

## Integration Processes in Latin America: The Case of Mexico and Central America

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### Abstract

After describing, within the framework of “Open Regionalism”, the tortuous process that the Central American countries have experienced to achieve their integration as a Common Market, this article analyses the relationship between these countries and Mexico, through the Free Trade Agreement signed among them. Once it is shown that the integration process of the Central American countries is on an impasse, the article explores the possibilities to advance on the economic integration between Mexico and the region. Using quantitative measurement and qualitative elements, this article identifies favorable conditions for such integration to be initiated by Mexico and Costa Rica, whether or not US trade policy changes towards the region.

**Keywords:** Mexico, Central America, Costa Rica, Economic integration, Free trade agreements, Trade policy.

### Resumen

Luego de describir, en el marco del “regionalismo abierto”, el tortuoso proceso que han experimentado los países centroamericanos para lograr su integración como Mercado Común, este artículo analiza la relación entre dichos países y México, a través del Tratado de Libre Comercio firmado entre ellos. Una vez señalado que el proceso de integración de los países centroamericanos se encuentra en un callejón sin salida, el artículo explora las posibilidades de avanzar en un proceso de integración económica entre México y esta región. Usando medidas cuantitativas y elementos cualitativos, este artículo identifica aquellas condiciones favorables para que México y Costa Rica inicien dicha integración, independientemente de si la política comercial de los EE. UU. cambia hacia la región.

**Keywords:** Mexico, América Central, Costa Rica, Integración económica, Acuerdos de Libre Comercio, Política comercial.

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## Introduction

The traditional regionalism in Latin America exists since the 1950's, with the beginning of the structuralism and the start of the Economic Commission for Latin America and the Caribbean (ECLAC), within the framework of the Import Substitution Industrialization Model (ISI) promoted by them. In this context, the integration processes in Latin America were encouraged by the creation of the Central America Common Market (CACM) in 1958 and the Latin American Free Trade Association (LAFTA) in 1960, choosing the strategy of inward-oriented growth regulated by the State. In that moment, the United States of America (USA) Government was a strong advocate of the multilateralism which was aligned with the so-called General Agreement on Tariffs and Trade (GATT).

The difference with the new regionalism emerged in the 1990's, is that this started on the framework of the depletion of the efforts to advance through the trade liberalization by mean of the GATT and its transformation to the World Trade Organization (WTO). Having in front the standstill of the trade multilateralism, countless Free Trade Agreements (FTAs) were born at the regional and bilateral level. By then, a set of changes in the world scenario were shaping the so called economic globalization, with a new world geopolitical architecture with new actors on the economic sphere and new technologies. Hereafter, the neoliberal approach would take more importance, including the minimal State regulation, and the development strategy would have the support of the outward-oriented growth.

Recent efforts to maintain alive the option of the multilateralism through the WTO, and new plurilateral negotiations are coming to life, such as the agreement on services and environmental goods, but again, the developed countries are mostly leading the negotiations and therefore, leaving out other countries. Also, there is a rise in the tendency to negotiate "megaregional agreements". It is the case of the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP), where despite the initial impulse, both agreements have been questioned by the eruption of the new USA Government on 2016 and reinforced when the President, Donald Trump, signed an executive order to pull out of the TPP trade deal in January 2017. Another agreement under negotiation is the Regional Comprehensive Economic Partnership (RCEP), formed by 16 Asian countries. (ECLAC, 2016 p. 81).

In this context, the USA foreign policy had privileged the negotiation of bilateral and regional FTAs until 2016. (Calcagno, 2008; Schiff & Winters, 2003; Rueda-Junquera, 1999; ECLAC, 1994; Cable, 1994). With the arrival of the new USA Government in 2017, there is a policy change, pointing to protectionism. Considering the country leadership position, the world economy could be turning to more integration processes and open regionalism. But by now, its leadership is disputed by new actors which have strengthened their positions in the world scenario, as in the case with China and India, producing a new world consolidated geopolitical architecture.

From the neoclassical approach, the effects of integration processes through FTAs on developing countries to improve their income levels have been studied. In that sense, the results found by Venables (1999) suggest that when those FTAs are signed between low income countries, there is a tendency to the divergence of the incomes of the member nations, while the agreements signed with high incomes countries tend to the convergence. As an example of this, the case of Mexico as member of the North American Free Trade Agreement (NAFTA) and the Eastern-Europe countries becoming parties of the European Union (EU). This is reinforced considering that those agreements can also promote technology

transference to low income members through its effect on trade and by means of the foreign direct investment (FDI).

Recently, specialists from the World Bank (Brown, et al 2017 p. 6) have taken the previous argumentation to raise the pertinence of “Open Regionalism Renovation”, focusing their attention on Latin America. To sustain this proposal, they make emphasis on the role played by the economic integration as a vehicle for technology diffusion and knowledge. Quoting the contributions made by other scholars in the topic (Coe y Helpman, 1995; Lumenga-Neso, Olarreaga, and Schiff 2005), they affirm that countries could learn from the technological component incorporated on the goods they import, specifying that this knowledge component depends on the innovative efforts of the partners of the country and their partners. Other scholars (Morales, Sheu, and Zhaller 2014; Chaney 2011) consider that economic integration could help enterprises from a country to learn about goods, productive processes and business relations of third markets partner’s enterprises, which can provide an increase on the productivity, as well as the entry and permanence on those third markets.

The Open Regionalism, on any of its stages, includes the Regional Trade Agreements (RTAs). These agreements have been questioned as obstacles, but also as important tools to contribute to the construction of the multilateral trade. Supporting the first position are those who refer to the historical experience on its early years, where this kind of regional blocks have had an undesirable geopolitical effect, by generating conflicts on the international relations on some regions. The position that argues these regional blocks can constitute a threat to the balanced development of the Multilateral Trade System (MTS), can be tempered, because it is considered that this could happen unless the tariffs are kept in a way that do not cause trade diversion. If this condition is true and the Most Favored Nation clause is applied, it could increase the world production efficiency and it would complement the Multilateral System (Rani, 2009 p. 29 quoting Bhagwati, 1992 and Krueger, 1995).

Consistent with their functions, the positions of the multilateral organizations have weighted the virtues of these FTAs. Among them, the United Nations Conference for Trade and Development (UNCTAD), by its General Secretary Ricupero, argued that the best way to learn to compete is between neighboring states and “for developing countries is the only way to integrate to the world economy” (own translation). From the European Commission, Trojan also was in favor of this position, considering that regionalism and multilateralism are complementary, and in a similar sense agreed Lamy, General Director of the WTO in 1996 (Rani, 2009, p. 29, 58).

The importance of the geographical location to determine the trade flows is evident, but it has some limitations. Thus, from the beginning of the XXI century, it is observed that the intra-Latin American trade was highly concentrated in a few neighboring countries (Colombia and Venezuela; Argentina and Brazil; El Salvador and Guatemala); but in a very low proportion between Latin American agreements (MERCOSUR and Andean Community, around 4% of the total export; Andean Community and CACM about a third of 1%; etc.). (Guerra-Borges, 2002 p. 187). Since LAFTA changed into ALADI in 1980, there have been repeated proposals to promote the convergence of the RTAs, but the initiative has not found any receptivity. With the emergence in 2011 of the Community of Latin American and Caribbean States (CELAC), a route of dialogue and parallel political agreement has been initiated towards the integration of the subcontinent, whose concrete results are pending.

But beyond the economic multilateralism, the inability of the relevant organizations and the lack of political will of the governments to advance in this route and the evidence that these elements only have favored the growth on some economies, without achieving development in most of the countries to improve life conditions of their citizens, have forced to explore new strategies to attend their conditions and needs to design their own model of development.

One development factor, which has not been well studied, is the role of the business sector and its influence in the economic integration processes, beyond what Brawn, et al (2017) proposes. In this sense, when it is addressed from the perspective of the endogenous development theory, it is pointed out that the problem of the backwardness on the poorest regions should not be attributed only to the insufficient availability of capital and qualified labor, but rather to the entrepreneurial profile of the other key factor in this economic system. The need to have businesses that can cope with the intense international competition that has been imposed, as a result of a process of economic globalization, and, as part of it, the emergence of new competitors from the emerging countries of Southeast Asia (Santos, 2004 p. 184 quoting Cappellin, 1992).

In this process of endogenous development, the importance of the qualitative aspects over the quantitative is highlighted. For this reason, it is crucial to have business leaders that know how to manage knowledge, which implies assessing the technical knowledge, experience, know-how and the creative capabilities in their enterprises. These are qualitative variables that emerge from other factors, also qualitative, such as the cultural, political, institutional and educational system, as well as historical evolution. Unlike the traditional theories of development (in which the territory was only considered as a support for the economic activity), in the theory of endogenous development, such territory becomes an active element, where the various agents that make up the environments interact, and the business factor is included.

A specialist of the subject points that the analysis of the characteristics of the entrepreneurial/business structure, as well as the dynamic attributes and factors which determine the behavior of the entrepreneur, should be considered key elements in the endogenous development model. Thus, the entrepreneurial spirit would be a fundamental factor to explain why there are areas and regions of the world economy that, being less developed or in the process of developing, initiate the necessary structural change that leads them toward the path of growth and convergence to better development levels. Furthermore, it is questioned “why there are others where this structural change does not take place, leaving them trapped in poverty or in a position of endless “catch-up” (Santos, 2004 p. 186 quoting Suarez-Villa, 1989).

In particular, the Latin American countries are in position of taking advantage of the current situation, characterized by the change on the USA Government with a president which position is contrary to economic liberalism and shows no interest on strengthening the ties that have maintained subordination of the Latin American countries to that economy for decades. In this sense, the objective of this research will focus on the possibilities of advancing in the regional integration process between Mexico and Central America. After this introduction, the method that will be used in the study is presented; subsequently, it is described the process that the Central American countries have experienced in search of economic integration and its relationship with Mexico; in the fourth section, the results derived from the quantitative and qualitative elements considered in the research are shown; and, finally, the conclusions.

## Methods

A comprehensive historical reference and theoretical framework has been stated about the role of the integration processes in the construction of the concept of regionalism in its early stage, toward the “Open Regionalism Renovation” in Latin America and its conditioned compatibility with the multilateral trade; as well as the importance of the entrepreneurial/business factor in the endogenous development processes. Later, the relevant contributions that have focused on the regional integration in Central America (CA) and Mexico are reviewed, to contextualize the possible route for integration in this region, considering the current economic and political situation.

Hereunder, a quantitative and qualitative description will be made of the elements which allow to justify why, in the exploration of the perspectives to advance in the integration between Mexico and Central America, Costa Rica has been selected, because it is among the most viable Central American countries to start the process. Among the resources used to support it, CA's main business partners were selected to calculate the Openness Index per Capita (OIC=total trade/number of inhabitants) in 2010 and 2015, and its relationship with the Income per capita (IPC). This indicator is also calculated for the relationship between Mexico and Costa Rica, and other indicators published by other sources are added. To know the role played by the entrepreneurial/business sector in advancing the process of integration as well as the degree of knowledge and acceptance of the consumers of Mexican products in Costa Rica, the results of the application of a survey will be presented.

Finally, retrieving the elements mentioned before, the conclusions and possible lines of research that can give continuity to this article are presented, both on the debate of “Open Regionalism Renovation” concept, as well as raising other ways to advance in the integration of CA and Mexico, pointing toward the integration of Latin America.

## Toward regional integration Mexico-Central America, through Costa Rica

In the current discussion of the regional integration in Latin America, the economic relationship between Mexico and CA has received little attention. The beginning of the CACM in 1958 and the LAFTA in 1960, kept each other separated from the possibilities of starting a joint integration process. This was until the impulse of the Open Regionalism in the 1990's, when a favorable economic and political context was built.

One of the most acute academics of the Central American reality, claims that “the ‘invisible hand’ of the market has been entrusted with the task of doing in Latin America what has never been done nor achieved anywhere, when it is not complementary and concurrent to the ‘invisible hand’ of the State” (own translation from Guerra-Borges, 2002). The same specialist considers that “...the integration has not been, until now, a priority on the formulation of economic policy of Latin American and Caribbean countries, because for most of them, their main trading partners are in United States and Europe” (own translation, p. 181).

One year after the NAFTA entered into force, the FTA between Mexico and Costa Rica was signed. Thus, on one hand, Mexico evidenced its interest in North America by leaving Latin America in the background, and on the other hand, Costa Rica disregarded its commitments with the CACM. However, in pursuit of preserving a minimal level of cohesion, the agreement authorized its members to carry out separate negotiations to join other agreements, despite contravening the respective arrangements. In these conditions, the Mexico-Costa Rica FTA, and those which came before signed the FTA with the EU, have continued weakened the Central America integration process, deviating from the Common Market which was its objective and limiting the aspiration of becoming a free trade area.

In that FTA signed with Mexico, Costa Rica gave that country a different tariff treatment from the one established in the integration process in CA. In addition, Costa Rica conceded to investment and services of Mexican origin, a treatment not given to the CACM (ECLAC, 1996). Later, Mexico signed agreements separately with Nicaragua (1998) and the North Triangle in Central America (Guatemala, El Salvador and Honduras, 2001), but in 2008, the Central American countries and Mexico, under the world tendency to the rationalization of the FTAs (WTO, 2011), decided to begin a convergence process of the agreements, which resulted in a new unified agreement in 2011 called Free Trade Agreement Mexico-Central America (FTAMCA), which entered into force in 2013.

After the FTAs with Mexico, the Central American countries have signed other FTAs, which main characteristic was, with the exception on the FTA with EU (2012), that the negotiations appeared to be done jointly. As a Central American block, the collective action has been limited to formalize the beginning of the negotiation, to establish the schedule for the meetings, the normative aspects of the agreement, which is subject to standardized international norms and, therefore, to the subscription on this kind of agreements. But each country has bilaterally negotiated the provisions about market access, rules of origin and in general the most important commitments on trade liberalization.

The greatest dispersion in the negotiation between Central American countries occurred when the Free Trade Agreement between USA, CA and Dominican Republic (CAFTA-DR) was signed in 2004. Despite having handled the resistance of an important part of the Costa Rican society (Hicks, Minley & Tingley, 2014), the agreement was finally approved by referendum, and it came into force in 2006 for all the Central American countries, except Costa Rica where the agreement came into force in 2009. For Guerra-Borges (2002, p. 123-124), through this new generation agreement, which included provisions never negotiated in the region, left considerably weakened the agreements with Mexico, that was the most important agreement for each Central American country before CAFTA-DR.

These FTAs signed since the 1990's within the framework of the open regionalism, have been also called new generation agreements. The main difference with the traditional ones is that they include, besides trade in goods liberalization, additional aspects, like services, investment, public procurement and intellectual property. The previous aspects are partially included in the structure of the WTO, as well as the multilateral and plurilateral agreements. However, they also include topics outside the WTO, such as environmental and labor provisions. The agreements signed by the EU with Latin American countries correspond to third generation, where, beyond the trade pillar, elements of cooperation and political dialogue are introduced, which are not present in the WTO framework. These new generation FTAs are also considered part of the "new regionalism" (Briceño, 2009).

It is necessary to remember that since the beginning of the integration process of CA, the countries tried to go beyond the creation of a free trade area with the CACM. However, the process to build the Customs Union as a substantial stage of such process, as well as the expected convergence in the levels of IPc among the members, has been truncated (Vázquez, 2012; Funes, 2011; Guerra-Borges, 2009; Sanahuja, 1998). In 1990, the Central American countries tried to reactivate the process when Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua subscribed the Economic Action Plan of Central America (EAPCA), with the objective of initiating the analysis and study of the legal and institutional instruments needed to revitalize the economic integration process initiated in 1960. These instruments were finally incorporated in the Tegucigalpa Protocol, whereby in December 1993 the Guatemala Protocol was signed, with the objective of consolidating the common market.

The Framework Agreement for the Establishment of the Central American Customs Union, from December 12<sup>th</sup>, 2017, represents another documented attempt, evidence of the unsuccessful efforts within the institutional framework. That agreement contains the legal provisions which consolidated the objectives and principles needed to reach the customs union. That was ratified and deposited in the correspondent instance by El Salvador and Honduras; Guatemala ratified it on February 2<sup>nd</sup>, 2011, leaving pendant its deposit; and the other Central America countries did not ratify it (SIECA, 2011).

Although, geographically, Panama is part of CA and, in practice, it is statically counted as part of CA in all the international organizations, its economic and political foreign position has been different from the rest of the countries of this region. Its condition of being an international port of transshipment, due to its currently expanded Panama Canal, distorts the statistics. In addition, the only FTA jointly negotiated by Panama and CA is the EU-CA Association Agreement. Panama negotiated separately the agreement with the United States and with Mexico. In the case of the European Free Trade Association (EFTA), Panama negotiated jointly with Costa Rica and the late addition of Guatemala. Because of the previous reasons, Panama is not considered in this study.

A fundamental part of every Customs Union is the establishment of the common external tariff (CET). In this respect, almost all the tariff lines of the CET are harmonized, in fact, just 4,3% of them are not. The problem is that the tariff lines that are not harmonized are mostly agricultural commodities (64,6% of the total) (Vázquez, 2012 p. 99). In a developed country, that would not be a major problem, but considering the CA countries, where most of their trade are based on these types of products, the major proportion of the trade is still not included within the CET, mainly due to the protectionist positions for these commodities.

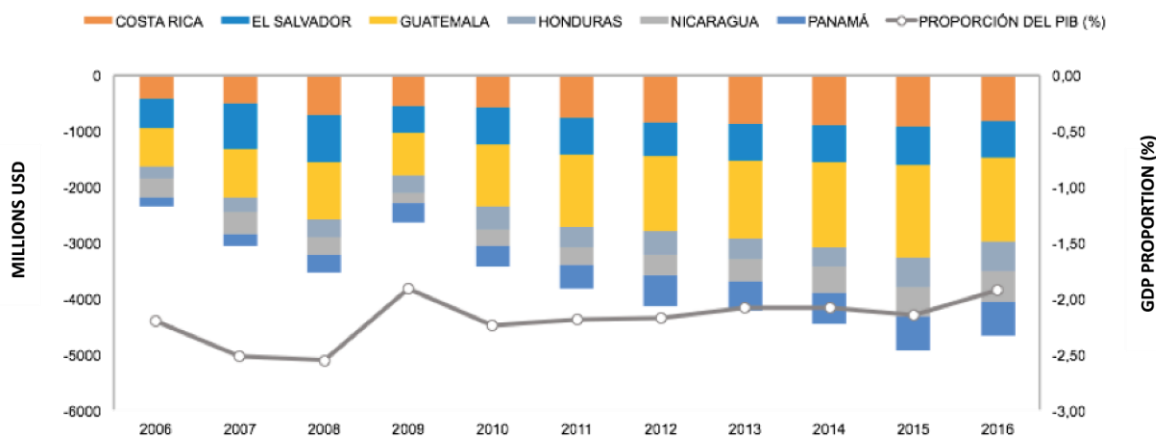
Trade creation and diversion are terms that do not apply in the context of least developed countries, because those concepts have been originated from conventional theory, which are not built from conditions in those countries. Thus, a customs union of this type in CA should increase “development creation” and not only “trade creation”. Structural adjustment programs established in the region have worked partially as a tool for macroeconomic stabilization, but their costs have been partially halting the possibilities for economic growth in CA, which, like the rest of developing countries, are very dependent from expansive policies, particularly fiscal policies. But the objective of accelerating the development can only be reached through effective compensation mechanisms to propitiate an equitable distribution (IDB, 2002, p. 11).

Certainly, the intraregional trade of CA had increased substantially since the formal reactivation of the integration process in 1990. However, it only meant up to a quarter of total trade in the case of exports in 2005 and a little more than a tenth about to total imports (Vázquez, 2012 p. 248). More recently, between 2010-2016, the intraregional trade lost dynamism and grew moderately. The exports to the Central American market had reached just under a third of the total exports and the intraregional imports represented less than 15% on average per year (SIECA, 2017a).

Recent calculations from 1992 to 2014, reported that the intraregional trade in Latin America and the Caribbean accounted for less than 10%, compared to a greater growth of exports to the rest of the world. The trade between Mexico and CA has increased, but the extra regional trade has increased even more. Therefore, when comparing the intraregional trade between Mexico and CA with the trade with the US and the rest of the world, it is proportionally very small. These differences are also verified by applying the gravitational model of trade, which measures the trade flow, where the weight of the GDP and the relative geographic proximity with USA are decisive to attract the largest proportion of it in the region (Brawn et al, 2017 p. 49).

According to official records, the trade exchange between Mexico and CA has had an annual growth of 8,4% between 2005-2016, albeit with some ups and downs. CA exports to Mexico have grown less (5% per year) than imports (7.8% per year), from which the trade deficit that represents 2.2% of the Central American GDP also results in annual average during this period. The importance of Mexico as partner of CA is minor in respect to the total, in the time of reference, the exports to Mexico only accounted for 3% of the total, while the imports from Mexico meant 7,5% on an annual average (SIECA, 2017b). As it is possible to appreciate in the graphic 1, the CA country with the highest deficit with Mexico is Guatemala, and it is also the country that imports and exports the most goods from and to Mexico, followed by Costa Rica.

**Graphic 1. Central America: trade balance with Mexico (US million dollars and proportion of the GDP)**



Source: Centro de Estudios para la Integración Económica (SIECA)

In addition, another way to corroborate the level of progress of the integration of CA countries and its relationship with Mexico, is knowing the trade flow on services. Despite the growing importance of services, the limitations to access detailed statistical information impede the analysis; such limitations are

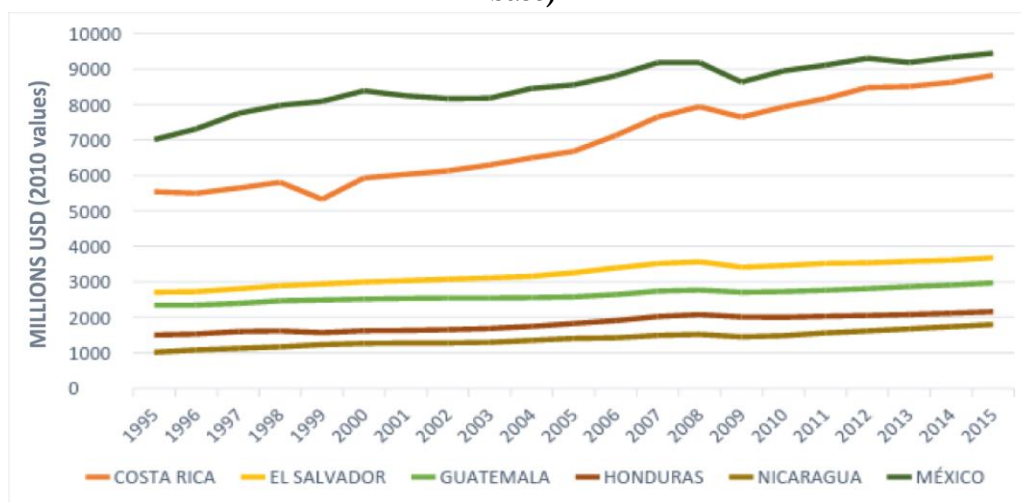


recognized by World Bank researchers (Brown, et al 2017 p.53). ECLAC reports an approach on this topic (2016, p. 99-102); according to their records, services exports in Latin America are particularly important in CA and the Caribbean. The types of services that has gain global importance, is the called “modern services”, where the business, financial and telecommunication services are included. On this, Costa Rica stands out, because services represent more the 40% of the total exports and it is only overcome by Brazil and Argentina. According to another source, the services trade balance registered in the CA countries shows that Costa Rica has the highest numbers, both in absolute terms, as well as in its relationship with the GDP (Consejo Monetario Centroamericano, 2017)<sup>19</sup>.

According to ECLAC (2016), there is a low integration level among the Latin-American countries. “In 2011, only 16% of the foreign added value contained in the exports of Argentina, Brazil, Chile, Colombia and Costa Rica was generated inside the region. If Mexico is added, this participation increases until 18%. At the same time, in the Mexico case, the other five Latin-American countries mentioned originated only 3% of the foreign added value in its exports” (own translation, p. 96). Again, Costa Rica and Mexico stands out in the region.

Integration is evident through convergence in some indicators. But such convergence cannot be achieved only by means of trade liberalization and the increase of the trade flows associated. The GDP growth rates have not been enough for the evolution of the IPC to have sustained growth and sufficient to facilitate the convergence among CA countries. As noted in graphic 2, instead of CA countries IPC being similar, the gap between Costa Rica and the other four countries in the region has increased, in fact, Costa Rica has been brought closer to Mexico in this indicator.

**Graphic 2. Central American countries and Mexico IPC evolution 1995-2015. (US Dollars 2010 base)**



Source: Self-construction, with data from: World Bank, World Development Indicators 2017

A different indicator of the unmet convergence among the Central American countries and the similarity between Costa Rica and Mexico, is the Human Development Index (HDI). While Costa Rica and Mexico are located among the countries qualified as “High Human Developed”; the other four CA countries are

<sup>19</sup> It includes income on services provided to non-residents and the payments received by non-residents if they are not production factors (labour and capital).

ranked in the “Medium Human Development” group, where the difference between them and Costa Rica is more than 50 positions (PNUD, 2016). With regard to the indicator of inequality in the distribution of income measured by the Gini index, the following is reported in 2014: El Salvador shows the lowest inequality (41,8), while Honduras has the highest (50,6); the other three CA countries and Mexico have similar inequality levels (Costa Rica 48,5; Nicaragua 47,1; Guatemala 48,7 and Mexico 48,2) (World Bank, 2017). In general, the scenario is dominated by vulnerable living conditions, moreover, there are sharp contrasts between wealth and poverty. But also, similarities between Mexico and Costa Rica are highlighted.

Based on recognizing that there has been no progress in the convergence among the members of the CACM, Costa Rica is identified as at the forefront in the Mexico-CA integration process. Costa Rica has decades of differences from its CA neighbors, both in maintaining the political stability which has prevented its erosion in social and economic costs, and in the conduction of its economic and foreign trade policy. As it is mentioned in preceding paragraphs of this section, there has been differences in the timelines and the partners with which CR have signed FTAs.

For having quantitative considerations that justify the viability to advance in the integration between Mexico and Costa Rica, some indicators are built to show the existent convergence. One of them is the Trade Openness Index per inhabitant (TOIH), which can be used to measure the relative importance of the trade exchange between CA and its partners, both from the perspective of each of these partners and from the own CA countries with such partners. Likewise, the Mexico TOIH with each CA country and vice versa are presented. In addition, this indicator is linked to the CA countries IPc, which is one of the main variables of the demand. Among the CA trade partners, some representative countries from North America, South America, Europe and Asia were selected (Table 1).

**Table 1. Trade Openness Index by Inhabitant (TOIH): main Central America trade partners 2010 y 2015. (Million US Dollars)**

PARTNERS: COUNTRIES AND REGION	2010			2015		
	TOTAL TRADE OF CA	PARTNER TOIH	CA TOIH	TOTAL TRADE OF CA WITH	PARTNER TOIH	CA TOIH
MEXICO	6.552,61	55,24	169,94	7.029,00	55,33	169,63
CHINA	5.943,53	4,44	154,15	6.810,75	4,97	164,37
SPAIN	789,99	16,95	20,49	1.147,54	24,72	27,70
EU	10.135,71	20,09	262,87	9.581,49	18,8	231,24
CANADA	1477,05	43,43	38,31	1.006,98	46,76	40,45
BRAZIL	1.272,84	6,41	33,01	901,74	4,34	21,76
CHILE	522,20	30,68	13,54	661,54	36,85	15,97
JAPAN	1.846,92	14,42	47,90	1.366,88	10,77	32,99
USA	42.793,27	14,42	1109,86	41.803,55	10,77	1.008,91

Source: Own elaboration, with data from the International Trade Center, Trade Map (2017)

Another perspective of the economic convergence process is the business factor. When exploring the characteristics of this factor in CA, Bull (2014 p. 343) considers that the creation and development of the

business associations in this region, since 1960, “were shaped by the increase of the economic integration in the region and by the governments and foreign institutions. The argument presented is that the role of the foreign actors and the increase of the economic and political international integration make insufficient the common explanation about the existence and functioning of the business associations as interest groups in the region”. This author grants an important role to the international influence exercised over such associations, while assigning power to unify and divide them. He considers that the result was a “more traditional interest group representing entrepreneurs/businessmen, as opposed to informal entrepreneurs/business groups often connected by family ties and the access to family members and friends of the government elite”. (Bull, 2014 p. 343)

From a different point of view, Hwang & Lee, 2015 reviewed the relationship between the region on trade and the strategies to optimize the FDI, based on the case of South Korea, and found that it is very attractive for companies from third countries to invest on less developed countries when those countries formed a region trading with developed countries (Hwang & Lee, 2015). Extrapolating this in the case of CA, the attraction that has exerted on FDI is evident, particularly towards Costa Rica. The best example of the previous idea was the establishment of a facility of the multinational INTEL that produced electronic components in 1998, which provided an increase of Costa Rican manufacturing exports of high technology content, and the imports calculated around 17,3% in 1999. On GDP, it had a similar effect of 5% in real terms (Banco Mundial, 2006: 14), but when the manufacture division left the country in 2014, its imports have been limited to services exports.

Changes were also recorded within the CA. The privatization of state enterprises and the concessions of public services to private organizations constituted a great attraction for the entry of FDI into the CA region. This was carried out mainly through the second half of 1990, with the aim of speeding up the modernization of such enterprises and public services. This also had effects on the main local business groups, who perceived possibilities to expand and begin to increase the volume of their operations to take advantage of economies of scale, which induced a strong increase in intraregional FDI flows (Vázquez, 2012 p.141).

Trade openness of some public services was accompanied by the negotiation of RTAs, for example, the opening in the telecommunication and insurance sectors in Costa Rica was carried out with the framework of CAFTA-DR. This is a clear example of how regionalism helps develop issues that can be complex in the multilateral sphere.

The dynamics of extra regional FDI flows respond to the expectations of profitability and this to competitiveness, mainly if it is intended to export. But according to ECLAC (cited by Guerra-Borges, 2002 p.264), there are two ways of conceptualizing this: the “spurious”, when it is achieved at the expense of low wages, and the “authentic competitiveness” that comes from the incorporation of modern technologies. An example close to this is the case of Costa Rica, where according to Lopez and Umaña (2006 p.111), there were no privatizations, but the presence of FDI, mainly North American, remained predominant in the free zones and with the case of INTEL referred to. Example of the first is the case of El Salvador and Honduras, where the destination of investments has been for the installation of maquiladora companies. In any case, to compensate for the balance of payments deficit in the region, FDI is the least risky form, since the other sources of financing are: Official Development Assistance, family remittances or external indebtedness that have an impact on greater external dependence.

In this sense and recognizing the discrepancies in the methods to obtain the information regarding the FDI and its conceptualization of the flows and balances (Linsi, 2017 p.2 and 3), as well as the differences between the FDI and the alliances, mergers and acquisitions that are not always identified, the figures available clearly show that between 2000 and 2016, the largest flows to Costa Rica come from the EU (USD \$ 120,014 million), with a huge margin followed by the USA (USD \$ 7,082 million), while that Mexico appears in a distant third plane (USD \$ 1,381 million) (Central Bank of Costa Rica, 2001-2017). FDI flows from Costa Rica to Mexico are even more modest. (Ministry of Economy, 2017)

Fully inserted in globalization, there have been important changes in several CA companies. In addition to the case of INTEL which is the most relevant, other examples are: Air Transport of the American Continent (TACA), originally Honduran / Salvadoran, which established an alliance with the Colombian AVIANCA in 2010, its owner since 2013. The Bank of Central America (BAC), founded in Nicaragua in 1952, was acquired by a Colombian financial group in 2010 and operates in the region as BAC Credomatic. The most diversified case is the Florida Ice & Farm Company (FIFCO), which started in Costa Rica as an agricultural and ice producer in 1908, to later enter (2011-2012) in the production of beer, bakery and dairy, as well as of tourism, until culminating in 2016 in an alliance with the Mexican group Lala, to whom it has given the production of dairy products.

In order to have quantitative elements to assess the prospects that Costa Rican business groups expand their links with their Mexican counterparts, entering a market that would allow them to take advantage of economies of scale, while their consumers have cultural and IPc similarities, the following measurements are presented below: degree of knowledge and acceptance of Mexican products by Costa Rican consumers and entrepreneur profile.

Based on a random sampling by conglomerates, a survey was applied to 105 Costa Ricans to determine their perception regarding Mexican products. The socioeconomic level of the population is varied, 39% of the people surveyed do not have any fixed income, that is, they depend on another person, the remaining 61% are salaried people whose monthly income is around 514 USD (low income) and more than 2227 USD (high income).

Of the total people surveyed, only 3 people did not know that an FTA existed between Mexico and Costa Rica since 1995. Additionally, 42% of the respondents indicated that they did not notice any difference regarding the amount of Mexican product available in Costa Rica. Thereafter, 29.5% indicated that they did notice the difference and 28.5% indicated that they may have felt some degree of change.

The survey included 51 Mexican brands available for sale in Costa Rica. For each of the brands of Mexican origin, people surveyed answered if the brands were considered Mexican or not and their degree of acceptance. In general, it could be seen that although all the products are Mexican, only 34.2% of the surveyed population recognizes that the products come from this country, 19.7% indicate that the products are not Mexican (although they are), 13.9% of the population do not know the products and 32.1% of the population do not know the answer. The main 4 products, in order of importance, that the respondents considered as Mexicans are: Bimbo, Jumex, El Mezcalito and Cuervo. The main 4 products, in order of importance, that the respondents considered as non-Mexican are: Torti Ricas, Masa Rica, Tosty and Coca Cola FEMSA.

Regarding the degree of consumer acceptance of these Mexican brands, 30% of the respondents have a high acceptance of the products, 22.4% an average perception, 18.2% a low perception, 18.2% do not know the brand and 11.2% say they do not know the answer. The products with the highest degree of acceptance by Costa Ricans are: Rumba, Bimbo, Luisiana and the products with less acceptance are: Omniflife, Suli Tuna, Tajín, Mazola and Nutrioli.

With the purpose of knowing the profile of the Costa Rican entrepreneur and his expectations of expansion to the Mexican market, a questionnaire was designed and electronically applied, based on a random sampling by conglomerates, to be applied to entrepreneurs of different productive sectors and that currently they did not have business or trade relationships in the Mexican market, so that their willingness to establish alliances with Mexican companies to expand or generate business could be evaluated.

The instruments applied to entrepreneurs had a limitation for their execution. This because the expected sample (at least 20 companies) was not achieved (8 companies responded). In other words, there was little consent of Costa Rican companies to participate in the surveys to measure future business possibilities with Mexico. This limited participation can be interpreted based on two specific motivations: the first lies in the fear of sharing information, despite the fact that it was indicated that the treatment of the information was going to be totally private and handled as sensitive information. The second can be explained by the simple lack of interest that the Mexican market may represent, either due to the lack of knowledge of the market or relationships and consolidated business with other trade partners that can be considered more important.

In any case, some information was generated about the collected results that allows general approximations. Among them, most of the surveyed companies state that they have projects to expand their businesses, but not to Mexico; in fact, the most repeated partner with which they have a projection was Central America. On the other hand, none of the companies showed to have current strategic alliances with Mexican companies to expand their businesses, although they do affirm that the strategic alliances are the main modality of alliance to expand business of their companies. Also, no company showed interest in partnering with Mexican companies or expanding their business to that country. It is important to highlight that most of the companies surveyed are importers and that in their absolute majority, all have a growth plan. In addition, the companies that responded belonged to various sectors and industries, such as pharmaceutical, construction, metallurgy, mining, petrochemical, plastic and rubber, as well as processed foods and beverages, so it seems that the result is not biased by a specific sector or industry.

## **Results and discussions**

From the figures in table 1, it is observed that between 2010 and 2015, there has been an increase of 7.3%, the in total trade between Mexico and CA, while compared to the EU and USA, which are the most important partners, a fall was recorded (-5.5 and -2.3% respectively); but this growth was lower than those corresponding to: Spain (45.3%), China (14.6%) and Chile (26.7%); with the rest of the partners considered, the total trade decreased. From the perspective of the CA partners, the OIC corresponding to Mexico is the one that registers the highest figure, with insignificant variation between

2010 and 2015, followed by Canada and Chile at a good distance. When observing this indicator for countries such as China, Brazil, USA and the EU, it is evident the lack of relative importance that foreign trade with CA represents. These results confirm the great importance of CA's trade with Mexico and its evident consistency over time, although with the potential to continue growing.

The huge difference between the total CA trade with the US and the EU with respect to other partners, determines that OIC shows the highest figures with that country and the European bloc. Excluding them, CA's highest OIC corresponds to the exchange with Mexico, both in 2010 and in 2015, slightly surpassing China and broadly to Canada and Japan that are next in importance; with Brazil and Spain still in third level, this indicator decreases with the first and increases with the second between 2010 and 2015. Finally, Chile is the partner with the lowest OIC but with an upward trend.

Within CA in individual terms per country, it is very revealing that the OIC of Costa Rica with each of the partners considered in table 1, is located above the same indicator for all CA. The other countries of the region are below it in their relationship with partners, except for Honduras, which, in its trade exchange with the USA, both in 2010 and in 2015 it is also located above the average for the region. In its exchange relation with Mexico, Costa Rica is the one that shows the highest OIC, although lower in 2015 than 2010, while the OIC of Guatemala grew the most in that period.

Because the highest IPc of the Central Americans corresponds to Costa Rica (Graph 2), with a very clear tendency to convergence with Mexico in a retrospective of 20 years, a parallelism can be established regarding the trend of this important demand variable. Additionally, according to the Global Competitiveness Index, (GCI) the position of Mexico and Costa Rica are very close (51 and 54 respectively) and it is significant that, while the pillar of competitiveness that most limits Costa Rica is the size of its market, this same pillar is the best valued in the case of Mexico (Schwab & Sala-i-Martin, 2016).

Both Mexico and Costa Rica have their main trading partner in the US under an asymmetric relationship in both cases, which is expressed in the minor importance that both countries have for the US, on the other hand, the trade exchange relationship that exists between Mexico and Costa Rica is relevant in both directions. Thus, regardless of whether there will be a turnaround that drastically changes US trade policy toward Mexico and CA, there is a window of opportunity to advance in a process of economic integration between the two regions, and Costa Rica is the Central American country that offers the best conditions to start with such process.

It should not be overlooked the fact that many North American companies originally installed in Mexico operate in Costa Rica. In both countries, their presence has boosted authentic productivity in some sectors, a process that could be replicated in others, with the participation of companies from both countries. But according to Rodrik (2011) cited by Brown, et al (2017 p. 175), in reducing the productivity gap between countries, active policies should participate to facilitate and activate the potential implicit in FDI.

As has already been mentioned in the previous section of this document, the creation of conditions to advance towards development is a priority, so the dilemma of whether or not producing those goods in which third countries are more efficient should be waived a negative response. In this regard, Guerra-

Borges (2002) considers that, depending on the search for regional integration in Latin America, "if you have comparative advantages, you should take advantage, but in no case, you should use them as a straitjacket" (Own translation, p.263). This can be applied to the case of the Mexico Costa Rica integration.

From the data obtained in the questionnaire applied to Costa Rican consumers, it can be concluded that there is a wide range of products of Mexican origin that have been commercialized in the country for many years. More than 90% of them have a degree between medium and high acceptance, however, there is a lack of knowledge regarding the identification of the origin of many of them, and this is interpreted in the sense that the products are incorporated in their usual purchases.

The products with the highest acceptance ratings are North American and European, which is related to the prevailing criterion of the quality / price balance used by these consumers. In this sense, it is important to generate strategies to better position Mexican brands, for which it is also necessary to raise the quality of the products, as well as reduce their production costs.

Regarding the measurement instrument circulated to Costa Rican businessmen via electronic means, the lack of consent to participate in the survey draws attention, but even more, that those who participated do not have plans to expand their business with Mexico or even visualize this market as one potential in the medium or long term. This result suggests that the profile of the Costa Rican entrepreneur/businessman is conservative, but it must also be recognized that the issue must be deepened to generate more explanations in this regard.

## **Conclusions**

Almost 60 years after the integration process in CA started, the efforts made have not come to fruition and they are currently in an impasse. Since the 1990s when open regionalism has been promoted by international organizations, attempts to ensure that the free trade paradigm is effectively applied have not been able to move forward either. Instead, bilateral and regional agreements that seek to expand the size of the local market in each country have proliferated. In this framework, bilateral free trade agreements were signed between Mexico and the Central American countries, which have finally made up the FTAMCA, launched in 2013.

For different reasons, Costa Rica has achieved a rhythm of growth in its economy and improvement in its social conditions, which clearly separates it from the rest of its CACM partners. On the other hand, through different indicators, a process of convergence is observed between the levels of development of Costa Rica and Mexico. This shows that the creation of conditions to advance development in CA has at least two speeds: The Costa Rican speed and the one of the rest of the member countries of the CACM, which is slower. In this context, it is considered viable to focus integration efforts on the relationship between Mexico and Costa Rica.

Both Mexico and CA have had an excessive economic and trade dependence on the USA for decades, which is risky by itself and it is a reference that calls into question the perspectives of renewed open regionalism. If we add the circumstances of the current situation, where US foreign policy is adopting

protectionist positions, it is timely and necessary to design a strategy that will accelerate the rate of convergence between Mexico and Costa Rica, as a first step to advance towards regional integration. Recognizing that a greater trade exchange by itself does not bring about a greater development, it is important to consider that this will be possible with active policies in the matter, so that not only the profits of the companies increase, but also the opportunities of formal employments better remunerated and the income, that can be used to improve conditions of quality public education and health services.

The attempts to build integration projects between Mexico and CA have been more plagued by rhetoric than by concrete facts. Thus, since the 1980s the mechanism of "dialogue and agreement of Tuxtla" was known, and there it was assumed that the conditions of the southern and southeastern states of Mexico are like those of CA. It was in this context, that the "Plan Puebla Panama (2000-2008)" raised the need for the construction of a platform that considers electrical infrastructure, telecommunications and transportation from the state of Puebla to Panama. More recently, within the framework of the Tuxtla Summit, the Mesoamerica Integration and Development Project (2008-2016) was announced, which includes projects that socially impact on health, environment, natural disasters and housing. Currently, Mexico, CA, Belize, the Dominican Republic and Colombia are participating in such project and the advances reported are meager.

In addition, indicators such as the OIC show that the relative importance of the trade exchange between Mexico and CA is greater than with other larger trading partners, such as the US and the EU. Besides, this is also relevant when it is calculated for Mexico and Costa Rica; and, when considering the similarities between both countries in other indicators that show the convergence in IPc, such as the Gini coefficient and Global Competitiveness Index.

From the questionnaire applied to a sample of Costa Rican consumers, the products known as originally Mexican are mostly well qualified, although below the good qualification of products from USA and Europe. Mexican products that are not identified as such, are assumed to be part of their daily consumption and, therefore, accepted unconsciously.

The opportunity for Costa Rican companies to place their products in the Mexican market and take better advantage of the economies of scale is identified considering that the ICG points out that the biggest Costa Rica limitation is the size of its market, while for Mexico this is the best valued element. Furthermore, considering that Costa Rica stands out in the export of services in the IT sector and Mexico in telecommunications, an alliance between their companies could be established, regulated by both governments with medium and long-term goals.

Unfortunately, the great influence that international actors exert on decision-making regarding the development of Latin American countries is also confirmed in the case of Costa Rica. Such influence cannot be sufficiently counteracted by a business class without a future vision attached to traditional patterns. This interpretation comes from the scant response of Costa Rican businessmen to the questionnaire that tried to know their entrepreneurial profile and expectations of external expansion. Regarding the future research agenda, the few companies participating in the study suggested that more should be researched in this regard. A possible hypothesis is that companies do not want to disclose sensitive information or that they simply do not have interest in this market. If it is the latter, it could be affirmed more from the results of the surveys where Costa Rican companies have no plans to expand



their business to Mexico or strategic alliances with other Mexican companies, and even more so with the disinterest in considering venture into the Mexican market in the medium term. The hypothesis could be configured that Mexico does not see itself as a complementary market, but rather as one of competition, or simply that Costa Rican companies are not aware of the conditions that motivate them to consider this. Either way, this seems to be a niche where future research can be developed.

Another issue to be considered in the future research agenda is to relate the influence of the business circle in the processes of economic integration and trade openness after the import-substitution industrialization (ISI) model has been exhausted.

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