

CONVERGENCE OR DIVERGENCE? REGIONAL INTEGRATION AND INSTITUTIONS IN EUROPE AND CENTRAL AMERICA

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Abstract

‘Integration’ has been pursued over time to various degrees. It has taken on different meanings in different parts of the world: from pure economics, to comprising political, social, and legal dimensions. The most studied case of regional integration has been the European Union. Despite the rich existing theoretical literature accounting and advocating regional integration, scholars have neglected to apply them to other projects around the world. An example of this is Central America, a region where the thinking and attempts for integration have extensively developed in different waves over time. Focusing on the myriad of structures and actors that have been responsible for advancing, stalling, or failing integration processes, this paper compares the Central American Common Market to the European Economic Community, given their chronological and ideational similarities. By combining elements of Neofunctionalism and Historical Institutionalism, it assesses the capacity of these theories to give an alternate explanation of why, despite the regions’ integration efforts’ apparent similarities, their outcomes differed so greatly. It finds that institutions were a key determinant for it. It also draws lessons from these experiences that can help further advancement of integration theorization in general and Central American integration studies in particular.

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I dedicate this thesis in loving memory of my father and brother and to my ever-supportive mother, sister, cousin Catalina, and friends.

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List of Acronyms

CACM: Central American Common Market

ECLA: United Nations Economic Commission for Latin America

EEC: European Economic Community

ECSC: European Coal and Steel Community

EU: European Union

HI: Historical Institutionalism

ODECA: Organization of Central American States

SEM: Single European Market

SIECA: Central American Integration System

Chapter 1

Introduction

Integration efforts around the world have been pursued in different degrees and have taken on different meanings. They have ranged from pure economics to including political, social, and legal spheres. Yet, no other regions have converged to the level of the European Union. Many of them have diverted from an integration vision, and in the case of Central America, this divergence has gone as far as one state declaring war against another. What caused this respective convergence or divergence? Furthermore, given the myriad of structures and actors in advancing, stalling, or letting these processes fail, where should our attention and analysis focus to account for the successes and/or failures of these integration processes? Since the 1950s, different scholars and policy makers have devised thorough analyses and different explanations about the origins and different phases of regional integration. They have particularly focused on the many actors who, influenced by other structures and factors, have taken particular policy decisions in regards to the advancement, stalling, or downfall of integration processes.

For this reason, we need to scrutinize the different integration theories accounting for these processes. Integration theories have heavily relied on the European Community experience. Ernst Haas' Neofunctionalism, considered the first formal integration theory, defined it as "a process sponsored and enacted by purposeful actors pursuing their own self-interest whereby other political actors are persuaded to shift their policies" (Haas, 1958 in Rosamond, 2000, 55; Wiener & Diez, 2004, 2). Intergovernmentalism emerged in reaction to neofunctionalism's lack of attention to the states. It thus reduced the neofunctionalist social (the shifting of loyalties) and political (decision-making about the creation of supranational

institutions) aspects to focus only on the latter (particularly highlighting the role of states). Intergovernmentalism thus limited the analysis of the European Community to “a series of celebrated intergovernmental bargains, each of which set the agenda for an intervening period of consolidation” (Moravcsik, 1993, 473).

Among the theories that arose to look at the *outcomes* of integration and not only at the process *per se* as Haas and Moravcsik had, Historical Institutionalism (HI) has been particular. These new bodies of literature sought to understand how integration established governance by analyzing the institutional composition and development of the European *polity*, “the most institutionalized international organization in the world” (Wiener & Diez, 2004, 157). They took governance further and sought to analyze integration as a system of multiple layers (Sweet and Sandholtz, 1997), as a system of policy networks (Peterson in Wiener & Diez, 2004) and other governance regimes, instruments of governance, and the day-to-day policy development areas (Armstrong & Bulmer, 1998; Bulmer, 1998; Pierson, 1996). These theorists, Historical Institutionalists, focused on institutional development over time in order to determine the continuity, change or evolution of the European Union.

Even though the EU has led to an abundant and widely available literature on integration, the vast majority of analyses have remained fastened to European integration. Indeed, integration theorists have barely studied or completely ignored other regional integration projects around the world although some of these integration projects borrowed aspects from the European experience, particularly the economic ones, and have attempted to apply them as basis for their own integration efforts. Nevertheless, none of them has achieved outcomes comparable to the European Union (EU) as we know it today. Therefore, it becomes important to understand the reasons other integration attempts have not advanced to a similar level.

Extensive economic interests pervaded Europe and Central America as they strove to define their position within the post-war bipolar world. Specific groups in both regions pushed for integration as the way to alleviate their problems and give a position to their region. Central America, exemplified this. Since reaching its independence from the Spanish rule in the early 19th century, the Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua)¹ had targeted becoming a union. The 1950s was a decisive point for this region's integration as it sought to establish a Central American Common Market (CACM) just as the European Coal and Steel and Community (ECSC) and the European Economic Community (EEC), were emerging. Similar to Europe's fragile post-World War II context, the Central American countries also experienced drastic political struggles (Mahoney, 2001, 112). Timing, historical contexts, and the existence of specific groups pushing for integration therefore make these two cases worthy of comparison.

Despite their initial similarities, each of these processes took completely separate directions. Nevertheless, only a few scholars have attempted to apply integration theory to Central America. These aspects become the main drivers of this research. Mattli (2005), for instance, attempted to use a revised version of neofunctionalism in order to analyze the CACM. He concluded nevertheless, that a neofunctionalist explanation became tautological, that many questions still remained, and that integration would fail because of "unfavorable structural conditions" (341-342). Others have tried to fuse neofunctionalism and intergovernmentalism to account for it (Gazol-Moncada, 2010). Yet no other integration theory has analyzed the CACM process or even less its outcomes. Departing from the premise that

¹ Although some studies include Belize and Panama as part of Central America, only these five countries participated on regional integration efforts.

institutions matter for integration, this research investigates their role and shows how institutions how they shaped these integration processes *over time*. The similarities mentioned above call for a deeper understanding of why the integration “stuck together” in the case of the EU but not for the CACM. Historical Institutionalism’s “analytical narratives” of empirical events show great promise in explaining this. Importantly, it helps us to ‘estimate the impact of variations in institutional forms and configurations on a particular outcome or set of outcomes’ (Lieberman, 2001, 1013).

1.1 Structure of the research

This paper will combine Neofunctionalism with Historical Institutionalism. Chapter 2 will argue how a combination of these theories provides a comprehensive understanding about these two processes and particularly their outcomes. It will establish that the cases displayed the neofunctionalist conditions for integration which significant groups and elites used to advance an economic supranational institution and eventually, at least in the case of the European Union, a political one. It will also show how Historical Institutionalism goes deeper into the picture by explaining the norms, values, and ideas behind them and how the institutional foundation was the main cause behind the deepening of integration, given that integration was named and framed as an economic solution to their problems and as a gateway for a ‘united Europe.’ Chapter 3 will show how the strength and ‘stickiness’ of these institutions were critical in the European Union integration. It will also take the European Court of Justice as an appropriate example of a strong institution because through its instruments of governance, such as specific legal rulings, showed an adherence to specific ideas which gave it legitimacy and authority to further integrate ‘from the bench’ both economically and politically.

Chapter 4 will present the development of the Central American Common Market. It will show how, in contrast to the European Community, Central American countries had a limited conception of integration, one concerned only with economics and which did not really include a strong supranational authority determining the direction of the process. This weak institutional foundation would prove critical when confronted with the CACM countries' unstable political conditions at the time, the outside actors' imposition of modernization and industrialization ideas, and the inequality that these ideas created within and among countries. Chapter 5 provides conclusions and major findings and suggests paths for future research given the conditions of regionalism in Central America today.

Chapter 2

Analytical Framework

Many theories have attempted to explain the integration processes and show how they originate and develop. These theories have focused particularly on the factors driving policy makers to take certain decisions with regard to the advancement of this process toward a certain state. Though most of the integration theories have developed to analyze the European Union, the objective of this work is to apply two theories of integration, namely Neofunctionalism and Historical Institutionalism in order to understand the European Economic Community (EEC) and the Central American Common Market (CACM). This chapter will present these two important theories and suggest that a combination of different elements of these two theoretical lenses not only makes the comparison of the development of the Single European Market (SEM) and the CACM very feasible but also helps see the progress and outcomes of these two cases of integration.

2.1 Neofunctionalism

Neo-functionalism has been one of the most important and most developed theories in the field of integration studies. The origins of Neofunctionalism go back to the 1950s when the European Economic Community, the first step to integrate Europe began to take place. Ernst Haas' work *The Uniting of Europe* (1958) is considered to be the first formal analysis of the integration of the European Union and the "most comprehensive and sophisticated attempt to provide a general theory of European integration and a touchstone for subsequent scholarship" (Moravcsik, 1993, 474). In *The Uniting of Europe* Haas—considered the father of Neofunctionalism—defined integration as the process "whereby political actors in several distinct national

settings are persuaded to shift their loyalties, expectations and political activities toward a new centre, whose institutions possess or demand jurisdiction over the pre-existing national states” (1958, 16). According to Neofunctionalists, certain actors within the state initiate an integration movement or campaign because “problems of substantial interest [cannot] be addressed at the domestic level” (Wiener & Dietz, 2009, 49). These theorists would further argue that integration is the only way that certain groups can advance their own interests at different levels. In other words, through an ‘expansive logic of integration,’ efforts for integration move further not only because of the dynamics behind it, but also because of the pressure from governmental and non-governmental groups, particularly from the economic elites.

Thus, this initial pressure for integration by different actors like the elites is the departure point for Neofunctionalist accounts of integration processes. Hence, certain actors see integration as advancing their interests, and they apply pressure on society to follow it. This pressure initiates a “spillover effect” in which a sphere of integration rolls over into other spheres until total integration is fully achieved. Certain actors in society pursue integration because they “seek to attain agreement by means of compromising [the] upgrading [of everyone’s] common interests” (Wiener & Dietz, 2009, 50). Through this “engrenage” process certain predominant groups in society advance the idea of a supra-national institution as the best solution to those problems that governments cannot solve given the individual countries’ domestic forces and politics. The spillover effect thus continues to roll, like a snowball, as other groups also change their political alliance to a higher level of aggregation, the so-called “supranational institution(s)” thus giving up some of their rights to them. This political integration therefore entails a partial relinquishing of the member countries’ sovereignty. Neofunctionalism thus notes that integration begins as a

rational and economic decision which subsequently spills over into other spheres until political integration is achieved, where most or all public policy spheres become part of the jurisdiction of a ‘supranational institution,’ like the European Community’s.

Despite its strengths as a regional theory, Neofunctionalism has received many criticisms. Ernst Haas, its own creator, at some point declared Neofunctionalism obsolete (Wiener & Diez, 2009, 51). Some authors argue that it is not applicable to regional projects outside of the context of the European Union because its premises were based on characteristics and assumptions proper of European countries at the time it was developed. These include the presence of highly diversified markets and systems of production, a high level of economic development, and above all, strong democratic foundations. Neofunctionalism also does not pay attention to domestic processes and structures in that it “underestimate(s) the role of national leadership by wrongly assuming that decision-makers were only ‘economic incrementalists’ and ‘welfare seekers’” (Wiener & Diez, 2009, 53). Neofunctionalism alone, therefore, cannot present a complete picture of regional integration processes because “some of its infelicities have detracted [its] fundamental contributions to comparative regional integration” (Mattli, 2005, 328).

Neofunctionalism is characterized by the notion of teleology, i.e., it assumes that integration processes’ ultimate goal behind integration projects is political integration given that the right conditions exist for the spillover to happen. When the CACM was being negotiated, those involved in the integration process took advantage of these conditions and targeted an economic union because they were certain it was the best way to help the region compete more strongly in the international market. In the case of the CACM, the spillover effect, “whereby integration between states in one sector creates incentives for integration in further

sectors in order to fully capture the benefits of integration and so forth” (Malamud, 2010, 342) did not take place. This neofunctionalist premise did not apply to the Central American case because not only did those involved in the process did not seek for integration to go much beyond the economic sphere, but even though they focused on “common market arrangements [and] the development of industries across countries on the basis of comparative advantage” (Erruza, 1979, 74), a political spillover did not occur. Granting that political integration was spoken of and discussed, the idea never developed outside of written declarations and documents. This makes neofunctionalism by itself not completely adequate to explain the process and outcomes in non-EU regional integration projects like the CACM.

Given that integration is both a process and an outcome, it is important to have a complete picture which encompasses as much of the conditions, structures, and actors involved in it as possible. Some neofunctionalist premises hold true for the CACM and naturally the European Economic Community, as Chapter 4 and 3 will show respectively. Yet, this theory’s shortcomings have led to the emergence not only of alternative theories of regional integration for the European Union, but also to modified accounts of neofunctionalism itself. These accounts add elements from other perspectives to neofunctionalism’s “scope (coverage of issue areas) and level (decisional capacity) of authority” (Malamud, 2010, 343) in order to maintain its viability in the field of integration studies. For this reason, we can incorporate elements from other approaches to complement what Neofunctionalism has delivered for integration. The theory that I believe can help us understand better the EEC and the CACM is Historical Institutionalism.

2.2 Historical Institutionalism

Historical Institutionalism is one type of institutionalism, (i.e., a theory whose departing premise is that institutions matter). According to Hall and Taylor, Historical Institutionalism (HI) developed in response to the prominent theories of politics and Structural-Functionalism (1996, 937). Some claim that HI is not a theory in itself but rather an approach to understanding institutions, in other words, it looks at factors or aspects that can best support or develop the way in which a theory frames something (Hay & Wincott, 1998, 953).

Historical Institutionalists affirm that the main factor affecting collective behaviour and generating distinctive outcomes is the institutional organization of the polity (Hall & Taylor, 1996, 937). HI thus examines given existing institutional arrangements to provide an answer to the question why certain outcomes differ from one entity to another and also why within an entity the resulting outcomes benefit everyone involved and in another some and not others, as was the respective case for the European Union and Central America. Hall & Taylor attribute four defining features to Historical Institutionalism: First, it conceptualizes the relationship between institutions and individual behavior. Second, it emphasizes the asymmetries associated with the operation and development of institutions. Third, it has a view of institutional development that stresses path dependence and unintended consequences. Finally, it is concerned with integrating institutional analysis with the contribution of other factors (e.g. ideas), which influence political outcomes (1996, 938). Different scholars have refined these defining features, particularly as they apply them to integration studies. These variations approach institutions differently, particularly when it comes to the understanding of integration processes. Historical Institutionalists would agree that institutions shape behavior but the way in which

they shape this behaviour comes from diverse elements. Other scholars would argue that institutions are like “the rule of the game in a fairly restrictive sense [which] are seen as embedded in and also reflecting particular kinds of social norms and understandings” (Thelen, 2002, 92). Historical Institutionalism goes on to apply a notion that institutions “typically endure for significant periods of time, influencing political dynamics and associated outcomes in subsequent periods” (Lieberman, 2001, 1013). This temporal aspect is what makes Historical Institutionalism different from the rest of other Institutionalisms.²

2.3 Historical Institutionalism and Integration

In terms of integration, Historical Institutionalism is important because it shows “the impact of institutions upon political actors, namely that they affect not only ‘the strategies but also the goals that actors pursue’” (Bulmer, 2009, 309). This is a vital element because it shows that context shapes the direction that specific processes take. Moreover, as time goes on, and depending how actors are making decisions based on specific institutional and societal arrangements, the whole context can change. This means that the cycle starts again and policy makers will take decisions based on this institutional reform.

In order to refer to these points, HI utilizes the concept of “critical junctures.” Critical junctures are defined as a “period of significant change, which typically occurs in distinct ways in different countries (or other units of analysis) and which is hypothesized to produce distinct legacies” (Capoccia and Kelemne, 2007, 347). Critical junctures emerge as a reaction to a certain chain of events. This is important

² For a more comprehensive discussion of the different types of institutionalisms, see Bell, 2002 and Hall & Taylor, 2001.

because it shows that actors will become more aware that the decisions they make with the new institutional setup will be more momentous and have a great impact. Criticisms to Historical Institutionalism often focus on critical junctures. However, the concept is useful because it implicitly shows that the timeframe in which a certain decision is made is relatively smaller to the subsequent time in which that decision will actually be carried out. In other words, Historical Institutionalism looks at the *long durée* of integration and the consequences of the decisions supporting or refusing it.

Simon Bulmer is one of the strongest proponents of Historical Institutionalism as a useful approach to integration processes. He believes that Historical Institutionalism's main contribution to integration studies brings out and fully develops the role that institutions both inside and outside of government play in the development of integration. This approach "encompasses broader aspects of governance: a wider remit than the formal institutions of state or government" (Bulmer, 1998, 369). In the case of the European Union, for instance, Bulmer expands on the role of judicial institutions (both the European Court of Justice as well as legal rulings) on integration and how they shape the way it is taking place. While it is true that economic imperatives could have spilled over onto the legal arena of integration, as Neofunctionalists would argue, Historical Institutionalism not only sees this integration as mere 'history-making decisions,' but also that it actually is 'evolutionary' and is "taking places between step-changes" (367). Furthermore, Historical Institutionalists claim that only looking at integration treaties and bargaining between governments (as Intergovernmentalists would argue) does not fully show what integration entails. Instead, Historical Institutionalism remains attentive of the "beliefs, paradigms, codes, cultures and knowledge' embedded

within institutions...because it is difficult to isolate formal institutional rules from the normative context (Bulmer, 1998, 369). Thus, HI sees integration as the institutionalization of collective action developing in a sequence of events which seeks to achieve a determined outcome. It also “helps to organize analysis of the evolution of ideas within institutions; of institutional cultures embedded within different parts of [the European Commission or the ODECA], of the change in institutional values brought about by the commitment to complete [the EEC or CACM] and other normative changes” (369). Additionally, it involves more actors like “the informal decision arenas – the ‘smoke-filled rooms’ of politics; the accumulation of jurisprudence and the development of the legal norms...‘soft law’ and political declarations” (Bulmer, 1998, 370) as influential in integration outcomes.

Finally, HI realizes that norms play out at *different* levels (and not only in the federal governments as Intergovernmentalism suggests). HI would argue that the governance of the integration project would eventually come from the different levels involved. Another integration approach called Multi-level Governance has focused on these levels. However, it is not used here because it assumes that “decision-making competencies are shared by actors at different levels” (Hooghe and Marks, 2001, 3). In the case of Central America, this dispersion of power did not happen, another reason why Historical Institutionalism is preferred.

2.4 A Neo-functionalist-Historical Institutional Mix

Among the theories of integration that have gained some prominence in the field is Intergovernmentalism. Though an in-depth analysis or critique of this theory goes beyond the scope of this paper, it is worth mentioning that even though Intergovernmentalism has a ‘teleological’ view of integration like neofunctionalism

does (i.e., economic integration is pursued in order to eventually reach political integration), its focus on the member states' federal governments' bargains, not only makes Intergovernmentalism more reductionist than Neofunctionalism, but it also makes it even more difficult to incorporate all the different kind of institutions that Historical Institutionalism ascribes to integration processes. In the case of the Central American Union particularly, where so many non-state and international actors influenced the way in which the process developed, Intergovernmentalism's idea that "international institutions [are] passive, transaction-cost reducing sets of rules" (Pierson, 1996, 328) limits the extent to which we can use it to understand integration processes.

A combination of Neofunctionalist and Historical Institutional elements will result in a very comprehensive understanding on the different routes that the European Common Market and the Central American Common Market took. Historical Institutionalism (HI) helps fill some of the gaps of Neofunctionalism. HI emphasizes the overall context in which political and economic leaders have to make decisions. It does not focus on whether "nation states are winners or losers of the [integration] process but more neutrally on the way in which the negotiating fora shape the outcome of negotiations" (Bulmer, 1998, 371). HI also gives flexibility to the rational choice assumption that "humans are simple rule followers or that they are simply strategic actors who use rules to maximize their interests" (Steinmo, 2008, 163). It adds the "when" factor into this understanding of the process in order to show whether other exogenous factors led specific actors to take specific decisions. In addition, it examines the consequences of those decisions in the long term because it shows the implications of a decision and explains that decisions are path dependent, meaning that once a decision is made, it would be too costly to reverse. And it is here

where the mutual complementarity between the two happens: Neofunctionalism would show that incentives existed in Central America to actually move the process of integration. It would also assume that both governmental and non-governmental groups move the process of integration depending on their interests. But how are these interests shaped in the first place? I will share here HI's assumption that the institutional setting affects these interests and affects integration's development.

These two theories complement mutually because each of them provides specific departure points for understanding integration processes. The Neofunctionalist spillover effect takes place nationally and regionally; yet, it is not sufficient by itself to fully grasp integration processes outside of the European Union. Historical Institutionalism focuses on "the construction of necessary regulatory arrangements...the inputs made by political actors...and the character of the resultant policy" (Armstrong & Bulmer, 1998, 6). These inputs come from both endogenous and exogenous institutions particularly for the CACM case. By using prevailing ideas (e.g. modernization and industrialization) in a determined context, exogenous institutions (the U.S and the United Nations Commission for Latin America (ECLA) particularly) imposed a "decisive thrust toward integration" (Malamud, 2010, 639). Such factors can only be analyzed through a Historical Institutional lens because of its capability of understanding the shaping of conceptions of integration at particular points in time, and how this creates "junctures" which then remain "sticky" over time.

Historical Institutionalism provides a clearer picture of the reasons that could move an actor toward one policy or another because it "provides a more expansive view of institutions not just as a strategic context but as a set of shared understanding that affect the way problems are perceived and solutions are sought" (Thelen, 1999, 371). It shows that institutions not only move actors toward making certain decisions

and adopting certain policies but also that they constrain their choices because “institutions [have] a much more important role shaping political inputs as well as outcomes” (Steinmo, 2008, 165).

As these theories would claim, through integration, a country opens to other countries and gives up some of its sovereign capabilities. Intergovernmentalist theorists refute this by arguing that “states’ preferences are weighted toward preserving sovereignty, leading Chiefs of Government to be vigilant guardians of national autonomy in evaluating proposals for international cooperation” (Pierson, 1996, 127). Steinmo nevertheless concluded that it was only after “detailed Historical analysis” that “the very different political institutions through which public and elite preferences were translated into policy had enormous effects on the structure of actual policy outcomes” (Steinmo, 2008, 160-1). This example shows that understanding not only the institutions but also their contexts is sometimes necessary in order to get a clearer picture of the motivations behind specific policies because these contexts “not only provide obstacles to particular policy choices, but they also structure the menu of choices available in different regimes” (Thelen, 1999, 375). In short, a combination of Neofunctionalism and Historical Institutionalism can provide significant contributions to our understanding of domestic politics and regional integration policy development.

This paper will thus seek to complement the Neofunctionalist account with Historical Institutionalism’s added value in order to better understand the development of the EEC and the CACM. As mentioned earlier, HI’s focus on institutions *over time* matters. What followed from the European Economic Community, and the Central American Common Market was not only a result of specific actors’ rational decisions; the institutions around them provided legitimacy.

Again, HI has been helpful in understanding integration processes because its analysis emphasizes that these processes did not take place in a vacuum. Additionally, it also helps relax Neofunctionalism's assumption that integration requires open economies, stable democracies, and that regions seek not only to economic but ultimately political goals. These Neofunctionalist assumptions do not necessarily apply to either of the cases as it will be explained later but by complementing these theories we can display their processes and outcomes more adequately. I will begin with the European Common Market.

Chapter 3

Spillover and Institutions at play: The European Economic Community

At the end of the World War II Jean Monnet wanted to see a ‘United Europe’; he could not have imagined that not only integration would take place the way it did but that France would actually be the one party stalling it in the 1970s. This chapter will focus on the integration around the 1958 Treaty of Rome, because its constituting of the European Economic Community, was not only a “history-making” decision as Peterson and Bomberg note (1999) but it institutionalized the economic framework of the Community. The creation of the European Economic Community (EEC) was indeed a far-reaching step from the French-German motivated European Coal and Steel Community (ECSC). This chapter will attempt to explain how the decisions behind the formation of this community evolved into a solid economic community in contrast to the Central American Common Market also forming at the same time. It will also show how, in light of a theoretical combination of Neofunctionalism and Historical Institutionalism (HI) presented in Chapter 2, we can better understand how a strong economic ideational base and strong institutional arrangements, remarkably embodied through the European Court of Justice set a precedent for integration to arrive to the EU we know today, very much contrary to the Central American region.

3.1 World War II and Integration attempts in Europe

The end of World War II meant a new beginning for European international relations and for the Continental Europe’s internal dynamics. The fragile state of countries as a result of the war forced them to take strong and decisive decisions about their place in the world with regards to the United States and the Soviet Union. Europe’s desire to not experience again the bloodshed they had suffered drove their

decisions; peace needed to be guaranteed. But not only were rational interests relevant, a vision for Europe entailed the idea of “an unequivocal commitment to democracy, justice, and human rights...and [wanted] to bring Germany into the international fold” (Dinan, 2004, 23) and only countries tied to these interests of France and Germany could actually join (Dinan, 2004, 47).

Thus, just like in the world-apart case of Central America, specific interests and ideas pushed strongly for integration. But this was not a new phenomenon. The Benelux countries (Belgium, the Netherlands, and Luxembourg) had attempted integration right before the beginning of the Second World War (Jensen & Walter, 1965, 12). They had sought not only to create a customs union (i.e., no barriers to trade between countries and intra-regional free movement of goods) but also to bring these countries into a “full” economic union (one in which all member countries harmonize their economic policies). Also, in 1949 and due to the “European Movement” ideas for unity, the Council of Europe was created under the perception it would become “the future legislative branch of a United States of Europe” (Paxton, 1985, 573). Its preamble proclaimed its acceptance of the values of “individual freedom, political liberty and the rule of law, principles which form the basis of all genuine democracy” (Archer & Butler, 1992, 7). Even though these integration initiatives did not fulfill its promoters’ goals, they set strong ideological and institutional foundations that would mark the route that other countries would follow in their adoption of the European Coal and Steel Community (ECSC).

3.2 The European Coal and Steel Community

Devised by Robert Schuman, the ECSC was to put coal and steel production “in the hands of the most efficient firms” and of “a single, supranational authority” (Jensen & Walter, 1965, 15, 17). Since the very beginning, an ‘economic imperative’ was present in European Coal and Steel Community (ECSC). As Neofunctionalists would point out, this treaty was only an instrument for the ultimate goal of European leaders: political integration. This is where Historical Institutionalism’s emphasis on ideas complements neofunctionalism as it shows that strong ideas of peace and prosperity in that context encouraged integration because they changed societies’ perceptions and affected integration despite some authors’ claims that coal and steel as economic factors were in fact not suitable for economic integration (Dinan, 2006, 128-9).

3.3 The Treaty of Rome

In terms of integration, the Treaty of Rome is described as a European integration document that “drew together all of the protocols, conventions, and agreements which had been implemented” in the past (Jensen & Walter, 1965, 13). This treaty was indeed a pivotal step in the consolidation of both a European Common Market and the European integration after the ECSC. Furthermore, it was a response from the European powers to ‘international shocks’ coming from the decline of American hegemony and economic rise of Japan (Hooghe & Marks, 2008, 111) which in turn required action since the European powers believed their world competitiveness was at stake.

Even though these economic motives were in place, the European ‘capital economies’ needed “rules made and enforced by state in order for markets to work”

(Fligstein and Mara-Drita 1996, 1) for this Treaty to work. In Central America those ideas and assumptions did not necessarily drive the countries, which provides for a distinct departure point for both a Neofunctionalist and Historical Institutional integration. As Neofunctionalists argue, a “supranational institution” emerged as a result of the efforts of those “entrepreneurs” (Fligstein & Mara-Drita, 1996, 2) who called for an integration take-off despite their specific (and quite diverse) interests and norms. Neofunctionalism assigns a key role to these groups because they see integration as a structural change that will promote their rational interests and begin a spillover effect. But it is here when neofunctionalism would stop. HI would help us see that the strength of the institutions both in the system as well as in the process of integration helped determine whether integration would deepen or not.

3.4 The European Economic Community takes off: The Role of Institutions

As mentioned above, the initial push by the elites for integration and the subsequent spillover effect present only one side of the EU economic integration. The historical conditions and institutions were critical on the path integration followed during the 1950s because of the important relationship between expectations and consequences of actors’ policy decisions. Indeed, by accommodating integration, institutions changed and established the “basic features of institutional design and ‘day-to-day’ policy-making in the Community” (Pierson, 1996, 125).

Historical Institutionalism would point out that the Treaty of Rome itself displayed embedded values and ideas of “an ever closer union among the people of Europe” (Dinan, 2004, 76) as its preamble reads. Furthermore, institutions in the European Union became prominent in the “movie” of integration because exogenous actors like United States actually left it to the European countries themselves to take a

stronger lead on their integration efforts despite America's initial interest and pressure on the concept of a United Europe (Dinan, 2006, 52). The ideals articulated in the Treaty of Rome and the non-intervention by exogenous institutions during the process could not have been more opposite to the Central America case as will be shown in Chapter 4.

The European Coal and Steel Community (ECSC) not only showed a spillover, but also an institutional change as “gaps emerged in member state control over the evolution of European institutions and public policies [which] are difficult to close ” (Pierson, 1996, 126). These gaps moreover, “create[d] room for actors other than member states to influence the process of European integration while simultaneously constraining the room for maneuver of *all* political actors” (Pierson, 1996, 126). Thus, despite's neofunctionalist attributes to the process, ideas and norms also shaped actors' behaviours at different levels. Historical Institutionalism would maintain that this ‘critical juncture’ made these actors exert pressure for future strategies to follow the same path of past decisions. In other words, those timing and conditional factors indirectly strengthened European integration from within because they demanded institutions at the national and regional levels to define their goals and ideas about what integration entailed for them.

Even though other integration approaches look at the “multi-tiered dimension” of these actors³, I focus on institutionalization “whereby social processes, obligations, or actualities come to take on a rule-like status in social thought of action” (Gorges, 2001, 155). Historical Institutionalism brings in the importance of discourse because

³ Even though this point was beyond the scope of the paper, it is worth mentioning the multi-governance model pointed above. This approach tries to look at the European Union from the perspective of the many actors that have an influence on it at different levels (locally, nationally, regionally, internationally). Nevertheless, Historical Institutionalists criticize it as not being able to define and “specify which actors, at which level, are casually important” (Gorges, 2001, 152; Pierson, 1996, 124).

we cannot assume that member states refocus their loyalties, activities and expectations toward a supranational authority “in a classical neofunctionalist fashion” because it is not only the Act that gives power to it (Chryssochoou, 2001, 94). Though space constrains an exploration of all levels of actors in the European Union, it is worth noting some of Simon Bulmer’s classifications of the institutions and instruments of governance of the European Community as shown in table 1 below:

Table 1: Bulmer’s Institutions of Governance

Institutions of Governance
<i>A. The Institutions of Governance</i>
1. The Supranational/intergovernmental institutions
2. Inter-institutional relations
3. Internal institutional organisations
4. Internal institutional procedures
5. Institutional norms
<i>B. The Instruments of Governance</i>
1. Treaties (supranational or intergovernmental)
2. Constituent agreements
3. International Law
4. Secondary EC legislation and decisions
5. ECJ Jurisprudence
6. ‘Soft’ EC or international law
7. Political agreements

Source: Bulmer, 1996, 358.

Historical Institutionalists, therefore add to the origins of the Neofunctionalist spillover effect, asserting that integration depends not only on certain existing conditions but also on the institutions and instruments embedded in the game. In other words, although certain ‘conditions’ seemed to be present in the European Economic Community and the Central American Common Market, they cannot fully explain the directions integration took. Historical Institutionalism’s lens therefore helps understand how an institutional arrangement has an impact on not only how the European Economic Community and the Central American Common Market came about but why they developed over time in a specific fashion.

3.5 The European Court of Justice: an embodiment of Neofunctionalism and Historical Institutionalism

One of the most studied institutions in the development of the European Economic Community and later on the Single European Market has been the European Court of Justice (ECJ). These studies show the importance of this institution and its ideas in the development and deepening of integration. Although the European Commission, the EU’s ‘supranational authority’ has influenced and carried out policy (Wallace et al., 2010), it has done so based on established conceptions of power through a system of checks and balances which emphasizes the community’s ability to achieve supranationality (Rudhart, 1986, 279). In addition to space limiting the analysis to one institution, the ECJ seems to deal with many aspects of Bulmer’s classification above. The Court’s regulation by law, such as the *Cassis de Dijon*⁴ case, have served “as a kind of substitute for some of the less formal trust which might be built into a more developed polity” (Bulmer, 1998, 70) and shaped the way the Commission carries out economic integration. Also, understanding the

⁴ This was a ruling that helped determine the inter-state free movement of goods (See Wallace et al, 2010).

presence of a strong Court of Justice in Europe and lack of it in Central America proves valuable in understanding the outcome of integration since both regions had a similar (yet at different degrees) supranational ‘executive.’

Both Neofunctionalism and Historical Institutionalism emphasize the European Court of Justice for different reasons. Neofunctionalists would argue that the economic integration would eventually call for legal integration because “the greater the density of trade among EU countries and within a sector, the greater the demand on the part of firms for transnational dispute settlement” (Gorges, 2001, 112). Neofunctionalism would see these ‘entrepreneurs’ as part of the spillover but would fail to point the similarity (or difference) of ideas moving this body in respect to integration. By taking into consideration the legal aspect of integration, Historical Institutionalism complements this picture because it incorporates legal integration theories which remark that values like “a very strong powerful legal system” (Garrett, 1995, 173) become embedded in the Court and also that judicial preferences change in the temporal and institutional context of Treaty reform and the evolution of the Union (Granger, 2005). The Court thus perceives these ideas as a means of legitimacy which it then uses to embed already-predominant values of the EEC like market orientation and economic rationality on agents’ preferences, acts, and policy outcomes. Haltern, for instance, considers the law “a major *leitmotiv*” for European integration and points out that the purpose of law and the Court is nothing but to bring an order with the very specific purpose of the promotion of the process of integration “on a number of levels, including the economic, monetary, and the political” (Wiener & Diez, 2004, 179). Even though Neofunctionalism would see the power of the Court as a result of the spillover effect, Historical Institutionalism’s “dynamic-institutions”

helps us see how institutions like the Court sets norms, and conventions of behaviour which shape the pattern of political behaviour (Bulmer, 1994, 355).

This historical institutional view of the dynamics of the institutions also helps us understand why the ECJ influences economic integration so much even though it does not create policy *directly*. Neofunctionalism would argue that a spillover infiltrates the legal dimension due to the existing conditions. However, Historical Institutionalism would add that a strong legal foundation becomes key for integration for it guarantees to certain key member states that their interests are guarded (Armstrong & Bulmer, 1998, 36). The ECJ is thus only one of the many institutions behind the governance of the European market which seems to display a Neofunctionalist/Historical Institutional fusion. As Neofunctionalists would argue, the process of the European Union creation sought to “integrate the areas of ‘low politics’...create a high authority to oversee the integration process...integration of particular economic sectors...deeper integration...and a system of peace” (Holland, 2000, 52). However, Historical Institutionalism shows that the context and the strength of the institutions driving this integration was a necessary factor for the spillover effect to actually move on beyond economics. This strong institutional foundation would be crucial in the reemergence of integration efforts despite a tumultuous period during the ‘empty chair crisis.’⁵ A strong institutional arrangement also helps the implementation of ‘treaty promises’ which “entails a lengthy process of establishing common rules, regulations, and policies” (Mattli, 2005, 328). And indeed, some have even argued that during this time “key judgments emerg[ed] from

⁵ The “empty chair crisis” was the time when French President Charles de Gaulle opposed the extension of Community competences and thwarted integration efforts: “De Gaulle was responsible for obstructing Community development in three major ways: through opposition to enlargement, via the ‘Luxembourg Compromise’ (which gave France veto power on Community decisions) and by refusing to extend the power of the Community’s existing institutions” (See Holland, 1993, 34).

the European Court of Justice in Luxembourg” (Phinnemore & Warleigh-Lack, 2009, 112). So strong was the institutional presence over time in the process of the European Economic Community that it helped it become a political integration to the degree of a ‘federalist state’ (Chrysoschoou, 2001, 18). Thus, these factors made the European Union integration process take a very different direction from that of the Central American Common Market, the focus of the next chapter.

Chapter 4

The Central American Common Market: The Result of (the lack of) Institutions

Central America today is a region composed of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua. Certain studies include Belize and Panama as part of the region due to their geographical location, yet in terms of integration only the other above-mentioned countries have fully participated in the multiple unification attempts. Central America is not only considered a geographical region, but also a political and above all, an economic one. Central America's process of regionalization goes back to colonial times. In the early 1800s, the Central American nations acted as a block to gain independence from Spanish rule and the Mexican *capitanía* and became the United Provinces of Central America. But the Central American integration was unique in that different ideas and interests mixed and converged in "a short and tumultuous existence characterized by the violent struggles between liberals and conservatives" (Halperín-Donghi, 1993, 106). This has resulted into the isthmus being considered a region by the outside world, but not necessarily by the member countries themselves. In the 1960s, Central America retook integration and despite being considered one of the greatest integration efforts at the time, the experiment eventually failed. This chapter will seek to analyze this process in light of Neofunctionalist and Historical Institutional accounts in order to portray its origin, development and eventual decay.

4.1 The ‘Central American Union’

Since their independence from Spain, Central American countries sought to export their agricultural products as a region because they realized that they had a comparative advantage in them, particularly with coffee, sugar and bananas (Hornbeck, 2003, 5). However, since its initial conception, this union envisaged a specific idea of economic efficiency. Yet, the gains from its implementation only benefited some and not others. This led to many conflicts. For instance, a revolution in 1837 dismantled the first project of a united Central America. Not only has this conflict been an economic one but above all an ideological one. El Salvador, for instance, acquired the reputation as the center of ‘liberalism’ an ideology that called for abolition of taxes, promotion of economic development, and free trade (Skidmore & Smith, 2005, 360). These ideas, along with El Salvador’s producing the majority of the most important region’s exports ignited an interest for regional integration.

As time went on the region’s countries’ ideological and politico-economic struggles influenced their integration context given the status of their social and economic structures, e.g., their “coffee economies” as one of the strongest forces driving the integration process. Thus, since the very beginning a ‘Central American region’ was thinly conceptualized which resulted in many slow and quarrelsome processes.

4.2 Central America integration efforts in the 20th century

Integration efforts in Central America took place in multiple stages and at different points in time. The process was not a continuous one, but one that faced many obstacles due to their historical battles (Granados-Chaverri, 1986, 75). Different nations pursued integration differently because even though external actors

considered the region homogeneous, the member states emphasized both an economic difference by stressing those exports at which they had a comparative advantage, but also a geographic and population difference, with each country accentuating strong national identities. These are only a few of the factors that stalled the integration process for a long time.

It was not until the 1950s that regionalization efforts re-emerged in a context where actors both inside and outside of the region “interfere[d] in the internal affairs of Central American republics and desired to establish Central American unity under [one country’s] hegemony” (Bulmer-Thomas, 1998, 141).

The Central American nations’ initial negotiations began as the field of development studies was emerging. Rostow’s “modernization theory” was perhaps the first and most strongly advocated policy for developing countries during that time. This theory prescribed countries to focus on economic progress by following what Rostow called the ‘five stages of growth.’ According to Rostow, most societies’ development reflected a sequence of five stages which were: 1) the traditional society, 2) pre-conditions for take off, 3) take off, 4) the drive to maturity, 5) the age of high mass consumption. Modernization theorists placed societies in different stages of development to fit this description. In Rostow’s scale, Central America’s development conditions would stall in the first or second stage because they did not have the necessary infrastructure for a full take-off stage (Rostow, 1960).⁶

Thus, while neofunctionalist would argue that groups in the region utilized the economic conditions of the region against the increasingly industrializing world,

⁶ For a full discussion of Rostow’s modernization theory, see Rostow, Walt Withman (1960) “The five stages of growth – A Summary” *The Stages of Economic Growth: A Non-Communist Manifesto*, (Cambridge: Cambridge University Press).

Historical Institutionalists would elaborate that behind this pressure, it was the ideas of modernization and industrialization which also allowed for integration to happen. Like the European Economic Community, a strong ideal behind the Central American integration was its potential to become economically competitive and prosper. They differed however, in that the ideational influence of external actors was stronger. For instance, since its creation, the United Nations Commission in Latin America (ECLA) “made it clear that industrialization could only be carried out at the regional level, otherwise high-cost, inefficient plants would be duplicated across the isthmus (Bulmer-Thomas, 1988, 75). The United States, another heavily involved actor in the region, also espoused these theories and attributed to those ideas its own economic boom at the time. This convinced the Central American elites that integration was the solution to improve their economic conditions and compete against a continuously globalizing world. Industrialization then became “one of the Central America’s major objectives in forming a [union]” (Bulmer-Thomas, 1988, 77).

As Neofunctionalist Ernst Haas would assert, the Central American countries thus had at the time strong and necessary economic conditions for spillover effect to take place. El Salvador, Guatemala and Honduras signed a preliminary Treaty of Economic Association in 1960 nevertheless, because they would not give up on the belief that CACM would be the best way to implement import-substituting industrialization (Perez-Brignoli, 1983, 389) which would eventually bring economic growth. However, since the very start of the process we can see that the neofunctionalist ‘shifting of loyalties’ to a supranational institution were not there. In addition, delays and further negotiations had to continue before the rest of Central American countries joined the General Treaty of Central American Economic Integration (Roy, 1992, 191), which liberalized most of intraregional trade.

But the institutional setting of the time would prove important because of the dynamics between internal and external actors. The region's political and structural changes at the time resulted in conflicting views about how the Central American Union would take shape. Unlike the European integration efforts, where the push came from within, in the case of Central America, many actors, elite and non-elite, governmental and non-governmental, and at the national, regional, and international level pressured both for and against integration efforts. For instance, institutions like the Catholic Church and organized labor movements experienced reform and became important actors in the way economic development and therefore integration developed. The Catholic Church, on the one hand, developed a religious pro-poor mission calling the vast majority of the poor Catholic population to challenge their oppression. Organized labor groups, on the other, striked and organized opposition parties in order to confront the inequality resulting in the rich getting richer as markets expanded and the poor got poorer as a result of integration (Holloway, 2008,407).⁷

4.3 The Central American Common Market (CACM)

As mentioned above, the notion of integration became embedded with Central American prominent groups' objective to 'prosper.' According to Lindenberg, the region enjoyed excellent economic performance and higher economic growth than the world's average at the time (1988, 161). In addition, these 44-million people-and-\$54-million-GDP nations became aware of their interdependence on a small number of export products which had a disproportionate impact on their economies and made

⁷ An in-depth analysis of these opposition forces goes beyond the scope of the paper and space also limits a thorough overview. Their presence was unique in the Central American integration process and very contrasting to the EEC case.

them more vulnerable to economic cycles (Lindenberg, 1998, 159). Changes in the international economy, particularly the development of technology, played a role in the way business elites and the countries' governments worked toward integration. As Bull has noted, "the Central American integration process has been interpreted...as being strictly commercial, modeled externally and without any ambitions other than perfecting the free trade zone and dismantling protection" (1999, 959). The Central American countries were thus pursuing product and market diversification strategies and "a new more dynamic mixed strategy that would involve more sectors" (Lindenberg, 1998, 167) as vital components for their integration.

The Central American Common Market (CACM) thus started to take shape at the beginning of the 1960s. The impact of this newly formed common market was very dramatic. Like the case with the Common European Market, integration in the context of Central America meant "an extension of the consumer market and the export of industrial goods for each of the Central American republics" (Perez-Brignoli, 1983, 372). The CACM wanted to harmonize the countries' terms of trade, in other words "the integrated region as a whole must be no more protective than the barrier of all the countries separately" (Staley, 1962, 89). This resulted in an increase in the flows of external funds to each republic and to the new institutions of the CACM, contributing to a very respectable growth in overall GDP and GDP per capita over the decade (Roy, 1992).

The following table shows the impact of this treaty on the region's trade:

Table 2: Trade Growth in Central America in the 1950s
(in thousands of U.S. Dollars)

Year	Total imports of the 5 countries	Total Intra-Regional Imports	Per cent of total imports	Intra-regional trade per cent increase from previous year
1950	223,50	8,290	3.6	---
1951	268,77	9,735	3.3	16.9

1952	310,21	10,287	3.1	6.2
1953	252,89	11,379	3.4	10.7
1954	362,86	13,416	3.5	17.5
1955	410,35	12,791	3.1	-4.5
1956	460,80	13,841	2.9	5.5
1957	514,69	16,555	3.2	23.0
1958	500,67	20,545	4.0	23.5
1959	464,89	27,993	5.9	36.6
1960	514,14	32,674	6.4	16.8
1961	495,78	36,802	7.5	12.5
1962	552,13	50,366	10.9	37.0
1963	652,58	72,098	9.0	41.2
1964	770,44	106,399	7.2	47.6
1965	889,70	135,976	10.0	27.8

Source: Roy 1992, 192

As this table shows, the trade terms for Central America tripled during the early 1960s, confirming its depiction as “the Golden Age” for the region (Bulmer-Thomas, 1998). Neofunctionalists would perceive this context of interdependence as ‘ideal’ conditions for a ‘spillover’ to begin.

But this integration would not only encompass the region’s economic expectations. As mentioned earlier, the CACM was promoted under the idea of ‘modernization,’ an “ambitious initiative inspired by the successful Western European experience” (Devlin and French-Davis, 2000, 261). Elites within the region aided by international actors (e.g. the U.S. and ECLA) further elaborated their ‘economic development’ and ‘modernization’ notions by claiming that individual nations could not thrive in the international world alone. They also referred to the rising prominence of the European Union integration, particularly the Common European

Market, to make a stronger connection with such ideas. Thus, a Historical Institutional analysis of the region (both the economic boom conditions and the elites' insistence on integration) helps understand the origins of the CACM. The elites particularly, took advantage of an economic institutional setting of the time in order to present integration as the solution to their countries' problems and enrich themselves.

4.4 The role of institutions?

The active role of actors "committed to capitalist modernization" (Bulmer-Thomas, 1983, 155) within each country began the initial formation and development of the Central American Common Market. El Salvador, for instance, had remained a catalyst for liberal ideas both nationally and regionally since the 19th century. In addition, the fact that the region's main exports had become coffee and bananas gave the elites the push for the adoption of a Common Market (Mahoney, 117). This commitment to integration was not equal from country to country given that period's almost non-existent institutional framework (Bulmer-Thomas, 1998, 177). Neither did this commitment grow, as not all countries engaged equally with modernization development ideas, and due to the various degree of interference from external actors like the U.S. and the ECLA.

In addition, an extremely politically unstable context surrounded these countries. Guatemala and El Salvador experienced multiple *coups* during CACM and regional integration discussions. This made them divert their attention away from both the ideas the CACM entailed and its implementation. In other words, only by understanding the institutions outside of the 'spillover effect' can we see the gaps they created on the process and how they constrained the elites' efforts of pushing integration forward.

A strong institutional arrangement depends “on the appropriate institutions and procedures for resolving the numerous problems and disputes which common market partners experience” (Bulmer-Thomas, 1988, 177). The problem with the CACM was that, according to some, it was ‘additive,’ meaning that it “built upon the existing economic and social structure without changing it in any way” (Irvin, 1988, 8). Neofunctionalism sheds light on the fact that the CACM did not bring significant change to the economic and political structures. Historical Institutionalism would complement this by focusing on the idea of modernization which set an institutional framework for the CACM to become a ‘critical juncture.’ Neofunctionalism shows that the elites “took as much advantage as possible of the integration incentives and were able to pressurize their own governments to obtain advantages” (Perez-Brignoli, 1983, 375). It therefore explains that since the elites did not want dramatic change political integration would not follow. Even so, Historical Institutionalism becomes important because by entering the picture it shows the weakness and inequality of the institutional structures and their “contradictions to the spirit and the letter of the agreement efforts” (Perez-Brignoli, 1983, 375) which eventually led to the CACM’s failure.

Hence, this outcome of the CACM resulted from both the weak integration institutional framework and the strength of its opposition. Though an initial Neofunctionalist spillover effect did take place in Central America, the CACM showed that other forces and the institutional contexts did not allow a self-sustaining Neofunctionalists spillover (Malamud, 2010, 644). It is here where the institutions or lack thereof, explains the way the process played out. For instance, the ODECA, Central America’s ‘European Commission’ was never envisioned as “stronger than individual governments” (Busey, 1961, 60). Additionally, unlike the European

Economic Community, the Central American Union efforts did not originate necessarily out of intra-regional peacekeeping concerns. On the contrary, the conflict of ideas resulted in CACM as an integration attempt igniting a “football war” between two of the member countries, El Salvador and Honduras in which the former spent one-fifth of its budget in 4 days heavily deteriorating their terms of trade and jeopardizing the goals of the CACM (Holloway, 2008, 414).

These and many other factors are of utmost importance to show the different actors at the CACM in which “many businessmen, through the Chambers of Commerce, the growing numbers of overseas-trained technical specialists and economists, influential overseas investors in industries seeking regional outlets...and the United Nations Economics Commission for Latin America were all pressing Central American governments towards economic unity” (Cable, 1969, 661). Thus, it was not only the elitist economic interests moving the region; other interests, shaped by various institutions affected both the region as a whole as well as individual countries.

Thus it seems that the very foundational ideas behind an economic union were not absolutely clear when the CACM was established which would make it doomed to fail. Historical Institutionalists would argue that the political stability of the Central American countries did not allow for strong institutional foundations toward the integration process both nationally or regionally. Furthermore, Bela Balassa would argue that the necessary common market arrangements were not present, e.g. free flow of actors, in the CACM agreement (the others being no tariff or quotas, a common external tariff) which made the CACM more of an intraregional “free trade area” than an economic union (Balassa in Nye, 1968, 858).

Also, despite specific groups pushing for integration, the CACM did not presuppose “common markets in which significant institutions have been created...or liberalization forces” (Nye, 1970, 796) as Neofunctionalists would contend. This lack of strong institutions for integration, and the unequal distribution of the gains and conditions that were present for the beginning did not equate with higher welfare and development for all sectors of society in all countries; rather, it allowed for opposition movements to emerge, an intra-state war, and the ultimate failure of the Central American Common Market.

Chapter 5

Conclusion

This paper has analyzed convergence and divergence of the processes of the 1950s European Economic Community and the Central American Common Market and their respective outcomes. Even though these two processes had similar ideational and material departure points, their directions could not have been more different. By applying elements of Neofunctionalist and Historical Institutional integration approaches I have shown the presence of strong institutions and their absence was pivotal in understanding why these two processes resulted in such different outcomes.

A Neofunctionalist-Historical Institutional analysis can give a comprehensive picture of why the processes took different directions. On the one hand, these two cases and their elite groups showed, and confirmed, Rosamond's neofunctionalist explanation of integration as a process initiated by self-interested actors who join forces in order to get societies to pursue their own interests and not the common good (2000, 56). In the European case, the elites played a role in shifting political actors' loyalties and expectations to a supranational level. In Central America, the elites' economic interests and influence from external actors were able to 'sell' the integration message to their societies by attaching it to the region's booming economic conditions at the time. However, the ECSC and the EEC started a 'spillover effect' but the same did not happen for Central America. This research reflected that as the spillover effect in Central America stalled, so would neofunctionalism in explaining it.

My analysis has shown that in addition to aggregate societal behaviour and interplay of actor's interests, ideas and institutional arrangements also account for the

respective convergence and divergence from the vision of ‘integration’ that the European and the Central American integration processes had in mind. By adding Historical Institutionalism’s focus on the ideas and the institutional settings behind the spillover (or lack thereof) I showed that these two system’s institutional arrangements were key in constituting specific political arenas and in shaping the outcome of integration. These cases demonstrate that institutions matter and that they punctuate the integration processes within the context of “mutually understood principles, norms, rules, or procedures” (Jupille & Caporaso, 1999, 431) thus impacting their political outcomes.

In the European Union, adding the idea of ‘supranational authority,’ as Europe’s unique means to avoid war, to existing economic interests proved pivotal in establishing specific conceptions about integration. This ideological foundation would be a strong base for the Treaty of Rome’s ensuring that national and community interests were represented and that the right EEC institutions and their functions also reflected that. Although length limited my analysis to one institution, I showed that the European Court of Justice’s rulings ingrained specific ideas like ‘the rule of law’ and ‘checks and balances,’ which became accepted as fundamental fixed rules that stand over and above the community (Turner, 2008, 47) and gave the ECJ further legitimacy as an integration force. These and many other ideas, which derived from different societal actors, became so deeply embedded in society’s view that the thought of reversing integration simply became inconceivable. Though European integration would eventually face obstacles like the ‘empty chair crisis,’ the strength of the institutional structure prevailed and became instrumental in giving a stronger momentum to integration efforts resumed a couple of decades later.

In the CACM case, the process started similarly to that of the ECC but could not have ended more differently. Chapter 4 presented a specific ideological repertoire (e.g. modernization and industrialization) that was used to prescribe integration by external influences; an intra-regional development of them was simply not there. In addition, the forces pushing for it framed it as *the* economic tool, but its practice actually worsened the already existing disparity, both within and among the countries themselves. This was partly because, unlike the European Union, there was not a strong notion of legal order ensuring that all countries benefited equally from this process. The CACM countries' unstable historic-institutional contexts also hindered the legal and political institutionalization of "Central Americanization" (or supranational authority), an opportunity that internal opposition forces used to kill integration to the point of igniting conflict among countries. These factors resulted in a poor understanding of integration and a weak institutional foundation; the problem became more a matter of holding the CACM together rather than advancing it. Although space constrains an in-depth analysis of these events, their occurrence shows that they should not be taken for granted but rather, that they were extremely important in the eventual collapse of the CACM.

In the early 1990s neoliberalism emerged as an ideology and changed ideational paradigms around the world. This ideology called for the primacy of the market in consolidating economic and political stability and prescribed integration as a way to fully achieve this status (Turner, 2008). Central America relaunched an integration project, the Central American Integration System (SIECA), in a context where three of the member countries were experiencing or just ending civil conflicts. Can this context be considered a critical juncture setting new institutions? Given that the SIECA's current longer lifespan and Central American countries still struggling

for integration, the extent to which SIECA has learned from the CACM experience remains a topic for further research.

APPENDIX I: THESIS PROPOSAL

The emergence of the European Coal and Steel Community and of the field of development in the mid-20th century made Central America focused on the idea of integrating with each other. However, Central America is still quite divided economically and politically even though the outside world considers Central America a region.

This leads to the question: What drove integration in Central America? Was it ideological constructs or interests? Were these internally or externally motivated? The prominent ideologically constructs of regionalism frame it as strengthening trade, economic development, good governance, and good democracy. How did these ideas become intertwined with the institutional arrangement of the European Union and Central America given that they unfolded very differently? How did institutions adopt and implement these ideas? What drove the European Community and the Central American Integration Process?

The paper will seek to apply integration theories dealing with the gamma of actors involved in the integration efforts of these two regions. It will also explore see whether external influence affected the process.

APPENDIX II: THESIS PROJECT REPORT

Background

Central America:

During the 1950s the issue of integration became prominent in Central America. Thus, the Organization of Central American states, ODECA became the main institutional body whose main responsibility was the oversight of all aspects of integration in Latin America. The Central American Common Market Treaty (1960) supposed to embody economic integration was pushed even further. Different forces drove countries to accept their interdependence and give preferential trade treatment to each other's goods. The results of these were very different, however, which led to the eventual CACM failure.

At the same time, the new emerging field of 'international development' was prescribing modernization to these poor countries given their conditions. Modernization theory seemed to be the solution for economic problems.

European Union

On the other side of the world, European bureaucrats were also tackling the issue of integration. France and Germany proposed the European Coal and Steel Community (ECSC) and six countries signed. This community emerged "to place Franco-German production of coal and steel under a common High Authority, within the framework of an organization open to the participation of the other countries of Europe" (Ungerer, 2006, 35). In 1957, integration evolved with the Treaty of Rome which created the European Economic Community.

A European Union – Central America dichotomy

These two regions desire to become economically stronger and more competitive in a then-newly rising globalized world system led their integration. This logic was driven by specific groups of people and institution under the label of ‘free trade’ and ‘industrialization.’ If we assume that the motives behind integration were the same, we then need to turn to something else, the institutions, and explore alternative potential reasons that drove the processes and reconsider them.

Ideological constructs of “regional” constructs created an appropriate enabling environment for regional integration, development of strong public sector institutions and good governance, reduction of social exclusion and the development of an inclusive civil society. Moreover, the overall idea of integration has with it an underlying assumption of democratization within it.

The United States wanted a United Europe and Central America in order to have more influence over them. But in Central America the influence was stronger, due the geographical proximity because in the Cold War context, Russia and the U.S. took sides in supporting specific sides of these countries’ conflicts by providing them with military and financial resources.

Research Question:

What accounts for the EC’s success and the CACM’s failure? An ideological or politico-economic influence or both? What should we analyze given the fact that they both had similar origins but then the process and outcomes changed?

This research will focus on the institutional interaction in the European Union and Central America regionalization efforts. It will further investigate the extent of ideological influence on the both the European Union and Central America.

Methodology:

The paper will seek use Historical Institutionalism and Neofunctionalism theories to help unfold how the process of integration took place in the European Union and Central America. Focus will be given to institutions over time, at various stages of integration, their outlook to other regionalization efforts and their instruments of governance.

It will focus on different literature in regards to the process of European integration as well as the view toward Central America that the European Union has taken at different stages of its own integration. So far, some of the most developed integration theories are neofunctionalism and intergovernmentalism. By using Historical Institutionalism, this paper takes a different approach to provide alternative explanations about the internal European integration process and whether institutions can be the reason of failed integration processes.

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