

# ECONOMIC INTEGRATION IN CENTRAL AMERICA: CHALLENGE OR BOOST TO A FRAGILE DEMOCRACY ? \*

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## 1. Introduction

Central America<sup>(1)</sup> has a long history of struggle towards regional integration. Most general view is to see Europe as the harbinger of regional integration, with its relatively successful records. But if we simply compare the length of time devoted to that objective, namely, Europe's recent 60 years with Central America's 175 years, it is fair to say that the very idea of regional integration by nation-states originated in that small, underdeveloped isthmus, located at the center of Western hemisphere.

However, the region's history in search for integration has been a tragic one, stained by a chain of "trial and failure". No other region in the world has tried so repeatedly and unsuccessfully as Central America to form a single, united region, in whatever sense or with whatever intentions. Over one and three quarters of centuries since the independence in 1821, Central America has made some 25 times of efforts towards integration, all of which ended up in hostile breakup<sup>(2)</sup>.

But now the region seems to be stepping into a new stage of its history. Since the beginning of the 90s, Central America has taken a series of actions to revitalize the long-dormant integration plan, and the process seems irreversible this time, for a couple of reasons which we

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will see later. But it is not clear at all how this vigorous project will affect the region's still fragile democracy. In academic as well as political arena, political implications of Central American economic integration has not been sufficiently examined as much as direct economic impact. In this article, I would like to focus on this relationship between economic integration and political stability, or democracy, in Central America. First, we will briefly look at the new initiatives towards integration, which the region took after the end of the civil wars in the 80s. Then, likely economic impact of integration and its political implications, both domestic and international, will be examined. Following these analysis, possibilities and problems which economic integration may bring about on the consolidation of the region's democracy will be considered.

## **2. Economic Integration**

### **(1) Initiatives in the 90s**


In Central America, efforts towards economic integration in the post-war period began with Managua Treaty in 1960, in which the five countries agreed to form a common market (MCCA=Mercado Común Centroamericano). By 1962, 95% of intra-regional trade was liberalized. By 1967, the region put common tariffs into effect on extra-regional trade. The MCCA accelerated economic growth and industrialization through the decade, until the oil crisis in 1973 reversed the trend. Severe economic crisis and the sequent civil wars in Nicaragua, Guatemala and El Salvador retarded integration process. It was only after peace agreements were finally reached to end the decade-long civil-wars that the talks on integration resumed.

In the Esquipulas II agreement in August 1987, which opened the way for peace process in the region, the presidents of the five countries

reached a consensus on taking positive actions towards regional integration. This consensus was promptly and successively put into practice, as is listed in Table 1<sup>(3)</sup>.

**Table 1: Initiatives and Actions Taken after the Esquipulas II Agreement**

1.	December, 1987	*International Committee for Reconstruction and Development of Central America* starts functioning
2.	February, 1988	Immediate Action Plan (PAI) adopted
3.	May, 1988	Special Action Plan for Reinforcement of Aid towards Central America adopted by the United Nations General Assembly
4.	May, 1988	PAI absorbed into Special Plan of Economic Cooperation for Central America (PEC), prepared by the United Nations
5.	June, 1990	Economic Action Plan (PAECA) adopted
6.	December, 1990	Puntarenas Declaration adopted
7.	April 1991	Partnership for Democracy and Development (PDD), an international forum, inaugurates
8.	July, 1991	*Central American Summit approves enforcement of common tariffs by the end of 1992 *Establishment of new monetary system agreed
9.	December, 1991	Revitalization and reform of ODECA (Organization of Central American states) agreed
10.	May, 1992	Free intra-sub- regional trade started by Guatemala, El Salvador and Honduras, with Nueva Ocotepeque Declaration
11.	December, 1992	Inauguration of Central American Integration System (SICA) in February 1993 agreed
12.	March, 1993	Three northern states start common tariffs on extra-regional trade, followed by Nicaragua in June
13.	April, 1993	Nicaragua joins the sub-regional integration by the three northern states (free intra-regional trade)
14.	July, 1993	Immediate liberalization of flow of goods, services, capital and people agreed

 : International initiatives

Since it is not my purpose here to go into details of the process itself, let me just sum up the general outlook of the integration process in the 90s and its characteristics.

As for intra-regional initiatives, notable progress can be seen in two aspects. First, in regard to trade policy, agreement was reached on two issues; (1) free flow of goods, services, capital and people, and (2) reduction of common tariffs on extra-regional trade. They are also scheduling (3) reduction of non-tariff barriers and (4) setting of common rules on local contents, ext. Second, Central American monetary system, malfunction of which has long hindered expansion of intra-regional trade, is being reconstructed. Central American Monetary Council (Consejo Monetario Centroamericano = CMCA), constituted by central banks of the region, is preparing concrete action plans to organize settlement of trade accounts. Also, intra-regional exports are being financed, funded by 150 million dollars aid from EC<sup>(4)</sup>.

Four characteristics are clear in those autonomous actions. First, the current integration process goes hand in hand with the transition away from inward-looking, import-substitution-oriented development towards a new, outward-looking export-led-growth-oriented paradigm based on the New Economic Model (NEM). The new model, based on the Washington Consensus, seems to have gained "legitimacy" on a global scale<sup>(6)</sup>, and the international environment will not let the region slide back into the old model.

Second, related to the first, the process is firmly linked up with international cooperation programs under the initiatives principally of the United Nations and the United States.

International support is far more solid now than that of the 60s, when the Alliance for Progress financed diversification of agriculture and import-substitution, for the underlying ideology has shifted from strategy-oriented one of the cold-war context, which oscillated in

response to the opposing bloc's actions, towards a more stable one that points to market economy, human rights and democracy.

Third, policy coordination itself is being systematized. That is, the process is not a mishmash of sporadic, isolated actions. The integration process itself is a fairly integrated one. Under the updated ODECA(Organization of Central American States), and the newly inaugurated SICA(Central American Integration System), eighteen regional organization are in function; SIECA(Permanent Secretary of General Treaty on Central American Economic Integration), Central American Parliament, Central American Court of Justice, to name a few.

Fourth, it should be noted that Costa Rica, the most established democracy of the region, is relatively negative to integration. She is against free flow of capital and people. However, Costa Rica seems to be sluggish in the integration efforts not because of a viewpoint of economic rationality, but rather because of a somewhat protectionist-minded reason. That is, the country's foreign debt is accumulated up to nearly 4 billion dollars, only a half billion behind war-torn Nicaragua. Provided that Costa Rica does not have a burden of civil war like Nicaragua, Guatemala (500 million dollars foreign debt) and El Salvador (32 million dollars) do<sup>(7)</sup>, it is understandable that the country is inclined to concentrate its resources on its own domestic structural adjustment. She may be also worried about inflow of excessive labor force from poorer neighboring countries. In any case, Costa Rica's reluctant, introvert attitude is a negative factor for a successful integration.

As for actions taken under initiatives of extra-regional actors, it can be said that current support from outside the region is characterized by (1) multilateralism, and (2) respect for the region's own initiatives.

American leadership is no more bilateral as was in the past decades but one based on what Joseph Nye calls "soft power", power to organize

and make effective use of international organizations<sup>(8)</sup>. When Berlin wall crumbled down and euphoria spread, the world's eyes were fixed on Eastern Europe and Russia. However, after a short period of "benign neglect", United States was quick to come back to Western hemisphere issues. President Bush's proposal of EAI (Enterprise for Americas Initiatives), a hemisphere-scale economic integration program, shows America's concern about "United Europe" and rapidly growing Asian economies, and its policy towards Central America seems to be closely linked to this ambitious project. However, United States alone cannot afford development aid towards the region anymore. Fortunately, America's concern matched global consensus on consolidation of democracy and market economy led by neo-classical model, which too America advocated. As a result, support for Central American development takes a multilateral form, joined by EU, Japan and international organizations. This is a favorable situation, for diversification of supporters will reduce the region's political and economic vulnerabilities vis-a-vis the outside world.

Another thing that needs attention is that the current initiatives are based on "you're the boss" policy; that is, assistance from outside is endowed in such manner that follows the region's own initiatives. One example is the PEC, the Special Plan for Central American Economic Cooperation. The PEC (Plan Especial de Cooperación Económica para Centroamérica), a support plan prepared by the United Nations to facilitate the region's economic reconstruction and integration, was one that followed the PAI (Plan de Acción Inmediata), the region's own reconstruction and integration plan, adopted in February 1988. Three months later, the PEC was prepared and the PAI was absorbed in the PEC. Likewise, after Central American Summit adopted in June 1990 the PAECA (Plan de Acción Económica de Centroamérica), an action program for the same purpose as the PAI, IADB (Inter-American

Development Bank) approved the PRADIC (Programa Regional de Apoyo al Desarrollo de Centroamérica), Regional Program of Development Aid for Central America, for the purpose of promoting the PAECA<sup>(9)</sup>. America's policy is also in suit with this trend. In recent years, development aid by the United States towards Latin America is heavily concentrated to Central America, and in 1991, the USAID proposed a comprehensive aid plan for Central America<sup>(10)</sup>. The new US strategy was also aimed at supporting the PAECA, a Central American initiative. These examples are enough to show that international society as a whole welcomes and respects the region's own, autonomous actions and ideas. This will help the region to take more responsibilities for its own development.

## (2) Economic impact of integration

Theoretically, economic integration has the following impact on member states' economies. ① (What Viner called) trade creation/diversion effects, ② changes in terms of trade, ③ economies of scale, ④ facilitating competition, ⑤ changes in trade structure and income distribution, and ⑥ impact on foreign direct investment.

In a common market where tariffs on intra-regional trade are either reduced or removed, production in a given member state, which has been protected by tariffs, will be replaced by import from a more efficient producer of another member state. This is "trade creation effect". On the other hand, import from outside the region may be bothered by tariffs higher than that on intra-regional trade. This will have an effect to replace import from the most efficient outside producer by import from a less efficient member state. This is "trade diversion effect". When the former is greater than the latter, that country's economic welfare will increase, and vice versa<sup>(11)</sup>.

In order to yield greater trade creation effect than diversion effect, it is desirable to satisfy four conditions. First, the level of tariffs

before integration is high. Second, the proportion of intra-regional trade before integration is high. Third, the number of member states and the scale of integration is large. Fourth, member states are geographically neighboring<sup>(12)</sup>. Central America satisfies three of them except the third. For example, among major regional integration groups in Latin America, Central American Common Market has almost always ranked the highest in percentage of intra-regional trade since 1960 through 1994, as is shown in Table 2. Although some of the positive effects that these conditions bring about might have been enjoyed and consumed already, it can be said that, in principle, Central America is a favorable unit for an integration that increases the member states' economic welfare. However, this seemingly successful integration may also yield negative impact, not much on national economies but rather on individuals of lower social strata.

**Table 2: Percentage of Intra-Regional Trade/Net Trade**

	1960	1970	1980	1985	1990	1991	1992	1993	1994
ALALC/ALADI	7.7	9.9	13.6	8.3	10.8	13.6	16.8	19.0	19.6
Andes Group	0.7	1.0	3.7	3.2	4.1	6.2	7.9	9.6	10.0
MERCOSUR			11.6	5.5	8.9	11.1	14.3	18.8	19.1
CACM	7.0	26.2	25.4	15.5	17.3	18.7	23.3	22.6	21.6
CARICOM			8.3	11.3	12.6	11.6	11.5		

Source: CEPAL, *Desarrollo de los Procesos de Integración en América Latina y el Caribe*, 1995.

This is directly related to the anticipated negative impact of structural adjustment. Providing that the economic integration process is coupled up to structural adjustment program<sup>(13)</sup>, two major damages may accrue to the society; unemployment and widening of unequal income distribution. As Table 3, 4 and 5 show, the economic performance of the five countries is quite poor and the region is yet to overcome the



structural problems such as inequality, heavy reliance on primary commodity exports, growth without improvement of welfare especially for the indigent population, and so forth. The richest 20 percent of population monopolizes over 60 percent of the country's wealth. GDP growth per capita kept minus in every country, when net GDP was growing at a fairly high rate after the peace agreement was reached in 1987. Primary commodities still make up 70 to over 90 percent of export except El Salvador.

**Table 3: Income Distribution, 1989 (%)**

	lowest 20%	Second quintile	Third quintile	Fourth quintile	Highest 20%	Highest 10%
Honduras	2.7	6.0	10.2	17.6	63.5	47.9
Guatemala	2.1	5.8	10.5	18.6	63.0	46.6
Costa Rica	4.0	9.1	14.3	21.9	50.8	34.1

Source: World Bank, *World Development Report 1994*.

**Table 4: Structure of Merchandise Exports (%)**

	Fuels, minerals metals		Other primary commodities		Machinery & transport equip.		Other manufactures		Textiles, clothing	
	1970	1992	1970	1992	1970	1992	1970	1992	1970	1992
Guatemala	0	2	72	68	2	1	26	28	8	5
El Salvador	2	3	70	56	3	3	26	37	11	15
Honduras	9	3	82	84	0	0	8	13	2	3
Nicaragua	3	2	81	90	0	0	16	7	3	1
Costa Rica	0	1	80	72	3	4	17	23	4	5

Source: World Bank, *World Development Report 1994*.

**Table 5-1: Growth of GDP (%)**

	1984	1985	1986	1987	1988	1989	1990	1991	Accumulated growth, 1981-91
Average of 5	2.5	0.3	1.5	3.3	1.6	3.0	2.5	2.1	11.6
Guatemala	0.7	-0.2	0.5	3.7	4.1	4.2	3.3	3.0	12.0
El Salvador	2.3	1.8	0.5	2.7	1.5	1.1	3.4	3.0	2.0
Honduras	3.5	2.9	2.3	4.9	4.6	4.0	-0.1	1.0	26.0
Nicaragua	-1.6	-4.1	-0.1	-0.7	-13.4	-5.2	0.1	1.0	-16.0
Costa Rica	7.8	0.7	5.3	4.5	3.2	5.5	3.2	1.0	26.2

**Table 5-2: Growth of GDP per Capita (%)**

	1984	1985	1986	1987	1988	1989	1990	1991	Accumulated growth, 1981-91
Average of 5	-0.1	-2.3	-1.1	0.7	-1.1	0.3	-0.3	-0.7	-16.5
Guatemala	-2.1	-3.0	-2.4	0.8	1.1	1.3	0.3	0.5	-18.2
El Salvador	1.5	0.6	-1.0	1.0	-0.3	-0.8	1.4	1.0	-12.6
Honduras	-0.1	-0.6	-1.1	1.5	1.4	0.8	-3.2	-2.0	-12.9
Nicaragua	-4.3	-3.5	-3.5	-3.0	-15.4	-7.6	-2.9	-3.0	-38.2
Costa Rica	4.8	-2.1	2.4	1.6	0.4	2.7	0.6	-1.5	-7.4

Source (Table 5-1/5-2) : Comisión Económica para América Latina y el Caribe, *Balance Preliminar de la Economía de América Latina y el Caribe 1991*, Naciones Unidas.

Scale merit which the integration will produce is likely to accrue to those strata that already holds large share of the country's wealth. Cutting down of employment, which usually accompanies the New Economic Model, may well counterveil new job opportunities that might be produced by trade creation effect. Economic integration dose demonstrates some positive impact on the region, such as expansion of manufactured exports by 20 to 50 percent between 1990 and 1992. However, what counts more is how the fruits of growth is used or

redistributed, rather than the growth itself. Besides, some of the alleged positive impact of economic integration may be just a paper theory for Central America. For instance, in regard to foreign direct investment (FDI), one of the possible results of an economic integration is called "FDI expansion effect". Even if, as a result of integration, demand expands and economic growth accelerates in the region, or is so expected, FDI is not likely to expand on a large scale. Because it is quite probable that foreign capital seeking investments in Latin America find NAFTA, MERCOSUR or Andes Group more attractive targets than much smaller Central American Common Market, the isthmus may suffer FDI diversion effect, instead of enjoying FDI expansion effect.

In any case, integration efforts are doomed to proceed along the international consensus on the NEM. It will in turn damage the most vulnerable strata in the short run. For example, in four countries except Nicaragua, open unemployment has been falling down, especially in urban areas, since the introduction of structural adjustment program and the resumption of economic integration process. But that does not mean that the economic pie itself is expanding. It is only that more population is moving underground into informal sectors. According to Andy Thorp's study, in Honduras there are now greater absolute numbers of urban household trapped below the poverty line (263, 932 in 1993)<sup>(14)</sup>. In Costa Rica too, the picture is bleak. While the introduction of structural adjustment caused some positive changes, such as reduced gender inequality in full-time earnings in agriculture, it also caused such negative changes in labor market as; ① job contraction for low-skilled workers in the public sector, ② polarization of employment conditions in manufacturing, ③ stagnation in urban earnings, ④ downward redistribution of earners involved not only in informal but formal employment, and so forth<sup>(15)</sup>.

As such economic deterioration becomes visible, the dilemma between an overriding necessity for economic integration based on the NEM and (at least) short-term damage may thrust both state and society into a temptation to withdraw to a populist regime, which is not a feasible alternative in the current international mood<sup>(16)</sup>. For this reason, the Central American version of the NEM is far from pure. New economic policies are an unstable mixture of neo-classical model and the traditional populist model based on the Iberian political culture. Again in Honduras, minimum wages were boosted by an average 181% rise between 1989 and 1993, the period when Callejas administration was devoted to the employment of the NEM. While such policy may have eased social unrest, invisible underemployment grew, as actually paid wages could not keep pace with the rise in minimum wages. Moreover, public sector employment and the level of government expenditures are both expanding, regardless of a heap of plans designed to cut down the size of public sector<sup>(17)</sup>. Costa Rica exposes a similarly confusing problem. Costa Rica accelerated the reform and shifted its approach to gradualism in the 1980s to a more doctrinaire one in the early 1990s<sup>(18)</sup>. Nevertheless, she is the only country in the region that the market-oriented reform has not yet demonstrated ameliorative effect on reduction of the public sector deficit, as Table 6 shows.

Such deviation from what the NEM assumes is an impeding factor for smooth policy coordination towards further integration of the region. Nevertheless, strict application of the NEM is politically too risky and should be avoided. Hasty integration without supplementing measures for the deprived will end up in a chaotic flow of capital and people throughout the region, thereby further damaging the national economies as well as legitimacy of the regimes.

**Table 6: Public Sector Deficit (-) or Surplus (+) as Percentage of GDP at Current Prices**

	1988	1989	1990	1991	1992	1993	1994
Argentina	-6.0	-3.8	-3.8	-1.6	+0.4	+1.1	+0.1
Brazil	-4.8	-6.9	+1.2	-1.4	-2.1	+0.4	+0.2
Peru	-2.5	-4.2	-2.5	-1.5	-1.6	-1.4	+2.6
Paraguay	+0.7	+1.5	+3.0	+4.4	-0.1	-0.2	+0.8
Uruguay	-4.45	-6.1	-2.5	—	+0.5	-1.5	-2.2
Colombia	-2.5	-2.4	-0.3	+0.1	-0.3	+0.7	+0.9
Chile	+3.5	+5.0	+3.1	+2.2	+2.9	+2.0	+2.0
Guatemala	-2.5	-3.8	-2.3	-0.1	-0.5	-1.5	-1.4
El Salvador	-3.2	-4.9	-3.2	-4.6	-4.7	-3.0	-0.7
Honduras	-6.9	-7.4	-6.4	-3.3	-4.9	-9.2	-4.8
Nicaragua	-26.6	-6.7	-17.2	-7.5	-7.6	-6.3	-4.8
Costa Rica	-2.5	-4.1	-4.4	-3.2	-1.9	-1.9	-7.0
Panama	-5.4	-7.1	+6.8	-2.7	-1.4	-0.6	0

Source: Victor Blumar-Thomas, ed., *The New Economic Model in Latin America and Its Impact on Income Distribution and Poverty*, London: MacMillan, 1996, Statistical Appendix Table A.7, p.324

### 3. Political Implications: Will Integration Facilitate Democracy?

#### (1) Intra-Regional Implications

With the possible economic impact in mind, at least two intra-regional political implications can be drawn; one negative and the other paradoxically positive.

The negative implication is that the short to mid-term pain that accompanies the integration process may affect the region's political stability in such a way that debilitates its nascent democracy. The region's regimes are too fragile and hollow to ask the people patience to

stand the pain. Even in Chile under military rule it took more than a decade to enforce the NEM-based reforms, and still inequality in income distribution broadened.

Late Yasusuke Murakami, a distinguished political scientist, noted; "In a time of a drastic change like the introduction of industrialization, drastic enough to be a turning point of history for whatever country, is it *always possible* to achieve political integration, which is indispensable for that purpose, under parliamentary democracy? .....Not as a matter of good or evil but as a matter of fact, democracy is *not always capable* of tiding over the takeoff period for industrialization. *Rather, the probability is low.*" <sup>(19)</sup>His notion tells the truth about the past. This is where the familiar temptation for authoritarianism or populism looms. However, in a current situation, there is no other alternatives than to hang on to democracy. New paradigm that replaces and goes beyond Murakami's notion must be sought before the temptation balloons.

Sophisticated and delicate operation of socioeconomic policies are required in order that benefits of integration exceed costs of reforms. At the same time, sophisticated and delicate, and yet powerful leadership is also required to mobilize mass social support in order to survive the transition period. Whether the leaders of Central America are capable of even either of the two is quite doubtful.

The other impact is somewhat paradoxical. In the course of, and as a result of free flow of people, low skilled labor force from a country with relatively strong population pressure and scarce job opportunities will pour into another, relatively job-abundant member country. Like what happened in 1969 between Honduras and El Salvador, such horizontal social liquidity with little vertical liquidity is apt to provoke social unrest, which leads to political unrest<sup>(20)</sup>. Paradoxically, however, this danger of instability and disorder may function as a stabilizer for

democracy. Since no country welcomes inflow of vagabond labor force, the unlucky inflow side will demand the outflow side to take necessary measures to stop inflow, such as job creation, rise in minimum wages, improvement of welfare, and so forth. While such redistributive policies hold high risk of drawing the country back into populist rule, the action-reaction process of mutual demandings and negotiations will constantly remind the leaders of the overriding importance of social policies. And in a mid to long run, macroeconomic and social policies of the member states may somewhat converge into more durable ones.

## (2) Extra-regional implication

Intra-regional implications of integration do not appear buoyant ones. From an international context, however, integration seems to hold more encouraging implications for the region's democracy in the long run<sup>(21)</sup>.

As we saw earlier, integration process in Central America is linked to the transition towards the New Economic Model, through structural adjustment program led by IMF and World Bank. As I mentioned earlier, such drastic reforms may shake the region's fragile relationship between state and society, as the damage is most likely to accrue to the bottom strata. Nevertheless, in an international context, integration under the Washington Consensus model will yield at least four positive impact to the consolidation of democracy in Central America.

First, integration process will inevitably require the governments of the region to stay democratic. The fact that the current efforts are largely financed by international lending institutions and OECD countries will function as a exogenous pressure for the region to stick to democratic rule, as those lenders are so committed to the democratic value. As a result, the integration process nor the nascent trend towards

democracy will not be easily reversed.

Second, in relation to the first, it will increase international financiers' reliance in the region's political consistency. Carrying out the integration program under the ideology, support and observing eyes of international institutions and major lender countries means an announcement to the outside world that Central America will not step back neither into the inward-looking economic model nor authoritarian rule. The region's fear of being left alone between NAFTA and MERCOSUR may be enough to let the process go on, but this international commitment will further strengthen the irreversibility of the effort, which will in turn deepen the lenders' confidence in the borrower. With a closer bond of trust between the two, the Central American governments may strengthen bargaining power, both domestic and international, thereby giving the leaders more persuasive power to ask the public to bear the temporal pain. This will contribute to the survival of democracy in a hard time of rapid economic change.

Third, more external pressure for liberal democracy is expected in the foreseeable future. Given the realities of heavy external debt and global reorganization, Central America is faced with an imperative to enter a North-oriented economic bloc in the future. Otherwise, the region may sink to the seabed between NAFTA and MERCOSUR, and be forgotten<sup>(22)</sup>. The northern giant is also stepping forward towards the hemisphere-wide economic cooperation and integration. When the time becomes ripe for Central America to join whatever economic bloc that involves the United States, far more strict and comprehensive demand for democracy will be imposed on the region, including human rights code, as was the case with Mexico. External pressure is surely not enough, but it sometimes works.

Fourth, economic integration will give self-confidence to, and broaden the perspective of, Central American people. When Central



America becomes a more closely and effectively united economic group, the world may be more willing to recognize the realities and possibilities of the member states. As a long retarded, conflict-ridden region with scarce land and resources, Central America has been just another periphery, far from economically attractive. To many, it is still an unknown place. However, by joining the global economy more actively as an integrated group with future possibilities, Central America may gain more political, economic and cultural attention from outside, which will give self-confidence and hope for the future to the people in the region. When there is a hope for the future among people, democracy is apt to survive. At the same time, a closer intra-regional as well as extra-regional tie through integration will broaden the people's outlook beyond parochialism. Mountainous geography and resulting regional conflicts have long fermented mutual hostilities and parochialism throughout the isthmus. Economic integration will have an effect to turn them into mutual understandings and cooperation, as well as to turn the people's mentality into a more outward one.

#### 4. Conclusion

Overall, the political impact of economic integration in an international context look more reliably encouraging for the consolidation of democracy in Central America than the intra-regional one, which involves concerns about still unstable civil societies. But international support is of course not an omnipotent medicine. Since there is no causal relationship between an economic integration and a promising future of democracy, at least two challenges will have to be met in order for democracy to take root in Central America.

First, both states and societies will need to be patient, at least two or three generations long, until the benefits of integration exceed the

cost of reforms in a visible fashion. Integration should not proceed at a rapid pace without political reform. In 1991 and 1992, ECLAC proposed a quite demanding development strategy. It advocates not consecutive but simultaneous achievement of both growth and equality. According to its 1992 publication, ECLAC concludes that equality cannot be achieved without constant growth, growth in turn requires a decent level of socio-political stability. Also it again in turn cannot be achieved without the least level of equality. The strategic criterions ECLAC draws from this premise are; ① systematic absorption of technological progress, ② expansion of productive employment, and ③ investment in human resources<sup>(22)</sup>. The premise that there should not be a tradeoff between the two values, growth and equality, is undoubtedly correct. But probability of making it come true down in the real world, with absence of neither constant growth, a decent level of socio-political stability, nor national integration needed to achieve the former two, is quite doubtful. Taking supplementing measures to rescue the deprived in the course of integration towards more liberal economy is necessary for equality and impeding for growth. After all, Central American leaders and people will have to bear in mind that this is what democracy is all about. In a democratic society, conflicts are more likely to be temporarily suspended rather than resolved definitively, as Coser put it<sup>(23)</sup>. Democracy by definition does not have quick-fix methods to find a way out of a policy dilemma.

Second, extra-regional supporters will have to keep the current posture of letting the isthmus take the initiative. At the same time, support and concern for the region must be constant and should not taper away. Success of Central America's struggle for stable democracy vastly depends on helping hands from outside the region.

Central America is definitely standing at a turning point of its history. But this is not the first corner for the region to turn. Liberal