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UNIVERSIDAD LOYOLA
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VIVIENDO LA INTEGRACIÓN DESDE LA ACADEMIA

SYSTEMATISATION REPORT AND CONCLUSIONS

Seminar “Determinants of development in Central America within the framework of regional integration and the Association Agreement with the EU”

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1. INTRODUCTION

This document presents the conclusions drawn during the webinars carried out as part of the high-level seminar on development determinants in Central America within the framework of the Central America integration process and the EU-CA Association Agreement.

The webinars covered Central American reality from the perspective of a regional focus on development that looks beyond the regional integration process itself. The starting point of the analysis were the factors that determine the development of the region (Webinar 1) and the pillars of the development agenda (Webinar 2). It placed the agenda of the region within the framework of its relationships as well as the global scenario of the 21st century (Webinar 3). The seminar ended with an analysis of the economic development patterns of the region (Webinar 4) and a joint reflection of all the points of debate which led to the conclusions presented here.



Webinar 1. Factores críticos en la dimensión regional del desarrollo en Centroamérica

Alberto Mora Estado Nación
Carmen Rosa de León IEPADES
Salvador Martí Universidad de Girona / CIDOB
Alex Sagovia INCIDE
Modera: Claudia Pineda

Webinar 2. Ejes de futuro en la agenda de desarrollo de Centroamérica-SICA

Otilón Solís Director rep. de BCIE por Costa Rica
Harry Brown CIEPS
Iván Morales OXFAM Centroamérica
Jaime Granados BID
Modera: Jonathan Menkos ICEFI

Webinar 3. La región SICA en el escenario global del siglo XXI

Philippe de Lombaerde UNU-CRIS
Josette Altmann FLACSO-SG
Adrián Bonilla Fundación EU-LAC
Modera: Jorge Mario Martínez CEPAL

Webinar 4. Los retos del desarrollo en Centroamérica. Coloquio sobre las conclusiones del seminario

Hugo Beteta CEPAL México
Pedro Caldentey Fundación ETEA
Modera: Elaine White Diplomática y académica Costa Rica

The objective of this initiative is to narrow the gap between the terms of debate used by governments and SICA institutions, and those employed in the context of universities and research centres.

Voices and references reflecting a regional focus on development are few and far between. There is limited overlap between national debate spaces and those with a regional focus, as if they constituted two separate debates.

This initiative for contemplation and debate attempts to foment pertinent and useful reflection that serves two purposes: On the one hand, to illustrate the need to connect the academic research agenda with the regional development agenda of the SICA countries. On the other hand, to show how critical it is to integrate the contributions that universities and research centres are making into a pragmatic framework for analysis with a regional focus that shows the medium and long-term challenges lying ahead for the region and its integration process.

2. A UNIQUE MOMENT FOR THE DEBATE ON THE FUTURE OF SICA COUNTRIES

The seminar takes place under particularly complex circumstances marked by global phenomena such as the COVID-19 pandemic, the lingering effects of the Great Recession, the impact of the fourth industrial revolution as well as the effects of climate change.

These phenomena are occurring in a complex environment marked by a crisis in multilateralism and global governance, both of which are subjected to growing pressure exerted by a tide of nationalist and populist forces, whose impact is even more pronounced when they emerge among the great global powers. Global and Latin American regionalism has to reposition itself in this environment. The resulting plans and initiatives seem to be of a heterogeneous nature.

Central America, or the SICA region - if we include partners like Belize or the Dominican Republic in our contemplations - maintains its commitment to integration, which, under such complex and uncertain circumstances, seems to be an essential tool for small countries with open economies. In Central America the crisis caused by the pandemic, and the effects that can be felt as one cycle ends and a new one begins coincide with a sensation that national development projects are running out of steam. The promises of the Peace Agreement have been kept in part, but that alone might not be sufficient to be able to counter the forces working against democracy and peace in the region.

What the confluence of all these issues means, however, is that this is the right moment to review and rethink the principles, objectives and tools defined in the region's development agenda. Three factors in 2020 and 2021 create the sensation that we are living a moment that provides a unique opportunity for change.

Firstly, *there is a sensation that we are entering a new cycle*, the effects of which can be felt in all regions of the world. Crises are associated with the end of cycles when they result in structural changes. The succession of periods of expansion and recession over time is a characteristic of human economic activity. The crisis caused by the Great Recession heralded the end of a cycle with repercussions on all levels (multilateral, regional, national), and will bring about a shift in paradigms. The range of the debate is wide, but what the idea of a new cycle is centred around is a reorganisation of society and its systems of production in response to the changes caused by the fourth industrial revolution and the changing nature of globalisation.

Secondly, *there is a need to act in the face of an emergency* caused by the pandemic and the general lockdown it has provoked. This is a kind of tragedy that cannot be compared to other

outbreaks or disasters. It is more profound and more universal in scope, and its effects do not seem to be temporary. The answers that are being contemplated to fight back go beyond the reach of current models. The idea of a general lockdown, the urgent need to impose expansive policies with or without fiscal space to back it up, or the need to coordinate policies on a global level is a change to the status quo and the traditional way of doing things.

Thirdly, *the year 2021 has a powerfully symbolic character* in Central America, which is reinforced by the perception that development projects are coming to an end. 2021 is the year of the Bicentennial of Independence, the 70th anniversary of the creation of ODECA and the 30th anniversary of the Tegucigalpa Protocol, which gave birth to SICA. December 2020 was the 60th anniversary of the signing of the General Treaty for Economic Integration. In the context of these emergencies and those anniversaries there are plans to elaborate long-term development proposals (2030, 2050) as well as reconstruction efforts to ameliorate the effects of the crisis.

3. NATURE AND CURRENT STATE OF THE PROBLEMS OF THE REGION

It is not easy to address all the dimensions and factors which slow down the development of the region. The discussions taking place as part of this process of reflection, which are fed by developments in the academic world, are not all-encompassing or exhaustive but will allow us to present some critical issues which should be the foundation for any rethinking of objectives and agendas.

- a. Democracy and the rule of law have been subject to significant threats and unforeseen setbacks for some years. The attacks on democracy and the separation of powers, the hijacking of states to serve private interests, flaws in electoral processes, the lack of guarantees for fundamental human rights such as the freedom of expression, the lack of impartiality in the justice system, corruption among the political and economic elites as well as the spread of organised crime are all recent manifestations of said threats and setbacks.
- b. The state is still subject to major limitations when it comes to capacity and efficiency, which jeopardises the quality and reach of services and responses to basic needs. Reforming and strengthening the state to improve its efficiency in the face of challenges to democracy, peace and development have, yet again, become urgent items in the development agenda.
- c. The fiscal crisis is an extraordinarily important dimension in this debate: tax rates are low, and show a tendency towards further reduction, leading to a movement away from the principles of vertical and horizontal equity. Public spending is not enough to guarantee the rule of law and equal rights for all, to uphold democracy and to meet all national and international development goals (ODS). There is little transparency and accountability while there are ample opportunities for corruption to flourish and undermine the legitimacy of public authorities. There is also a growing public debt, which will become unsustainable if the trend continues for another five years, which in turn, will hinder progress towards any of the desired development goals.
- d. Thirty years ago the Esquipulas Peace Agreement bound all social, economic and political actors in a project aimed at building a lasting peace by working towards equitable development goals and democracy. Currently, the states of the region have not developed the necessary capabilities and tools to act as effective mediators of the various special

interests which would provide the balance required to defend the general interest. In the absence of a competent mediator, special interest groups among the economic elites have had greater influence on the design and execution of public policies and tax regimes, which reflects a natural imbalance in decision-making power. The strength of the economic elites when it comes to promoting economic growth has not been reflected by the strength and perseverance of the political leadership, which is necessary to achieve inclusive development and to reduce poverty.

- e. The region is still suffering from violence and organised crime, whose root causes are certain vulnerabilities of the region such as its geographical location, the lack of state authority over swathes of national territories, porous borders which encourage drug smuggling, but, most importantly, the lack of development opportunities founded on legal and sustainable economic activities. Violence afflicts many aspects of everyday life of a population that cannot live their lives under circumstance that could be considered normal. The fact that groups who operate outside the law can hijack state authorities makes this situation worse, especially since some public institutions, in some cases even the forces of law and order, are implicated in the network of illegal activities, which leads to an endless cycle of violence that goes unpunished.
- f. Poverty and inequality persist. The development model is not inclusive and tends to generate inequity and exclusion. Neither public policies nor private activity or productive development generate inclusion. Advances made in the reduction of poverty and inequality during periods of growth are not structural, and are reversed during times of crisis. This means people still believe their future lies in emigration, even if that means living as an illegal immigrant, which negatively affects remittances that might otherwise be a positive factor for solid change.
- g. Due to a lack of assistance and support from public institutions, social and environmental vulnerabilities are worsening for populations at risk, like those in geographical areas regularly afflicted by natural disasters. When it comes to social vulnerabilities, factors that could positively influence opportunity, such as the age of the population, are countered by the lack of access to quality education, the lack of accessible health services, high teenage pregnancy rates, violence against children, young people, women, and others.
- h. The productive system does not contribute sufficiently to development. On the one hand, it is highly heterogeneous: there are highly productive industries, which coexist with a majority of industries characterised by low productivity levels, which leads to high concentrations of low-income workers. On the other hand, the dynamic character of the productive sector is not enough to generate sufficient numbers of jobs required to satisfy a population with such a high percentage of young people. Finally, it is concentrated in traditional and low value-added sectors so that the imported component of production is very high and concentrated in higher-value sectors. It is important, therefore, to focus on the factors that determine growth, and change growth patterns in order to make it less concentrated, more dynamic and sustainable. It will be necessary to talk about growth, investment, productive and fiscal structures, about professions, technological progress in economic sectors, as well as productivity levels.

- i. The insertion of the economies of the region in the global economy reflects a traditional and outdated model that prioritises a low value-added insertion in the global value chains. The global economy is mutating and the globalisation framework is undergoing changes that should not catch regional agents by surprise.
- j. Growth in the region is vulnerable to the effects of natural disasters and global warming. The tools available for prevention and mitigation are insufficient. Climate change regularly threatens the future plans of Central American families and communities.

During the discussions, these problems were the dominant focus of analysis. However, many contributions highlighted the need to address issues from the perspective of the actors or subjects, to analyse the role of political parties, to look at gender inequality as well as issues specifically affecting young people, indigenous peoples or social movements. The role of external actors was also addressed, such as the USA, China, the EU, or international organisations and actors engaged in international cooperation.

The analysis focused on regional development although such an approach is not always as straightforward as it might seem. The discussions made it possible to realise that, at times, the analysis does not move beyond the juxtaposition of national debates, and that it would be useful to give impetus to a methodology that would focus the analysis on the regional dimension of problems.

4. GLOBAL FACTORS CONDITIONING THE DEVELOPMENT OF THE REGION

Global circumstances have serious implications for the development perspectives of the Central American region, whose small economies are highly dependent on their interaction with the world economy. Even before the COVID-19 pandemic, the globalised economy had become more sluggish, both in terms of growth as well as in global commercial activity, and showed evidence of structural changes to the nature of trade, the geographical distribution of its most dynamic hubs and the factors defining competitive advantage. Calls to regain industrial sovereignty and to abandon long-distance supply chains might lead to opportunities for the region, which had lost competitiveness to the Asian manufacturing sector. Since the advent of Covid-19, a hitherto unseen combination of factors of social, economic and climate crises has heralded the end of a cycle that was marked by hyper-globalisation and the unsustainable use of the planet's natural resources. At the same time, in the political context, unilateralism and anti-system policies of the Trump administration have disrupted the global system of political governance based on dialogue, cooperation, rules, institutions and regimes that govern a large part of the world's population.

In this context, Central America faces a double paradox. On the one hand, global events have a profound impact on the region, as it is affected by the rapid change and uncertainty regarding the direction the international system will take in the short and long term. On the other hand, countries in the region are *policy takers* and not *policy makers* of the global future, and this deficit in autonomy leaves the region with few assertive public policy options. It needs to pay attention, therefore, to global debates, in order to align its interests internationally, adopt coping mechanisms and strategies for change, and look for partnerships with friendly nations and

international organisms that might help the region defend its specific interests, and make public policy decisions which strengthen future development in the midst of a world full of uncertainties.

The discussions between speakers and guests highlighted several dominant tendencies in the changing global scenario.

- a. The paradigm of globalisation is changing. From a period of exponential growth in global trade in the early nineties we have shifted to a so-called *slowbalization*, characterised by more sluggish growth, a reversal of certain policies and tendencies, and the opening of new dimensions. The pandemic has led to business and political decisions aimed at building greater industrial and national autonomy, and to reverse or readjust the hyper-disaggregated long-distance production processes and value chains by relocalising, *nearshoring* and renationalising some of the links in the GVC in order to obtain greater autonomy of supply.
- b. Development policies will be subject to a profound review as part of an improved post-pandemic reconstruction (*build back better*), which has become the leitmotiv of the international community at this moment: rebuild better on a foundation of social equity and environmental sustainability. In order to get there, however, it is necessary to deal with the impact of the pandemic on growth and the rising sovereign debt which countries are incurring in order to counter its effect, and which is affecting fiscal, monetary and debt management policies. However, rising levels of inequality on a global level, the climate crisis, the looming sovereign debt crisis as well as the risk of new dangers in terms of biosecurity, added to those that have always existed, inexorably require a strengthening of global cooperation. This scenario is conducive to a review of objectives and the tools required.
- c. The consolidation of emerging actors who rely on radical nationalist and populist movements, and who coexist with actors committed to deepening and modernising the integration processes, is generating increased tension and leading to political polarisation. Such tensions manifest themselves in the processes associated with integration, as well as in the heart of multilateral organisations and bilateral relations. It seems obvious that we are facing a major change in the way the world is organised although it is not yet clear in which direction we are headed.
- d. The geopolitical panorama is undergoing a process of reorganisation, and in this context it is vital for the rest of the international community that the dividing lines between the global powers are well defined, so that collaboration and competition might coexist, and we prevent competitive forces from leading to a de-construction of the framework of global institutions. External relations of the countries in the region will depend on how the US, the EU, China and Mexico realign their positions. Relations with South America, the Caribbean and South-East Asia will also depend on this. This set of relations is key for Central American alignment strategies.
- e. Global multilateralism is under pressure to reform in order to respond to the reality of the geopolitical changes of recent decades, and to meet the demands of the crisis. This pressure will have an impact on the discussion of the role and functioning of multilateral organisations.
- f. In this context, a new period for regionalism seems to be on the horizon, not only as a privileged space for international cooperation, but also because for small economies, the

changes towards the regionalisation of global economic dynamics, or the drive towards protectionism can only be managed in extended regional spaces which allow them to access greater economies of scale. This context makes it necessary to rethink the objectives, the tools and thematic priorities of regionalism, so that it can gain a renewed protagonism in the next decade, in order to exploit its potential for providing solutions to contemporary challenges.

5. AXES FOR A NEW DEVELOPMENT PLAN

A new cycle in the development of the region begins, which affects the society and economy as a whole. Multiple transformations are happening in this transition, all of which are affected and accelerated by the pandemic. These transformations are manifest in Central America and are connected to the exhaustion of national development projects that cannot offer adequate solutions for the needs of the region in this new environment.

The systematisation of the analyses and debates presented by speakers and guests leads to what should be the axes along which a new development plan for Central American and the SICA region should be built in order to deal with three major challenges. The region must review its development plans and can do so along *three axes: democracy, equity and development*.



- A. *Democracy is suffering from threats that were deemed a thing of the past.* Avoiding setbacks in this context must, therefore, be a priority for the region. The role of the state

in guaranteeing a balance between general and special interests is critical at this stage of the process. The Esquipulas consensus in the 1980s was driven by the desire to eradicate violence from political and military conflicts. Protecting citizens from violence of any sort must again be a common priority objective.

What should be on the agenda for research and debate along this axis?

- The debate about models of governance
- Reform and monitoring of Central American political systems
- Justice reform
- Improvement of the capacity and efficiency of the state
- Development funding and the debate on fiscal policy and public debt
- The nature of violence in Central America, security models and tools
- Nature and behaviour of the elites and their effect on development and the general interest
- Regional integration as a driving force for democracy and the strengthening of the state
- Nature and conditioning factors of external relations of the region

B. ***Inequity will continue to be an influential factor for the future of the region*** despite the advances that have been made in recent decades. The progress made in the fight against poverty and inequality cannot be consolidated, and structural gaps are growing. A significant part of the population suffers from one or another of the various dimensions of vulnerability.

What should be on the agenda for research and debate along this axis?

- Nature of the structural and political gaps in order to develop countermeasures
- The development of the welfare state and social protection
- Tools for the struggle against poverty and social inequality
- Rural development
- Strategies to adapt to and mitigate the effects of climate change and the risk of natural disasters

C. ***Development models and strategies still have not overcome their patterns of exclusion.*** Promoting inclusive development is a priority for the region. Structural changes to the economies of the region and a review of the instruments of insertion in the international economy must aim to break these patterns.

What should be on the agenda for research and debate along this axis?

- Analysis of factors determining the patterns of economic development

- Factors of inclusion in Central American economies: technological progress, productivity, education, access to employment
- New opportunities for insertion in the economy in the context of *slowbalisation*
- Regional markets and economic integration as a driving force for inclusive development
- The participation of Central American countries in the global value chains, and the promotion of regional value chains
- The process of progressive structural change
- The determining factors of an effective regional integration that helps eliminate obstacles to development.

D. *Starting a dialogue along these axes is one of the main priorities for the region.* The process of dialogue is as or even more important than its content. These axes can adopt very different approaches, and can give rise to tools of diverse nature and scope. However, they must inspire Central American development agendas, plans and actions. To do this, it is important that the region builds a certain consensus by means of a process of dialogue between all agents.

Promoting dialogue extending to all areas is not unprecedented. The region already experienced something similar during the Esquipulas process in the 1980s while conflicts were plaguing the region, or after Hurricane Mitch and the process of Transformation and Modernisation of Central America.

These two dialogue frameworks generated proposals that permeated and were incorporated in development strategies in recent decades. The seriousness of the challenges that had to be faced back then brought together all agents in the region as well as their external partners, and led to the definition of development proposals that became part of national agendas and regional projects within or without the context of integration. The seriousness of this historic moment, given the combination of a structural crisis, a period of recession, and a pandemic, lends the current period the same level of urgency and calls for immediate action.

This context imposes compelling challenges on Central American academics in their role as generators of political and economic thought. Efforts are required to provide contributions to development theories, regional integration or contemporary democracy, and the design of pragmatic proposals that would allow Central American societies to reach political agreements on technical foundations.

The time is ripe for innovation in the academic world and demands less self-indulgence and more willingness to learn from the complex reality of the current situation. More resources (human and economic) are required to go beyond diagnostics, and to open channels allowing knowledge and findings to become widely accessible. Academic contributions and the openness of political institutions to consider their proposals will be

vital in order to build a more prosperous, and democratic Central America characterised by greater integration with other countries of the area as well as the rest of the world.

The challenges of the region go beyond the possibilities of *Regional integration, although it is an ideal framework to provide solutions that might arise from the process of dialogue*. Decades of regional integration in Central America have created a set of institutions, political dialogues and instruments for action on a regional level, which have already proven their usefulness in other periods of crisis.

A new cycle of development for the region begins. Three axes provide an angle of attack: democracy, equity and development. Democracy is plagued by threats that were thought to be a thing from the past. Inequity persists as a conditioning factor for the future of the region. Development models and strategies do not present a break with their patterns of exclusion. Starting a dialogue along these axes is one of the main priorities of the region.. Regional integration can be an ideal framework to formulate the proposals that emerge from the process of dialogue.
