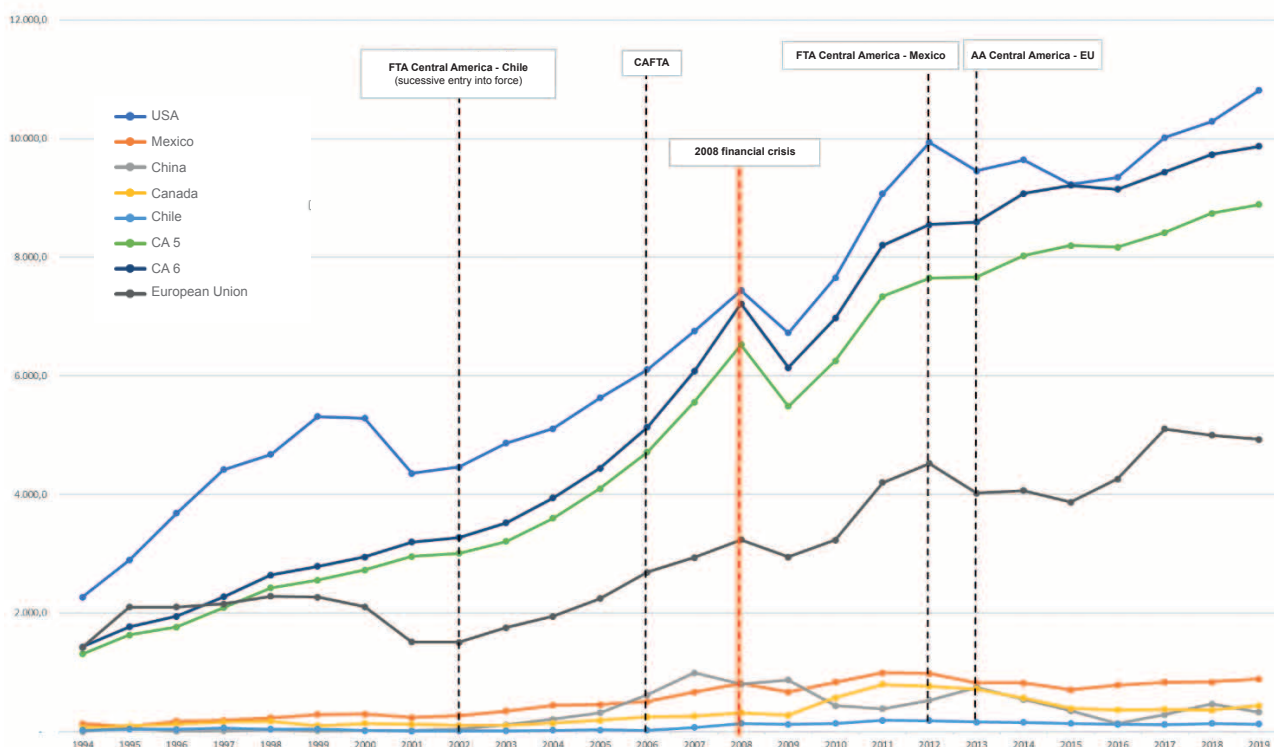
This set of milestones, especially those developed after the signing of the AA, has facilitated a special dynamism in economic integration that is manifested in the rapprochement of development partners and international organisations to join forces in their support. The private sector also seems to be aban-

doing its misgivings or traditional disinterest in a market that is tending to grow. In subsequent sections, we will assess the extent to which the trade pillar of the AA can be said to be part of these factors that explain the consolidation of economic integration.

Graph 3 shows the evolution of Central American exports according to their markets of origin since the Guatemala Protocol came into force (1994-2019). The chart includes information on agreements signed with some of the region's partners, including the EU. It is not possible to draw any firm conclusions about the relationship between the signing of an agreement and the evolution of trade with the partner. Although they all seem to indicate an improvement in exchanges, they do not introduce a turning point or change with respect to previous exchanges. It could then be stated that the main impact of the agreements is, in general, that they consolidate trade relations with partners, avoiding *shocks* of any kind (including political) and competition from other markets.

Graph 3 provides a ranking of Central America's foreign trade origin and destination markets. The United States is the region's leading partner, but the Central American market is gaining ground, particularly as an export destination. It is not easy to make predictions at this point in time, but it would not be impossible for the region itself to become its best market in the coming years. Data for CA 6, which includes Panama, has been added. The comparison in both CA 5 and CA 6 graphs encourages one to think about the potential benefits of greater trade interaction between Panama and its Central American economic integration partners. China data are not yet relevant in these periods, and that may be an issue going forward. After the United States and the regional market itself, the EU is the third largest market for companies in the region.

**GRAPH 3. Central American exports by destination market (US\$ millions, 1994-2019)**



Central American economic integration is therefore entering the third decade of the 21st century with a consolidated regional market that aspires to compete with the U.S. market as the main destination for exports and origin of imports from its partner countries, with very significant progress in trade facilitation and integrated border management, and with an intersectoral framework of regional policy instruments that also has the support of external partners with the capacity to support them technically or financially.

These trends reinforce a positive perception of the evolution of the process among its protagonists and observers. However, economic integration is currently facing challenges in its development, such as the need to advance with the same intensity in the stages of modernisation and regulatory convergence and institutional development to complete the establishment of the Customs Union; the importance of working to take advantage of the trade agreements signed in the past; the need to promote the full incorporation of Panama into the dynamics of the Customs Union; and the desirability of defining more precisely the inter-sectoral regional policy instruments that contribute, together with other elements, to promote a competitive productive structure of the Customs Union; or the advisability of defining more precisely cross-sectoral regional policy instruments that contribute, together with the other elements, to promoting a competitive and inclusive productive structure that can offer development alternatives to Central American countries and adapt adequately to the future scenarios that the region will face. How can the relationship with the EU be a catalyst for these changes?

## **4. Pillars of the Association Agreement between Central America and the EU**

The AA is a fundamental milestone in Central American regional integration and bi-regional relations. On the one hand, it reinforces the traditional close relationship between the EU and Central America and, on the other, it extends relations between the two regions to the trade pillar, with a North-South agreement that succeeds the one signed only a few years earlier with the United States.

### ***4.1. Contents and objectives of the partnership agreement***

The AA is structured in three pillars: the classic pillars of the agreements derived from the San José Dialogue, political dialogue and cooperation, and the new trade pillar. The general objectives of the agreement are as follows:

- Strengthen and consolidate relations between the parties through a partnership based on three interdependent and fundamental pillars.
- To develop a privileged political cooperation based on shared values, principles and objectives, in particular respect for and promotion of democracy and human rights, sustainable development, good governance and the rule of law.
- Intensify bi-regional cooperation in all areas of common interest.
- Expand and diversify the parties' bi-regional trade relationship in accordance with the World Trade Organization (WTO) agreement and this agreement and the present agreement.
- Strengthen and deepen regional integration in areas of common interest.
- Strengthen good neighbourly relations and the principle of peaceful resolution of differences.
- Maintain and develop the level of good governance, as well as social, labor and environmental standards.
- Encourage increased trade and investment between the parties.



**TABLE 1. Structure of the general content of the Association Agreement between the EU and Central America**

Description	Articles
Preamble	
PART I. GENERAL AND INSTITUTIONAL PROVISIONS	1-11
Title I. Nature and scope of the agreement	1-3
Title II. Institutional infrastructure	4-11
PART II. POLITICAL DIALOGUE	12-23
PART III. COOPERATION	24-76
Title I. Democracy, human rights and good governance	29-33
Title II. Justice, freedom and security	34-40
Title III. Social development and social cohesion	41-48
Title IV. Migration	49
Title V. Environment, natural disasters and climate change	50-51
Title VI. Economic and trade development	52-71
Title VII. Regional integration	72-73
Title VIII. Culture and audiovisual cooperation	74
Title IX. Knowledge of the company	75-76
PART IV. COMMERCE	77- 351
Title I. Initial Provisions	77-79
Title II. Trade in goods	80-158
Title III. Establishment, trade in services and e-commerce	159-203
Title IV. Current payment and capital movements	204-208
Title V. Public Procurement	209-227
Title VI. Intellectual Property	228-276
Title VII. Trade and competition	277-283
Title VIII. Trade and sustainable development	284-302
Title IX. Regional economic integration	303-307
Title X. Dispute Resolution	308-328
Title XI. Mediation mechanism for non-tariff measures	329-337
Title XII. Transparency and administrative procedures	338-344
Title XIII. Specific trade-related tasks of the bodies established under this agreement	345-348
Title XIV. Exceptions	349-351
PART V. GENERAL AND FINAL PROVISIONS	352-363
List of annexes, appendices, protocols and declarations	

In terms of political dialogue, the agreement aims to:

- Establish privileged political cooperation.
- Defend common values, principles and objectives by promoting them at the international level, specifically at the United Nations.
- Strengthen the United Nations as the core of the multilateral system, to enable it to address global challenges effectively.
- Allow for a broad exchange of opinions, positions and information leading to joint initiatives at the international level.
- Cooperate in the field of foreign and security policy, with the objective of coordinating positions and adopting joint initiatives of mutual interest in the corresponding international forums.

It will also cover other aspects of mutual interest such as disarmament, the fight against terrorism, migration, the environment, weapons of mass destruction and citizen security.

In terms of cooperation, the main objectives are as follows:

- Strengthen peace and security.
- Strengthen democratic institutions, good governance and the full application of the rule of law, gender equality, all forms of non-discrimination, cultural diversity, pluralism, promotion and respect for human rights, fundamental freedoms, transparency and citizen participation.
- Contribute to social cohesion.
- Promote economic growth with a view to fostering sustainable development.
- Deepen the regional integration process in Central America.
- Strengthen production and management capabilities and increase competitiveness.

In terms of trade, the main objectives of the agreement include:

- The expansion and diversification of merchandise trade.
- The facilitation of trade in goods.
- Liberalisation of trade in services, in accordance with Article V of the General Agreement on Trade in Services (GATS).
- The promotion of regional economic integration in the area of customs procedures, technical regulations, and sanitary and phytosanitary measures.
- The development of a climate conducive to increased investment.
- The effective, reciprocal and gradual opening of public procurement markets.
- Adequate and effective protection of intellectual property rights.
- The promotion of free and undistorted competition in economic and commercial relations.
- The establishment of an effective, fair and predictable mechanism for dispute resolution.
- The promotion of international trade and investment between the parties.

To this end, the commercial pillar adopts the following measures:

- It provides substantially improved market access for European exports to Central America by eliminating tariffs on manufactured goods, fisheries and agriculture; analysing barriers to trade in goods; and improving market access for contracts, services and public investment.
- It establishes a framework of equality through common rules in areas such as intellectual property and geographical indications, competition and state aid, and dispute settlement.

- It strengthens regional integration by introducing measures such as a single administrative document for customs declarations and a single import duty for the region.
- It establishes an agreement for sustainable development designed to pursue economic development through trade, address the interrelationship between trade and social and environmental policies, and encourage and promote trade and marketing schemes based on sustainability criteria.

The trade part of the agreement has been provisionally applied since 2013 (1 August 2013 with Honduras, Nicaragua and Panama; 1 October 2013 with Costa Rica and El Salvador; and 1 December 2013 with Guatemala). The same does not apply to the political dialogue and cooperation pillars which, as mentioned below, are pending ratification by EU member countries.

The agreement creates several bodies. The Association Council is the highest level; it is made up of ministers and heads of state and government of the Central American countries, the EU and European countries. Its main functions will be to supervise compliance with the objectives and implementation of the agreement. Its regular meetings will be held every two years, and it may hold extraordinary meetings, as well as *ad hoc* meetings to strengthen the political dialogue. It shall have its own rules of procedure and its decisions shall be binding, and it may also make recommendations.

The Association Committee is the body responsible for the general implementation of the agreement. It will be made up of high-level officials from Central American countries, the EU and European countries, and will address specific issues (political dialogue, cooperation and trade). It has its own regulations. Its regular meetings shall be held annually at alternate venues and it may also hold extraordinary meetings.

In addition, the agreement creates subcommittees, technical bodies to support the Association Committee. They are made up of technical staff members. Its face-to-face meetings will be held annually at alternate venues. They are chaired, also on an alternating basis, by a representative of the EU and a representative of a Central American country for periods of one year. Although the list is open to the creation of those necessary, the following subcommittees have been created: cooperation, market access for goods; customs, trade facilitation and rules of origin; technical barriers to trade, sanitary and phytosanitary matters, and intellectual property.

A Parliamentary Association Committee has also been created, comprising members of the European Parliament, the Central American Parliament (PARLACEN) and representatives of the national congresses of the Central American countries that are not members of PARLACEN. And the Joint Consultative Committee as a consultative body of the Association Council, which will be made up of representatives of the European Economic and Social Council (EESC), the Consultative Committee of the Central American Integration System (CC-SICA) and the Consultative Committee on Economic Integration (CCIE).

There is also institutional space to promote meetings between representatives of EU and Central American civil societies, including the academic community, social and economic partners and NGOs.

Beyond its objectives and organs, the AA faces the difficulty of being ratified, as was the case with the third political dialogue and cooperation agreement of 2003, which was never fully ratified. This was also the case, for example, with the EU-Canada agreement, which is provisionally in force pending ratification.

In the case of the EU and Central America, only Belgium has pending ratification of the agreement and this prevents the entry into force of the pillars of political dialogue and cooperation<sup>2</sup>. The Central American

<sup>2</sup> Details of the ratification process can be found on this page of the EU website: <https://www.consilium.europa.eu/en/docu->

countries ratified the text of the agreement immediately after its signing in 2013. Most EU countries did so in subsequent years. United Kingdom, Austria and Greece followed suit between 2018 and 2020.

Ratification in Belgium is pending approval by the country's regional parliaments, particularly those of Wallonia and Brussels, where some objections to the agreements on human rights and the environment are being discussed. Belgium is the only Member State where EU agreements must be ratified at the regional level (Conconi, Herghelegiu and Puccio, 2021).

For the purposes of political dialogue and cooperation, therefore, and without the AA in force, the bodies derived from the Political Dialogue and Cooperation Agreement (ADPC) signed in 2003 and which was not ratified until 2014 operate. Since then, four meetings of the ADPC Joint Commission have been held (the first on 17 October 2014, the second on 22 February 2019, the third on 28 May 2020, and the fourth on 18 June 2021).

Precisely, the joint communiqué of the IV Joint Commission pointed out, in a paragraph that summarizes well the legal framework of the EU-CA relationship, that the representatives of the countries of both blocs “highlighted the importance of relations between the two regions, their positive and dynamic balance since the establishment of the San José Dialogue in 1984, the European Union-Central America Framework Cooperation Agreement of Luxembourg in 1985 and the entry into force of the ADPC in 2014, as well as the entry into force of the Trade Pillar of the Association Agreement between Central America and the EU, and the previous meetings of the Joint Commission in 2014, 2019 and 2020”. It is, therefore, a complex framework in legal and political terms. In the area of political dialogue and cooperation, work is carried out within a framework negotiated in 2003, which entered into force in 2014, with a subsequent negotiation within the framework of the AA already completed in 2013.

Meanwhile, as noted, the trade pillar entered into force and is in provisional application, given that the trade agreements fall under the exclusive competence of the EU and were ratified at the time by the Central American countries that signed the agreement. The dialogues and committees provided for in the trade pillar of the agreement have functioned regularly, as can be consulted in the corresponding section of the website of the European Commission's Directorate General for Trade.

#### ***4.2. Expectations of the parties in the negotiation and implementation of the AA***

The EU and Central America approached the negotiation of the AA with the idea of making it a pioneering case of bi-regional negotiation. They were a win-win situation for both parties. The EU, reinforcing its status as a positive hegemon of Latin American regionalism and its commitment to Central America, which was extraordinarily raised in the San José Dialogue. Central America thus obtained not only privileged treatment with a powerful and close partner, but also a boost to its status as a global player despite its small size. Moreover, this time, their protagonism had nothing to do with conflicts or disasters.

The EU also intended to use the Central American case to validate its strategy of interregionalism, so important in its relations with Latin America. At the EU-Latin America Summit in Rio de Janeiro in 1999, the idea of the bi-regional strategic partnership and the mechanism of regional summits was launched and later transferred to CELAC. As is well known, this is a different international relations scheme than the one the EU applies with the ACP countries (Africa, Caribbean, Pacific) and with other regions of the world.

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ments-publications/treaties-agreements/agreement/?id=2012001.

Within this framework, the EU signed an agreement with Mexico in 1997 and with Chile in 2002. It also attempted to sign an interregional agreement with the Andean Community, but was only able to do so with Colombia and Peru. The EU's complex negotiation with Mercosur, after 20 years of frustrated attempts, is well known, also after the 2019 agreement announcement (Sanahuja and Rodriguez, 2019). Thus, the EU-Central America agreement is the only viable interregional agreement to date.

Undoubtedly, the EU has geopolitical objectives in its relationship with Latin America and has intended the agreements to contribute to its repositioning in global society, particularly vis-à-vis the United States and China, but also in view of the emergence of other Asian economies.

It is difficult to compile exhaustively the national positions of the EU Member States on the agreement with Central America. Beyond the “problem of Belgian ratifications”, resistance to the contents of the agreement has not generated major discussions in the Member States, although in some parliaments, such as the German one, objections have been raised regarding the requirements of respect for human rights, the protection of natural resources or the effect of trade agreements on certain vulnerable groups.

Nor have the member states shown particular concern about the damage that trade concessions to Central American economies could cause to their producers or productive sectors. The size of the Central American markets and the previous concessions with which they were able to access European markets do not appear to be of a worrisome magnitude. For this reason, environmental or human rights arguments have not been used as a parapet for other interests, as they are in the case of Mercosur.

It is important to recognize Spain's drive as a promoter of the AA not only within the EU itself, but also by encouraging Central American countries to engage in rapid and open negotiation of EU proposals. Spain is, together with the European Commission and Germany, the country that shows most interest in the evolution of SICA, and the one that devotes the most financial resources and instruments for cooperation and dialogue to regional cooperation.

### ***4.3. Objectives and progress in the three pillars of the agreement***

Beyond the arguments linked to geopolitical interests and the consolidation of the bi-regional relationship, the expectations and first results of the two regions can also be analysed in terms of the three pillars.

In the area of political dialogue, the EU's objective was to promote an institutionalized mechanism for discussion and exchange of information between the EU and Central America on bilateral and regional issues of common interest. The idea was to present the two regions, with all their asymmetries, as coordinated partners with common positions on issues of international importance. Issues, for example, such as the ratification of the Statute of the International Criminal Court, ILO conventions, or migration and security issues.

The content of the political dialogue pillar includes many elements of multilateral relations that reinforce the idea of the Union as a normative power. Political dialogue is for the EU a key element of the strategic partnership with Latin America to extend the commitment to the elements of the agenda and global governance that the EU promotes. From the European perspective, there is no doubt that this is a positive effect of its bi-regional relations.

It is worth asking whether the agreement, whether or not its political dialogue pillar has been ratified, will also be an instrument to influence the worrisome drift of the democratic crisis in Central America.

The outrages to democracy by the government of Daniel Ortega before the elections of November 2021, the worrying decisions in El Salvador, Guatemala or Honduras are a test for the presence of the EU in the region. The reaction of European countries as a bloc—or in particular to this complex political situation—will be a major challenge for the EU discourse, the legitimacy of the political dialogue pillar and the perception of the EU as a global player.

In the area of cooperation, the agreement would raise the possibility of broader cooperation, not only at the regional level, but also at the bilateral level, in the coordination of both. Beyond the financial programming documents, the agreement could promote more strategic cooperation that is open to changes in the environment, using, for example, new instruments. In that sense, Nicaragua's failed proposal to develop the idea of the Common Fund for Economic and Financial Credit was a missed opportunity. Nicaragua made a disproportionate proposal that provoked the rejection of the European representatives, but this proposal, contemplated in Article 23 of the agreement, made and still makes enormous sense. It would make it possible to explore mechanisms similar to those of the cohesion funds, more open to a plural participation of stakeholders.

The AA should be an incentive to design ambitious cooperation between the two regions, both bilaterally and regionally, renewing instruments, enhancing the intensity of actions and linking them to political dialogue. Support for the regional dimension of development through SICA appears to be an indispensable condition in the new phase marked by the 2021-2017 financial forecasts. Within the framework of the plans drawn up by the new European Commission in this regard, the implications derived from *Team Europe* can be of great use in Central America and multiply the impact of the relationship between the EU and Central America. Latin American regional programs have been successful in Latin America. However, the cooperation that Central America needs goes beyond multi-country cooperation, and must strengthen integration mechanisms and extract the advantages and economies of scale of joint action.

On the trade front, expectations were focused on the development of a modern free trade agreement. In addition to the fact that the agreement would regulate trade relations between the two regions in terms of regulations/rules of origin, sanitary and phytosanitary regulations, etc.), and that intellectual property protection regulations could be regulated, its trade pillar offered the EU the possibility of access via CAFTA to the U.S. market under certain circumstances. On the other hand, despite the size of the region and its markets, incentives for investment in certain sectors can be significant.

In any case, the trade pillar goes beyond what is strictly related to the commercial exchange of goods and services. It is a modern agreement whose contents extend to the multilateral free trade agenda, including issues such as access to government procurement or the management of intellectual property rights. Undoubtedly, the EU incorporates the logic of the WTO into these agreements and uses them not only to promote the interests of its companies and access Central American markets. But, in turn—as Zabalo, Bidaurratzaga and Colom (2019) critically point out—the trade pillar of the agreement is a WTO Plus proposal that promotes more favourable conditions for large and transnational EU companies, especially in the area of service provision, capital movements or intellectual property protection.

It is, in short, the debate associated with free trade agreements. In defence of its expanded agenda, the EU emphasizes the benefits that the trade agreement offers the region: on the website of the European Commission's Directorate General for Trade (<https://ec.europa.eu/trade/policy/countries-and-regions/regions/central-america/>), the following are particularly highlighted:

- The elimination of most import tariffs.
- Improving access to public procurement, services and investment markets.
- Improved trading conditions through new disciplines on non-tariff barriers to market access, competition and intellectual property rights.
- A more predictable environment for trade with a mediation mechanism for non-tariff barriers and a bilateral dispute settlement mechanism.
- Strengthening regional integration, for example, by establishing a single import duty for the entire region and using a single administrative document for customs.
- Support for sustainable development, including consultation with civil society stakeholders.

The attraction of European investment to the Central American region and the possible positive effects it could have on Central America's insertion into global value chains can be added to this list.

Central America gains very obvious advantages from the trade pillar: access to one of the largest and richest markets in the world, and the possibility of going beyond static comparative advantages and taking advantage of the export diversification potential offered by the European market, including greater value added from its maquiladora operation, its participation in regional and global value chains, and the expansion of possibilities in its agri-food sector, as well as possibilities in services (Mata and Cordero, 2009).

But one of the most frequently mentioned objectives of the trade pillar is that the agreement should serve to accelerate the establishment of the Customs Union, based on the EU's demand to negotiate region by region. The initial assumption was that the Central American countries would finalize the pending issues for the establishment of the Customs Union and with a complete common set of regulations and a common external tariff free of exceptions, they would negotiate the trade pillar of the agreement. This was not the case, and the expectations placed in the EU as a great opportunity for Central American economic integration were disappointed. In *hindsight*, it was a difficult requirement, although the question remains as to whether it would have been feasible. The critical factor was undoubtedly the position of Costa Rica, always reluctant to trade integration and the country with the best defined interests in the AA.

The EU has developed an *ex post* evaluation process for the trade pillar of the AA that will be completed by mid-2022, but a draft interim report is now available<sup>3</sup>. The report (BKP Economic Advisors, 2022) analyses the economic impact by presenting the effects on trade in goods, trade in services, foreign direct investment, the overall impact on growth, regional integration and other areas of the trade agreement. It also analyses social impacts (employment, gender, welfare and poverty, and child labour, among other aspects, to complete nine categories) and environmental impacts. Also the effect on human rights and on the dialogue between trade and sustainable development.

It is difficult to draw consolidated conclusions on the overall impact of the trade pillar of the agreement, both because of its complexity and because the interim report does not yet provide an overall assessment. Based on the findings presented, it can be affirmed that the agreement confirms the trend of positive impact of most of its initiatives and provisions, but it is still difficult to assess whether it does so with the necessary intensity and imposing itself on other processes. It does not seem to find evidence of significant negative effects on any productive or social sector in the Central American and European economies. The report has much more elements and data to measure the impact in Central America than in the EU.

<sup>3</sup> The draft interim report of the trade pillar *ex post* evaluation and all preliminary inputs to this report are available at: <http://central-america.fta-evaluation.eu/es/resources-es/interviews-and-surveys-es-2>.

The findings on the evolution of merchandise trade may be of interest to illustrate the early effects of the agreement. According to the report (BKP Economic Advisors 2022), Central America's exports to the EU would have increased by 31% (from €5.1 billion in 2010 to €6.7 billion in 2019), especially due to increased exports of bananas, fruits and vegetables, sugar, medicines and coffee. Aggregate EU exports to Central America increased by 40% (from €5.3 billion in 2010 to €7.4 billion in 2019), mainly due to increased exports of machinery, automobiles and medicines. Based on these data, the EU's relative share of Central America's imports has remained fairly stable over the period 2010-2019, while its share of Central America's exports increased slightly from 21.7% to 24.4%.

The report also notes that the main EU exports to Central American countries benefiting from the trade pillar of the EU-CA agreement are medicines, motor vehicles, aircraft and spacecraft. In the case of Central America, these are bananas, coffee, palm oil and crustaceans. In general, Central American countries have made more intensive use of available preferential rates or tariff quotas than European countries. The reduction in tariff revenues from the agreement would be most significant for Guatemala and Costa Rica (which lose 14% and 12% of their total revenues).

The evaluation has also estimated the economic effects of the trade agreement and highlights in particular a positive effect on GDP, from 11 million euros per year in El Salvador to 122 million euros per year in Costa Rica and an aggregate 297 million euros per year in the EU. The effects it points to on the impact of the agreement on regional economic integration seem to have more to do with technical cooperation projects than with trade dynamics.

Finally, the growth of trade in services seems to have been more important (73% for Central American exports and 61.5% for European exports, data from 2010-2013). As for foreign direct investment, one of the incentives of the agreement most highlighted by the European Commission and the Member States during the negotiation, the impact is still of low intensity with respect to the pre-agreement period, except in Panama and Costa Rica, but there is no evidence that the advantages of the agreement have a significant effect.

Undoubtedly, as the discourse underlying the AA suggests, the ability to combine the three pillars will be decisive for the two blocs to obtain the expected benefits from the EU.

However, the global landscape has changed following the pandemic and, as noted in the introduction, the response to COVID-19 has prompted a review of the European project. Beyond the remarkable intensity of the response and the new instruments, the EU has designed a new development agenda based on the European budget and the Next Generation EU Program. The transition to a greener, more digital, fairer and more equitable economy is set to be at the core of the EU's external relations, especially its relations with Latin America.

In the case of Central America, beyond the trade pillar, it is to be expected that this new agenda will be central to relations between the two blocs. Since, in addition, the response to the pandemic is accompanied by a change in economic policy paradigms (expansionary monetary and fiscal policy), the availability of resources should be greater if the most developed countries do not set limits to their conviction of what needs to be done to put the crisis behind them. The EU has every incentive to extend its crisis response instruments to its partners around the world, thereby strengthening its global position and the strategic autonomy to which it aspires.



## 5. Conclusions and recommendations

There is no doubt that the AA is an extraordinary milestone in interregionalism for both the EU and Central America. Its political value is unquestionable. However, an analysis of its development in recent years seems to confirm the hypothesis that the agreement is still far from having fulfilled its potential and from meeting the expectations imagined during its negotiation.

The Association Agreement between the EU and Central America has a specific value as an example of the bi-regional agreements that the EU intended to develop in its strategic partnership with Latin America. It is the only one that has been feasible to sign in view of the difficulties to do so with the Andean Community and Mercosur. It is an achievement that has to do with the EU's influence in the region and with the greater interdependence among Central American countries, and the greater relevance of its integration mechanism. The first factor is also present in other processes such as Mercosur, but not the second, which would give relevance to the dynamism of integration as a favourable condition for association agreements.

The agreement responds to the interests of EU countries to extend their strategic autonomy and global positioning in the post-pandemic society. It reinforces the perception of the EU as a development partner and positive hegemon, building on the extraordinary experience of the San José Dialogue, which has channeled an effective and positive relationship for both regions since the 1980s. It has also consolidated the EU as the main regional partner of the Central American countries and their integration process. It is very important as an instrument of positioning and external influence of the EU, competing in Central America with the multidimensional presence of the United States and in particular with the free trade agreement between North America, the Central American countries and the Dominican Republic, which is the other major regional agreement of the Central American countries.

However, it has a moderate relevance in the region's development agenda, which would confirm the limitations it has to develop its potential. Despite its importance as a political objective during the long negotiation process, and despite the effort that the negotiation entailed for the Central American countries, the day-to-day presence of the AA and its contents is limited except in the commercial sphere.

The dynamics of ratification and management of the agreement do not seem to be conducive to promoting it. Its monitoring bodies do not meet under the framework of the AA because it has not been ratified and do so with irregular frequency around the mechanisms of the 2003 Political Dialogue and Cooperation Agreement, ratified in 2014. Parliamentary dialogue and dialogue with civil society has been very scarce, probably due to the lack of definition of the political frameworks around which to meet. However, the follow-up mechanisms in the commercial area have met with more frequency and publicity.

Ratification is a very significant problem in the Central American case and does not seem to be associated with the resistance of EU member states, as in the case of Mercosur, but rather with the complexity of a process that is lengthy even when it is not problematic. The difficulty in ratifying the political dialogue and cooperation pillars (incomplete eight years after signature) does not paralyse the objectives of the agreement, which continue to mark the common agenda of the two regions, but it does make it less effective.

The content of both pillars is so broad that it tends to serve as a framework for everything, but has no capacity to serve as an incentive or impetus. It is worth asking whether a simpler instrument should not be sought that can be ratified within a reasonable period of time or that is based on periodic summits with the presence of representatives of the countries of both blocs. The mechanism of formal

agreements has not been more effective than the bi-regional dialogues of the San Jose Process in the case of Central America. The lack of regularity of follow-up meetings (as opposed to the annual or biannual frequency of the San José Dialogue) and the uncomfortable need to work with old instruments, prior to the new negotiated framework, but not in force, may explain this. Also the irresistible appeal of the commercial, which shifts the centre of gravity of the deal to their turf.

Although the circumstances are different, it can be said that the AA has not had as much impact as the San José Dialogue had. This is due to the lower global and EU relevance of Central America compared to the 1980s. But the expectations generated by the agreement suggested the recovery of Central America's position on the map of the EU's external relations. Does the Central American experience suggest that a more informal dialogue framework is better?

Central American countries are once again the focus of international attention (Harris/Biden proposal for the Northern Triangle or Mexico's Comprehensive Development Plan, for example). The worsening of the region's structural problems (exclusion, violence, crisis of democracy) is related to the exhaustion of the model associated with the Esquipulas Agreements of the 1980s. The region is experiencing a change of cycle within the global cycle change. It will be a risk area in the coming years and the EU must be vigilant as a benign partner for the region in times of conflict. It is a favourable space for its global positioning.

The signing of the AA and the need to establish a region-to-region dialogue has been an incentive for Central American integration, but it has not lived up to the expectations generated or to its potential. The Central American countries' difficulties in establishing common positions in the negotiations ruined this possibility, which cannot be blamed on the EU, even though at times a more demanding position would have been desirable.

EU regional cooperation is, for practical purposes, one of the most visible instruments of the bi-regional relationship between the EU and SICA. Multi-year cooperation programs are an effective instrument for meeting the objectives of both parties. It is not clear that AA has any effect in reinforcing it. The 2021-2027 support planning exercise seems to be insufficiently inspired by the agreement and its objectives. In this field, there is a certain fatigue in European cooperation with SICA.

This is not an isolated case in Central America. First, all international cooperation with SICA has been significantly reduced with respect to the years 2005-2012, when flows were very important, probably higher than what SICA was able to absorb. Its effect was positive because it greatly increased the capacity of the institutions. It had the disadvantage of being oversized and could not respond to its execution with the desired levels of efficiency. Following the process of negotiation and design of cooperation programs after the 2011 international conference in support of the security strategy, the trend began to change. The partners decided not to hand over execution to the regional institutions and flows have been falling.

It cannot be said, however, that the design of objectives, amounts and strategic priorities of regional cooperation is particularly dependent on the AA. In fact, it is not the explicit framework in which these negotiations take place, which seems an obvious contradiction.

The trade pillar of the agreement is the one that has had the greatest impact during the years the AA has been in force. The results of the mid-term evaluation report suggest that, although there has not been a significant increase in trade flows between the two regions, the trade agreement consolidates the European market as the third largest source and destination market for Central American exports

and imports, and has encouraged greater trade in goods and services between European companies and Central America. No significant negative effects are perceived in any European or Central American sector. The agreement consolidates the trade relationship and generates new opportunities; for some countries and specific sectors, it provides inspiration for the content of cooperation programs in the field of economic integration and confirms the strength of the EU as a regulatory power.

It can be concluded, therefore, that the AA has a clearly positive effect for both regions, but of a lesser intensity than expected and desired. It does not seem to have significantly transformed the bi-regional relationship beyond its formal and political consolidation. It is relevant in trade terms for Central America, but it has not changed the relevance of the area as a partner of the EU in any area or for any country.

Central America is in a period of great complexity that adds, to the global uncertainties caused by the great recession and the pandemic, the regional problems of democratic and institutional setbacks. The vulnerability of the region has amplified the effects of the pandemic and the resulting activity restrictions. The serious political tensions that some countries in the region are experiencing must be addressed in the text of the political dialogue pillar and solutions must be found in the cooperation pillar. The EU must be vigilant in the face of certain conflicts and abuses in order to reinforce both its status as a normative power and its role as a positive hegemon. As happened in the 1980s, its contribution can be decisive vis-à-vis more polarizing partners, such as the United States or China, if it confirms itself as an interested partner in the region.

The agreement has untapped potential, especially in the area of political dialogue. The lack of greater dynamism and political relevance of EU-Latin American relations seems to affect their development. Recovering the regularity of the meetings of its follow-up bodies could be a critical factor for its reactivation. The EU should promote a more informal political dialogue mechanism than the one proposed in the agreement (frozen due to lack of ratification).

The conclusion seems obvious: Why not return to a mechanism similar to the San Jose process? It would be much more effective, on the one hand, to mediate in the face of threatening national political conflicts and, on the other hand, to force solutions when these become unacceptable.

EU support at the regional level is a determining factor in the EU-CA relationship. In the most recent moments of crisis in the region (the conflicts of the 1980s, the destruction of Hurricane Mitch, the migration crisis), the regional dimension has been indispensable in the search for solutions (Esquipulas, Consultative Groups, the Plan for Transformation and Modernisation, and the International Conference in Support of the Security Strategy).

The Central American countries face the challenge of defining the axes of development for their future at a time of global cycle change marked by uncertainty. This environment is unfavourable, more because of complexity and uncertainty than because of the existence of negative forces.

SICA is not the root of the problems, but the consequence of the crisis of national projects. The EU's proven ability to understand and influence the integration process can be a basis for developing the potential of the AA. Not supporting integration with the intensity with which the EU has been doing so would generate several problems. First, the weakening of a political dialogue that will need the regional institutional framework to create solutions, as democratic risks and national conflicts become more complicated. Second, a vicious circle would be generated because the loss of capacity and resources of SICA bodies and institutions would worsen their performance, and encourage member and partner countries to reduce commitment to regional institutions and policies.

But the pandemic has become a major variable for the immediate future. The focus of the Association Agreement and its three pillars should be oriented towards the joint response to health crises, in the post-covid framework, and taking advantage of regional health instruments (COMISCA); the development of policies to promote equity and social protection, in urban and rural areas; and issues that coincide in the agenda of the two regions of the Green Pact, the digitalisation of the economy and other areas of innovation.

To this end, it seems important to force the ratification of the agreement or, in any case, to activate the dialogue on how to strengthen this agenda at the regional, bi-regional or multilateral level. It is important to leave behind the rigidity of an instrument whose ratification is not viable because of its late ratification, and to build on its content a more agile mechanism for dialogue and coordinated action programmes.

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