CHAPTER 1. REGIONAL INTEGRATION AGREEMENTS

The growth of regional trading blocs has been one of the major developments in international relations in recent years. Virtually all countries are members of a bloc and many belong to more than one; more than one third of world trade takes place within such agreements.1 Regional agreements vary widely, but all have the objective of reducing barriers to trade between member countries and hence, implicitly, of discriminating against trade with other countries. At their simplest they merely remove tariffs on intra-bloc trade in goods, but many go beyond that to cover non-tariff barriers and to extend liberalisation to investment and other policies. At their deepest they have the objective of economic union, and involve the construction of shared executive, judicial and legislative institutions. For want of as better term, we lump all of them under the heading of Regional Integration Agreements (RIAs) – Box 1.1.[2]

Box 1.1 Defining Terms: What's in a Name?

"Who but a staunch protectionist could have anything against a 'free trade agreement'? 'Preferential trade agreements' sound less benign, while 'Discriminatory trade agreements,'" yet another name for the same thing, sound nasty."

Martin Wolf, Financial Times, 28 October 1996.

This book is primarily about preferential trading agreements between groups of countries. However, we refer to them neutrally as Regional Integration Arrangements (RIAs) first to avoid any unsubstantiated pejorative implication, and second to communicate that arrangements can extend well beyond international trade into areas such as investment, domestic regulation and policies, standards, infrastructure and politics. Indeed, we shall argue that co-operation in these areas is frequently more important than in international trade and that in some cases governments should eschew the latter. We shall use the shorthand term "regionalism" to cover the process of creating RIAs.

Although the bulk of RIAs are between neighbouring countries this is not universally true—for example, the USA-Israeli, Chile-Canada and Mexico-EU FTAs and Greek accession to the EC—nor is it required for most of the analytical arguments we will be making.

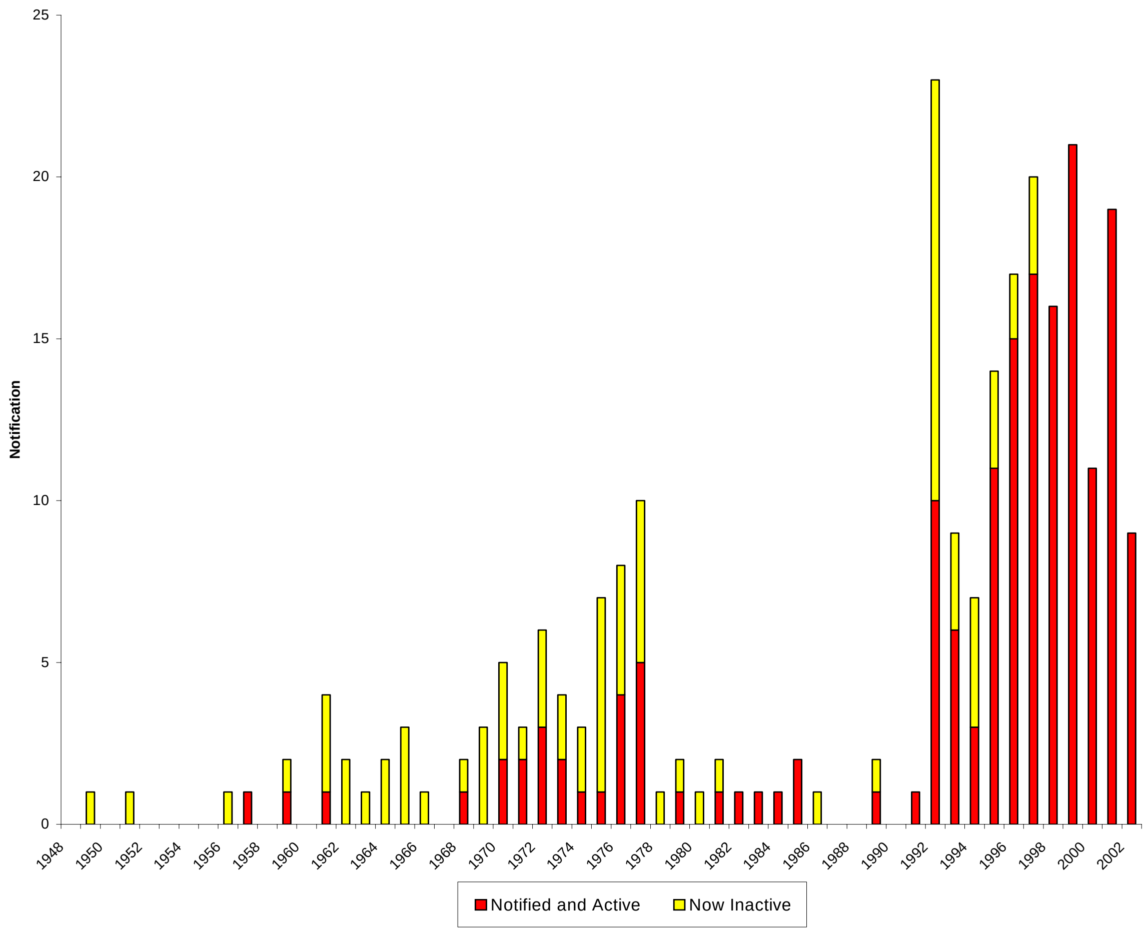
We do not cover all arrangements between different countries, however. For example, we have nothing to add on alliances in defence or political co-operation, not because they do not matter but because we have no particular expertise—nor the World Bank any particular mandate—in these areas.

---

[1] Nearly two-thirds if APEC is included.

[2] All acronyms are explained in the "List of Acronyms." The Annex to this chapter provides a brief description of the major trade blocs.

Figure 1.1 RIAs Notified and Active, 1948-April 2002*



***Source: WTO; Note: Inactive data for years 2000-2002 are not available.**

During the last decade the move to regionalism has become a headlong rush. Figure 1.1 gives the number of regional agreements notified to the GATT/WTO [3] each year, and makes apparent the dramatic increase that occurred in the 1990s. Of the 194 agreements that had been notified by the beginning of 1999, 87 had come in since 1990. The annex to this chapter lists selected trading blocs, their memberships, and the acronyms they go under.

As well as the boom in numbers, the last ten years have also witnessed qualitative changes in regional integration arrangements. There have been three major developments.

[3] General Agreement on Trade and Tariffs, from 1994 onwards part of the World Trade Organization.

The first is the move – in line with prevailing views about national economic policy – from 'closed regionalism' to a more open model. Many of the trading blocs that were formed between developing countries in the 1960s and 70s were based on a model of import-substituting development, and regional agreements with high external trade barriers were used as a way of implementing this model.4 New wave RIAs – including the resurrections of some old agreements – have generally been more outward looking, and more committed to boosting, rather than controlling, international commerce.

The second is the recognition that effective integration requires more than reducing tariffs and quotas. Many other barriers have the effect of segmenting markets and impeding the free flow of goods, services, investments and ideas, and wide ranging policy measures – going well beyond traditional trade policies – are needed to remove these barriers. Often called 'deep integration', this was first actively pursed in the Single Market Programme of the European Union, but elements of this program are now finding their way into the debate in other regional agreements.

The third development is the advent of trade blocs in which both high income industrial countries and developing countries are equal partners – so-called North-South agreements.5 Perhaps the most important example of this is the North American Free Trade Area (NAFTA), formed in 1994 when the Canadian-USA free trade agreement was extended to Mexico. However, the European Union (EU) also has links with the transition economies of Eastern Europe through the Europe Agreements, a customs union with Turkey and agreements with many Mediterranean countries. And it is committed to negotiating reciprocal trade agreements (Economic Partnership Agreements, EPAs) with the ACP countries.

These developments have occurred against the backdrop of globalization. New technologies and more liberal trading regimes have led to increased trade volumes, larger investment flows, and increasingly footloose production.

All of these considerations pointed to the need for the World Bank to undertake a new analysis of regional integration agreements – one that takes into account political as well as economic effects, that assesses the needs and opportunities for deep integration, and captures the new potentials created by North-South agreements. One that also focuses on developing countries, for they are involved in the issue in two ways. First, developing countries are turning to regionalism as a tool for development, and the effectiveness of this strategy needs to be assessed. Second, regionalism is part of the global economic environment, and affects developing countries whether they participate in it or not. Understanding its implications can help them to prepare and cope with it better.

[4] 'Closed' regionalism was quite widespread, especially in sub-Saharan Africa and Latin America. Examples in Africa include CEAO (created in 1973), ECOWAS (1975), CEPGL (1976), and the EAC (1967). In Latin America, they include CACM (1960), LAFTA (1960), the Andean Pact (1969) and CARICOM (1973).

[5] Unlike the preferential trade agreements implied by colonial preferences.

1.1 RIAs in history

RIAs have been around for hundreds of years. For example, there were proposals for a customs union of the provinces of France in 1664, Austria signed free trade agreements with five neighbors over the 18th and 19th centuries, and the colonial empires were based on preferential trade arrangements. Customs unions were precursors to or embodied in the creation of new states in, for example, Germany (the Zollverein), Italy, and the United States.

The 1930s saw a great fragmentation of the world trading system as governments struggled with the slump in demand without the benefit of global economic institutions to provide liberal focal points. One of the “solutions” adopted was regional preferences. The exact causal relationship between restricted trade and declining incomes during this period is still debated, but the fragmentation into closed blocs must have fostered inefficiency and frustrated recovery from the slump.

Partly in response to the experience of the 1930s, and partly from the idealism and internationalism of the US, the post World War II system established the equal treatment of all partners (non-discrimination) as a fundamental principle of the trading system. Exceptions were permitted for pragmatic and principled reasons, and among them was the ability to create trading blocs—free trade areas (FTAs) and customs unions (CUs). Apart from underpinning existing colonial links, this concession was little used at first, but over its first decade it contributed to the political reconstruction of Europe through the creation of Benelux (1947), the European Coal and Steel Community or ECSC (1952), and, finally, the more far-reaching EEC (1957).

The survival and apparent success of the EEC led to a spurt of regionalism between developing countries in the 1960s. This was mostly driven by the import-substitution creed that protection was required for industrialization—and hence for prosperity—and that this would be less costly if it occurred within a larger economic area. The RIAs were generally very protectionist and interventionist in the sense of trying to determine administratively which industries to have and where they should be located. They involved a large number of controls and restrictions on economic activity and, as a result, yielded rather little of the latter. In addition, the degree of implementation was often low, in part due to disagreements on where industries should be located.

By the late 1970s the ineffectiveness of these RIAs had become evident. None seemed to have contributed strongly to development, some had collapsed and the strains of the debt crisis made those that survived largely moribund. In the 1980s a huge change in attitudes toward international trade and competition occurred and, led by the EC’s Single Market Programme, a new wave of apparently more liberal RIAs grew up. These were inspired by a number of hopes and aspirations, the analysism of which is the subject matter for this report.

The recent growth in regionalism was numerically dominated by the EU’s activities: the extension of the Single Market Programme to neighboring countries that were not yet members through the European Economic Space; the signing of Europe Agreements with the countries of Eastern Europe; the accession of three new members in 1995; and the development of a more active and formal Mediterranean policy potentially incorporating RIAs with nearly every Mediterranean country. In fact of the 87 notifications of RIAs to the WTO since 1990, only 13 had no European partner.

But Europe was not the only continent involved: in the Americas the Canadian-USA FTA of 1988 was extended to Mexico in 1994 through NAFTA; Mercosur was formed in 1991, the Group of Three in 1995, and the Andean Pact and CACM resurrected in 1991 and 1993 respectively. In Asia the countries of ASEAN extended 25 years of political cooperation and pretend trade cooperation to a meaningful FTA in 1992 (AFTA). Since then, further countries have joined AFTA, which has also started talks with China, and, among others, Korea and Japan are negotiating an FTA. In Sub-Saharan Africa the blocs in West Africa reformed themselves into more liberal and tightly organized blocs, in Eastern and Southern Africa, COMESA replaced the PTA and was supplemented for many of its members by the Cross Border Initiative (CBI), SADCC transmogrified into SADC which is a trade and economic cooperation rather than a defense organization, and East African Cooperation (EAC) sprang up where the East African Community had failed. In North Africa the Mahgreb and Mashraq groups have renewed their integration efforts.

1.2 Why regionalism?

Many factors lie behind the recent spurt in regionalism. Some are explicitly stated objectives – such as those in boxes 1.2 and 1.3 drawn from politicians' statements and the Preambles of RIA Treaties. Others are objectives that can not be so publicly admitted, while yet others represent more fundamental causes. Among the objectives are:

- Governments' wishes to bind themselves into better policies—including democracy—and to signal such bindings to domestic and foreign investors;
- A desire to obtain more secure access to major markets;
- The pressure of globalization forcing firms and countries to seek efficiency through larger markets, more competition, and accessing foreign technologies and investment;
- Governments' desires to maintain sovereignty by pooling it with others in areas of economic management where most nation states were too small to act alone;
- A desire to jog the multilateral system into faster and deeper action in selected areas, by showing that the GATT was not the only game in town and by creating more powerful blocs to operate within the GATT system;
- A desire to help neighboring countries stabilize and prosper, both for altruistic reasons and to avoid spillovers of unrest and population;
- The fear of being left out while the rest of the world swept into regionalism, either because this would be actually harmful to excluded countries or just because "if everyone else is doing it, shouldn't we?"

Among the more fundamental causes, we would set:

- The collapse of Soviet hegemony, which caused the countries of Eastern Europe and the Baltic to embrace democracy and capitalism and those of Western Europe to seek ways of cementing and accelerating their transition;

- The change in understanding about the role of openness in development coupled with a natural political desire to limit the feared adjustment costs of unilateral nondiscriminatory liberalization;

- The need to create a domestic dynamic for the reforms needed to achieve greater openness, while at the same time minimizing the political problems of disrupting existing sources of incomes and rents;

- The changed attitude of the USA toward trade blocs—from actively hostile to broadly enthusiastic. This both generated RIAs itself and reduced the diplomatic pressure, overt (through the GATT) and covert, on others to desist. This change in attitude arose at least partly from an expressed frustration with the slowness of the multilateral process. Also important, if less public, was the increasing influence of business lobbies in US policy making, coupled with the decreasing competitiveness of US industry and a lower willingness to bear the costs of managing the global system without receiving direct payoffs in terms of markets. With the end of the cold war, the overriding political justification for bearing these costs disappeared, and the debate focused more directly on mercantilistic objectives, as it always had in most smaller countries.

This book asks whether the hopes expressed for regionalism are justified—or have been justified by recent evidence—and how they might be made more, rather than less, likely to come about. Thus it takes the economic arguments above and subjects them to more careful scrutiny than they have usually received.

Note to the Publisher:
We'd like to have Box 1.2 and Box 1.3 facing each other.

Box 1.2 What the Politicians Say

Trade

"The implementation of the Arab Free Trade Agreement will be a major factor that will help the Kingdom expand its export markets." Hani Mulki, Minister of Industry, Trade and Supply of Jordan on Arab Free Trade Zone, Xinhua News Agency, 7, Sept. 1998.

"The regional integration did not hamper world trade liberalization, but rather was an essential component of it, enabling countries at differing levels of development to participate more effectively in world trade." The representative of Colombia to the WTO working party meeting on Mercosur, 10-11, Oct. 1995.

Investment

"To promote foreign direct investments in ASEAN. The synergies of both (ASEAN and the ASEAN FTA or AFTA) will ensure that ASEAN remains as a highly attractive and globally competitive investment region." Datuk Ajit Singh, ASEAN Secretary-General on Asean Free Trade Area, opening speech of a roundtable to promote FDIs in ASEAN, Straits Times, 25, Feb, 1997.

"Such a healthy atmosphere is a major attraction to foreign industrial investment." "We encourage Arab investment through which we can find an entry to unify their economies through establishment of free trade markets." Mohamed Al Amadi, Economy and Foreign Trade Minister of Syria on Arab Free Trade Zone, in an interview with Akhbar Al Khaleej (newspaper), Egyptian Gazette, 6, Nov. 1998.

"To clearly regulate the growing trade between our countries, encourage investment and create jobs." Carlos Salinas de Gortari, President of Mexico on NAFTA, State of the Nation Address, BBC Monitoring Service of World Broadcasts, 4, Nov. 1994

Security and Democracy

"Formation of Euro-Mediterranean forum will give impetus to the partnership at all political, economic, security and development level." Ahmed Fathi Sorous, chairman of the Arab Parliamentary Union, speaker of the Egyptian People's Assembly, in an interview with Sawt al Arab Radio, Middle East News Agency, 28, Oct. 1998.

"NAFTA has contributed to the prosperity and stability or our closest neighbors and two of our most important trading partners. NAFTA aided Mexico's rapid recovery from a severe economic recession, even as that country carried forward a democratic transformation of historic proportions." William Clinton, President of the United States on NAFTA, Letter to the US Congress, July, 1997.

Defending Market Access

"New Zealand's worst fear is for the world to divide into trading blocs… in none of which New Zealand has a home. So we are keen to keep working with ASEAN." Helen Clark, Prime Minister of New Zealand, to Far East Economic Review, 17 August 2000, on New Zealand and Singapore-FTA.

Deep Integration

" The Europe Agreement with the EC is to provide an appropriate framework for both a political dialogue and a comprehensive cooperation in a broad range of areas and a step towards the Czech

Republic's ultimate objective of full membership in the EC." The representative of Czech Republic to the WTO Committee on Regional Trade Agreements, 30, May, 1997.

Growth and Development

"Will boost technology transfer from the north to the south Mediterranean countries." Ahmed Fathi Sorous, chairman of the Arab Parliamentary Union, speaker of the Egyptian People's Assembly, in an interview with Sawt al Arab Radio, Middle East News Agency, 28, Oct. 1998.

"To achieve development and economic growth, alleviate poverty, enhance the standard and quality of life of the peoples of Southern Africa, and support the socially disadvantaged through regional integration." Chris Stals, Governor of the South African Reserve Bank on Southern African Development Community, 1, May 1997.

Box 1.3 What the Treaties Say

RIA treaties usually define their aims and objectives. Here is a selection:

Boosting trade and income

"To enhance the competitiveness of their firms in global markets" North American Free Trade Agreement (1992).

"To create an expanded and secure market for the goods and services produced in their territories. To reduce distortions to trade" Treaty on Free Trade Between the Republic of Colombia, the Republic of Venezuela and the United Mexican States (1994).

"To modernize their economies in order to expand the supply and improve the quality of available goods and services, with a view to enhancing the living conditions of their populations" Southern Common Market (MERCOSUR) Agreement (1991).

Boosting investment

"To ensure a predictable commercial framework for production activities and investment" Treaty on Free Trade Between the Republic of Colombia, the Republic of Venezuela and the United Mexican States (1994).

"Prerequisite for the stimulation of domestic, regional and foreign direct investment and the expansion, growth and the development of the economies of each member state and the region as a whole" Kinshas Resolution on the Establishment of a COMESA: Common Market for Eastern and Southern Africa (1998).

"A stimulus to the development of the national economies by expanding investment and production opportunities, trade, and foreign exchange earnings" Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (1992).

Stimulating development

"To ensure in particular that these arrangements encourage the development of the less advanced members of the customs union and the diversification of their economies" South African Customs Union Agreement (1969).

Democracy and Human Rights

"To involve the peoples of the Region centrally in the process of development and integration, particularly through the guarantee of democratic rights, observance of human rights and the rule of law" Treaty of Southern African Development Community (1992).

"To strengthen democracy and respect for human rights, sustainable and balanced economic and social development, to combat poverty and promote greater understanding between cultures" Barcelona Declaration Adopted at the Euro-Mediterranean Conference (1995).

Regional Cooperation and Co-ordination

"To establish a firm foundation or common action to promote regional cooperation in South-East Asia in the spirit of equality and partnership and thereby contribute towards peace, progress and prosperity in the region" The ASEAN Declaration (1967).

"To foster coordinated action by the Parties in international economic fora, particularly in those related to the processes of Latin American integration" Treaty on Free Trade Between the Republic of Colombia, the Republic of Venezuela and the United Mexican States (1994).

Stimulate regional and global integration

"To contribute the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation" North American Free Trade Agreement (1992).

"To facilitate the accession of Chile to the North American Free Trade Agreement" "To contribute to hemispheric integration" Canada – Chile Free Trade Agreement (1996).

1.3 Why another book on regionalism?

The literature on regionalism is massive, so adding to it requires some justification. Ours is fourfold.

First, there is a need for practical advice presented in the form of reasoned argument and evidence. The body of knowledge and analysis needed to provide policy makers with practical guidance on whether, and when, they should join RIAs, and how trade groups should be structured to maximize the welfare of the group and its individual members, has not been pulled together in a single volume. The tradeoffs involved in forming, or joining, an RIA are complex and difficult to isolate. While this book will provide few universal or easy solutions to these analytical problems, it will attempt to set the issues out clearly and suggest the analytical paths that policy-makers should take in thinking about their own integration arrangements. Some of the results will be presented in Chapter 9 as rules of thumb – generalizations offering robust advice – which, while not inviolable, should at least not be violated without careful thought.

Second, regionalism is still a very fertile area for research with new results and interpretations emerging every day. Reading these, let alone assessing them, is not a policy maker's job (they have better things to do) and so a mere presentation of the more important of recent developments is desirable.

Third, World Bank research has itself contributed several new results on regionalism and this is a means of making them widely available. Among these contributions are:

- the first coherent discussion of the credibility benefits of RIAs;
- tests of the role of political factors in setting an RIA's internal and external trade policy;
- analysis of the effects of RIAs on developing countries' industrialization;
- a comprehensive assessment of progress on so-called "deep (policy) integration" within RIAs;
- results on the effects of recent RIAs on their members' trade patterns and trade policies;
- a formal analysis of the economic implications of establishing RIAs to promote peace and security;
- results on the growth or non-growth effects of RIAs, and
- a new approach to assessing the effects of RIAs on excluded countries.

Fourth, while the literature is huge, there is no consistency in the vast range of results, either in terms of their conclusions or in terms of their methodologies or intellectual bases. Thus, as well as summarizing what economists think they know and assessing how much confidence they should have in that knowledge, we also seek to set out some of the internal structure of the various arguments. The intention is to allow policy makers to judge for themselves which of those results apply to their own particular circumstances, and how well they fit together into a coherent view of the RIA they are considering. In particular, we wish to help policy makers build a consistent picture of their RIAs and avoid the regrettably common "pick-and-mix" approach to debate, which selects a convenient set of results from the literature without regard for their mutual consistency. We aim to help policy-makers understand the cases in which, if they believe argument A they cannot simultaneously use argument B, because B is built on quite contrary premises to A.

One of the results of our ambitious agenda is that we are able to resolve fewer issues empirically than we would wish. There are relatively few RIAs of sufficient consistency of application and longevity to provide convincing historical evidence; and each has so many different aspects and is so confounded by other factors—such as developments in national politics, economic policy and the world economy—that one cannot always disentangle the various effects. Thus, while we report several innovative pieces of empirical analysis—for instance, on the effects of RIAs on excluded countries and on members' propensities to protectionism—we also rely heavily on examples and on a priori reasoning. We attempt to gauge the plausibility of such pieces of evidence in reaching overall conclusions, but are conscious that the latter are more ambiguous than is ideal.

Another consequence of the forward-looking focus is the frequency with which we draw upon the European experience. As noted above, developments in the EU and its predecessors have lain behind both the major spurts of regionalism in the post-war era, and Europe has pursued regional integration further and deeper than any other (voluntary) arrangement outside the historical instances of nation-building. Europe has also generated the majority of intellectual advances in the field. In all cases, however, we have sought to focus the European experience on developing country issues.

Our approach is essentially economic, reflecting our comparative advantage. Our concern is with whether regionalism aids the process of economic development. We cast the net broadly, however, considering, for example, the implications of the argument that RIAs can be aimed at political objectives, the way RIAs affect policy credibility, and the design of institutions for making trade policy in an RIA. These issues hinge around tradeoffs of the sort that economics deals with—how much a reduction of tension is worth in terms of production inefficiency—so that they fall well within our ambit. However, we do not give a full account of the political and social aspects of regionalism.

The main themes of World Bank research and policy advice on regionalism have recently been presented in a companion piece to this book – the Policy Research Report *Trade Blocs*, published by the World Bank in July 2000. That report was based on the same ideas and research as are described here, but organised differently and presented in a very straightforward way for a broad audience. It was built around four themes:

- that many RIAs are political in origin;
- that nonetheless they entail economic costs and benefits, either via their effects on competition or by affecting patterns of trade or of industrial location;
- that these economic aspects are important and certainly influence an RIA's chances of survival; careful design can maximise the net economic benefit of an RIA; and
- that one must view regionalism in the context of a world trading system that has delivered great benefits to the world over the last fifty years.

The present book underpins those themes more firmly by going into more detail of the arguments than could the report. This, in turn, means that it has a greater focus on the analytical and intellectual structures that have been used for exploring the effects of regionalism, and that it makes sense to organise it in that way rather than by theme. The book is not, however, an academic tome. It is still designed for policy makers and it still attempts to lay out the various arguments clearly and accessibly. It concludes with a chapter of 'Rules of Thumb for Regionalism', which summarises the practical lessons that emerge from the analysis in 8 messages. Regionalism is a complex business and depends very heavily on particular features of particular cases. Thus there are no universal but operational rules for policy towards RIAs: the universal are so broad as to be non-operational and the operational too specific to be universal. The rules of thumb represent our judgement of the general tendencies within good policy advice. Though they are not written in stone, policy makers should think long and hard before violating them.

1.4 Summary

The remainder of this chapter summarizes the book. Although in the course of the summary various policy conclusions will become evident, we do not highlight policy at this stage. That is done in Chapter 9 below, which presents our policy conclusions in the form of rules of thumb. Rather we offer here a brief guide to the contents of the chapters below to help the readers find their own way around the material and to bring the various parts into perspective.

1.4.1 REGIONALISM AS TRADE POLICY

Chapter 2 examines the basic economics of tariff preferences – what happens when a country reduces its tariffs on a subset of its partners. Forming an RIA almost always increases trade between its members. A major issue, however, is whether it "creates" trade by allowing cheaper products from bloc partners to substitute for more expensive domestic production, or "diverts" it by substituting intra-bloc imports for imports from outside the group. The latter can happen when 'outside' goods would be cheaper if all suppliers faced equal tariffs, but the fact that partner goods no longer face tariffs gives them a competitive edge. In that case, the preference-granting country ends up paying more for the imports, the increased payments to producers in partner countries being financed by monies that were initially accruing to the government in tariff revenues. Part of this extra cost is a simple transfer from the taxpayers in the importing partner to producers in the exporting partner, but because the real cost of imports has risen (the partner is less efficient than 'outside' producers), real resources are also wasted by the diversion. When all the commodities covered by the RIA are considered together, if trade diversion predominates, an RIA can reduce the welfare of both partners.

Identifying and distinguishing between trade creation and trade diversion is not straightforward empirically and we discuss some of the difficulties. The deepest of these is deciding what trade would have looked like if no RIA had been formed – the counterfactual or what the Europeans refer to as the anti-monde. The evidence on the balance between trade creation and diversion in trade blocs is mixed. We offer some new research that shows that diversion is significant, but that for many of the more recent RIAs, it has been dominated by the effects of the partners' reductions of barriers against imports from non-partners that have accompanied the RIA.

The traditional analysis of trade creation and diversion is based on a view of the world in which inter-country trade is driven entirely by differences in productivity and factor endowments. In fact trade can also arise from product differentiation and economies of scale, which reduce costs as production grows. In such worlds import barriers are additionally costly because competition between firms is weakened and consumers lose from the resulting falls in output and increases in price. Then international trade offers an important means of increasing competition by allowing new suppliers to enter markets. RIAs can generate such benefits by fostering trade between members, combining larger firm sizes (which increases economies of scale) with competition between larger numbers of firms (which increases competition). This is possible because by combining several national markets, the number of producers in each country might fall, while the number of sellers with reasonable access to each market rises (because producers from partner countries now have access). For instance, each country might start off with 3 firms, lose one firm to intra-RIA competition, and still end up with 4 larger RIA firms producing and selling in the whole bloc.

These so-called pro-competitive effects are believed to have been strong during the course of European economic integration, but the empirical evidence is not yet complete that developing countries will be able to reap them in large amounts. Partly that reflects the latter's production structure, with fewer goods in which differentiation and economies of scale are important, and partly the fact that significant increases in competition eventually depend on far more than merely removing tariffs and import quotas – see Chapter 6, which discusses 'policy' integration. Also, of course, if the aim is large markets and buying from firms that supply large markets, no market is larger than the world as a whole. That is, pro-competitive effects will be larger from non-discriminatory trade liberalisation than from discriminatory or restricted liberalisation.

1.4.2 Making the Most of Regionalism

Chapter 3 poses the question to which we keep returning: why is regionalism so popular if it is just a pale imitation of non-discriminatory free trade? The chapter considers the basic international trade aspects of the question, and then goes on to consider how various design features of an RIA might affect its net benefits. It starts by observing that governments might prefer RIAs to unilateral trade liberalisation for several reasons. They might be better able to exploit market power against outsiders by co-ordinating their trade policies. They might place a very high value on access to partners' markets and feel that this is better assured by making access to their own conditional on reciprocation or that they prefer preferential access to non-preferential access. And they might want to exploit the regional market as a basis for protected industrialisation. We do not find the last two arguments convincing.

Clearly, the benefits of regionalism are likely to depend on finding the best partners. The current notion of a 'natural' trade partner is not useful in this regard. However, we do show that if two countries form an RIA, the one which is (in a particular sense) more similar to the world average will tend to gain more (or lose less) than the one which is less similar. Interestingly, if the two countries have above average incomes, this tends to lead to convergence between the two partners, but if they have below average incomes (i.e. the RIA is between developing countries), it causes divergence. We also show that there are several reasons behind the obvious tendency for trade bloc to form between neighbouring countries (i.e. for regionalism to be regional): for example, to reduce trade costs by relaxing or abolishing border formalities or to assist in the collection of tax revenues.

One of the recurring themes of this book is introduced in this section – our preference for North-South over South-South RIAs for developing countries. If a developing country is going to pursue regionalism, it will almost always do better to sign up with a rich and large country than a small and poor one. In trade terms, this is manifest in the fact that a large rich country will likely be a more efficient supplier of most goods and a source of greater competition for local producers. As will become clear below, several other conditions are necessary for North-South RIAs to be strongly beneficial. And, of course, the North-South option is not open to all developing countries. Hence, our recommendation of North-South integration is certainly not unconditional.

Many countries are members of several RIAs. If they are all compatible this may be beneficial if the RIAs are desirable per se. But there are also dangers. For example, the several RIAs may imply conflicting policies vis-à-vis third countries, they may have different regulations governing imports of the same commodity from different sources, or they may imply different technical standards. All of these increase the complexity, cost and uncertainty of trade. There is also a danger in hub and spoke arrangements, whereby one country has free trade with many others which do not have free trade between them. In this case, the former – the hub – has very considerable advantages as a location for economic activity and might suck firms and investment out of the spokes.

An important distinction is between free trade areas (FTAs) which have free trade between members and customs unions (CUs) which have that plus a common external tariff or, strictly, common trade policy towards third countries. FTAs are easier to create and can be institutionally very light, whereas CUs require the negotiation of the common external tariff and co-ordination of all future trade policy changes. FTAs, however, face the danger of trade deflection – goods entering the member with the lowest tariff and transferring tax-free to other members from there. Except for the extra transportation cost, this is efficient economically because it lowers the effective tariff, but it undermines members' own tariff structures. Therefore, governments seek to prevent it by imposing rules of origin to ensure that only locally produced goods get tariff exemption. Such rules are often cumbersome and protectionist and can greatly reduce the value of the FTA. CUs, by avoiding this problem, can induce a greater degree of integration.

Another important difference between FTAs and CUs lies in the incentives they create for operating a liberal (i.e. low barrier) trade policy towards non-members; there is a tendency for FTAs to be more liberal than CUs. They have less market power and might compete with each other to reduce tariffs and so enlarge their share of the RIA's imports and hence tariff revenue. Once we recognise that lobbying influences tariffs, it becomes plain that it will afflict FTAs and CUs too. For both, there is a presumption that the exceptions to internal free trade negotiated as the RIA is formed will tend to reduce the degree of trade creation, and so reduce the potential benefits. And in the case of CUs, the RIA will change the environment for future lobbying. Whether this will be towards or away from greater protectionism, however, is impossible to say a priori.

Chapter 3 concludes with a discussion of RIAs and tariff revenues. If countries have to use tariffs for revenue purposes, it may appear to pay small developing countries to combine into a single market to reap economies of scale and enhance competition, while raising revenue on trade with the outside world. In fact, this is far from being a watertight argument. Moreover, there are other potentially complex revenue issues to consider: e.g. precisely how to raise the revenue lost by removing tariffs on intra-bloc trade and how to avoid fiscal competition between members reducing taxes below optimal levels.

1.4.3 Regionalism and Investment

As was plain from boxes 1.2 and 1.3, raising investment is a prominent objective of many regional agreements. The logic is that larger markets, greater competition and improved policy credibility will increase the incentives for investment and so raise incomes. The argument applies to all investment, but is most explicitly applied to foreign direct investment. Chapter 4 briefly describes RIAs' policies towards investment and then asks whether the arguments advanced for their having positive effects are justified.

Early RIAs were activist and interventionist, co-opting regional integration into import substitution at a regional level. Such policies almost completely failed and have now been superseded by a much more market friendly approach. Part of the latter has been a greater emphasis on policies guaranteeing the fair treatment of investment. These guarantees are often embodied in Bilateral Investment Treaties (BITs), or, where they exist, the investment chapters of RIA agreements. BITs typically contribute by precluding certain policies rather than requiring certain other policies to actively encourage investment, but they may play an important facilitating role in investment flows.

Far more positive in intent is the common argument that RIAs add credibility to government policies in general and thus help to raise investment and attract FDI. We argue that South-South RIAs are unlikely to do this and may, in fact, hinder investment if they are not accompanied by trade liberalization with the rest of the world. North-South RIAs, on the other hand, can enhance a Southern country's credibility, but typically, only if the RIA is likely to enhance economic performance in its own right and if the large Northern partner is willing to enforce investment-encouraging "club rules". The latter is more likely to be true if the policies on which a developing country wants to gain credibility are specified explicitly in the agreement and if the Northern partner has an identified interest in the Southern partner's success – e.g. alleviating pressure to migrate. Typically, this interest will be greater the closer together are the Northern and Southern partner.

Some recent analysis holds that the rate of return on capital (and investment) could well rise in all members of an RIA regardless of their capital abundance. For example, if tradables are more capital-intensive than non-tradables, opening up boosts the demand for capital; lower tariffs and trading costs for capital equipment might reduce the price of investment goods; and creating a more efficient financial sector could reduce borrowing costs. Unfortunately there are few empirical studies of the impact of RIAs on investment—most trade blocs are so new that the data are simply not there. Where we do have evidence, it tends to suggest mild positive effects on investment, but there is no evidence that this translates into higher economic growth. A possible reason for this is that additional investment may be attracted into inefficient sectors which benefit from the RIA's high external trade barriers. Firmer evidence is available that RIAs boost FDI, however, especially inflows of investment from non-member countries.

The real key to investment is the general policy stance in areas such as sound macroeconomic policies, well-defined property rights, and efficient financial and banking sectors. Regional integration may foster investment if it significantly raises policy credibility and market size, but it needs to be accompanied by good policy overall.

1.4.4 Growth and Location

If RIAs can stimulate investment, might they also have a beneficial effect on growth and industrialization? Chapter 5 moves beyond investment to consider the economics of endogenous growth and those of agglomeration (or clustering).

Modern growth theory – the theory of endogenous growth – stresses the role of knowledge in fostering productivity and growth. It also stresses that knowledge can be effectively transferred from one country to another through international contact and trade. Rich countries are knowledge-rich and so are likely to provide far more access to technology than are poorer trading partners: RIAs that switch imports from richer to poorer sources are very likely to have a perverse effect on countries' growth rates. RIAs might also help countries boost their growth rates by supporting institutional reform, and again this effect seems likely to be stronger for developing countries joining with richer partners than with poorer ones. Developing countries may also, of course, increase access to knowledge and technology through unilateral trade liberalization, which does not discriminate against rich countries; and many institutional reforms may also be achieved through the multilateral system.

The direct evidence on RIAs and growth is subject to some methodological reservations, but is actually pretty consistent. There is some evidence that North-South RIAs can stimulate growth in the Southern partner, little evidence that RIAs between developed countries stimulate growth, and no evidence that RIAs between developing countries do so. Casual consideration of the recent performances of, say, Portugal, Poland and Mexico, and a formal analysis of NAFTA, suggests that serious North-South integration may foster the Southern partners' growth, reinforcing the views above about the relative merits of the two types of partners for developing countries. However, the most important message is that the general policy stance of the Southern partner is crucial to capturing long-term gains: broadly speaking, Portugal reformed on joining the EU and benefited, Greece did not reform and did not benefit.

The same preference for North–South over South-South RIAs arises from the discussion of agglomeration. While economists have long been aware of the fact that industry tends to cluster into particular locations, they have only recently learned to model the phenomenon formally and thus to start to identify precisely the combinations of conditions that must be satisfied for it to occur. The theory arose from attempts to understand the possible effects of the enlargement and deepening of the European Union – Krugman and Venables (1990) – and so lends itself directly to the consideration of RIAs. The theory is, however, very young; the models do not yet appear to be very realistic and have not yet been accompanied by much empirical evidence. Thus they are more parables than forecasts. However, they do shed light on qualitative factors and they address such a major concern of policy makers and publics alike, that we think it useful to explore their implications for developing countries here.

Creating an RIA is likely to affect the incentives for industry to agglomerate, usually to increase them because it increases market size and allows more effective exploitation of the links between firms. An RIA may attract industry into member countries at the expense of non-members, although if the RIA is small, such effects will also be very small. RIAs will also frequently cause industry to relocate between the members. For RIAs between poor countries this seems likely to increase inter-member inequalities because it makes it easier for firms to agglomerate in the more prosperous countries while still selling in the others. For RIAs involving richer members, on the other hand, the results are less clear cut, and it is quite possible that poorer members will experience industrialization following an RIA. For developing countries, integration with richer neighbors (North-South RIAs) looks far better from an agglomeration point of view than does South-South integration.

1.4.5 Integrating Domestic Policies

The discussion so far has concentrated just on trade and investment policies, the standard building blocks for analyzing international intercourse. But as trade barriers have come down policy makers have started to understand the very important role that domestic regulation plays in economic integration. Cooperation on domestic policies can substantially increase the gains from forming a trade bloc. It can lift barriers that insulate national markets for similar goods and services and deliver economic benefits many times those available from mere trade agreements. Inter-governmental cooperation in designing and applying domestic policies such as taxes, health and safety regulations, environmental standards—policy integration—can increase competition in domestic markets by reducing transactions costs and allowing new suppliers to enter markets. Cooperation on domestic policies can also help to overcome market failures and help to ensure that trade restrictions are not re-imposed through the back door.

However, excepting the EU, most RIAs have only "shallow" policy integration aims. Their objective is not economic union (which requires institution-building of a type we term "deep integration"), but to increase competition by eliminating policy interventions and reducing market segmentation. A number of recent and pending RIAs—e.g. APEC, Mercosur and the FTAA—are discussing an intermediate level of integration – domestic "policy integration" – which entails close governmental co-operation to harmonise domestic regulations and policies, but no supra-national authority.6 However, without specific timetables for progress and further negotiation, neither new nor existing RIAs are likely to make great progress. Experience suggests that such negotiated policy integration is very demanding both politically and technically. Moreover, RIAs are not the only game in town. Indeed, independent decisions to adopt policies used elsewhere and to pursue multilateral efforts on international technical and regulatory standards have been more common than regional efforts. Developing countries can do much to achieve the benefits of policy integration unilaterally by adopting international standards and recognizing the regulatory norms of their major markets, such as the EU and US.

One puzzle is why governments combine policy integration and trade integration into the same institution. The trade component of an RIA can provide specie to help overcome opposition to institutional and domestic policy reforms, and policy integration can assist the implementation and enforcement of RIA trade policies. Of course, such linkage does not excuse selecting sub-optimal trade and domestic reforms, but if both are desirable in their own right, combining them might be politically efficient.

Wherever possible policy integration that reduces regulatory costs should extend beyond RIA partners to non-members—so that the increase in competition is maximized and policy integration benefits all trading partners. Formal inter-governmental agreements—such as mutual recognition arrangements for product standards and testing—may be necessary for policy integration, but special efforts should be made to ensure that these do not perpetuate or increase discrimination. Explicitly discriminatory policy integration should be resisted.

[6] Box 6.1 on p.## below defines these terms more precisely.

Competition between regulatory regimes coupled with mutual recognition can be a useful route to policy integration. Some element of harmonization may be called for if there are spillovers—such as a threat that the competitive relaxation of merger regulation will lead to a “race to the bottom”—or to safeguard public health or safety. These are generally best limited to minimum standards based on global norms. Regional standards that diverge from global norms will be optimal, only if there are region-specific characteristics.

The WTO and other multilateral institutions can play a large role in policy integration. The WTO agenda is as broad—and often broader—than that of most RIAs, and more can be done in the WTO context than is often recognized by trade bloc proponents. It could help further by adopting rules extending the MFN principle to policy integration initiatives—such as customs clearance documentation and procedures—that do not require formal inter-governmental equivalency or recognition agreements.

Policy integration proposals are very specific and should be evaluated on their individual merits. Care should be taken that they are for the general good, and that other than as part of a necessary coalition for achieving reform, efforts to link them to trade liberalization should be resisted. While integrating domestic policies may sometimes require formal agreements, there is no fundamental reason why this should require trade preferences. The EU and US have, for instance, drawn up a series of mutual recognition agreements for sectoral product standards completely outside an RIA context. To date, however, developing countries have been entirely excluded from such initiatives.

The issue of cooperation in the area of regional public goods--such as natural resources, infrastructure or energy—differs from regional integration and is not addressed in this book. Whether regional integration may help in attaining a cooperative solution in regional public goods and under what circumstances is examined in Schiff and Winters (2002a).

1.4.6 Regionalism as Politics

Countries often form trade blocs for so-called non-economic reasons, such as national security, peace, and help in developing political and social institutions. These are public goods, and so are unlikely to be efficiently provided in the absence of some form of intervention - of which creating an RIA is one. Such political objectives can be important for RIAs, sometimes overwhelmingly so, but it is still desirable that they be achieved efficiently and that policy makers pay heed to their economic cost. Chapter 7 examines some of the political objectives of regionalism, discusses their economic implications, and assesses whether trade preferences are a necessary part of achieving them.

Political benefits such as peace and security can sometimes swamp the simple material considerations that usually determine economic policy. Moreover, since such benefits are typically shared by only a limited number of countries —usually neighbors— they are likely to be better sought on a regional basis than multilaterally. Thus this issue forms a relatively more important part of the analysis of RIAs than of some other international issues. We show that under some circumstances, the formation of an RIA may be an effective way to deal with security tensions between neighboring countries; the argument is essentially that mutual trade fosters peace between countries and regionalism fosters trade. It shows that for an RIA designed to enhance security, the optimum external tariff (on imports from non-members) declines over time, and also as integration deepens.

Joining an RIA with large democratic countries can help a developing country to achieve or uphold democracy if the RIA imposes "club rules" such as democracy and civil rights on its members. This assistance is likely to be more effective if the other members are large economically because larger partners are generally able to impose greater costs on (withdraw greater benefits from) recalcitrants than are smaller ones. It is also likely to be more effective if the developing country in question is of a reasonable size, and if its potential partners are close by. A partner country is likely to be far more concerned about possible spillovers from events in a significantly sized and nearby developing country than elsewhere. The significance of migration in stimulating this interest is discussed briefly.

A concern in many RIA members is whether increased regional integration will weaken the nation-state. We argue that pooling sovereignty and undertaking collective action can enhance the effectiveness of the state in small, or even medium sized, nations. They can assist in solving economic problems, strengthen countries against third-country security threats, and increase international influence by lowering negotiation costs and/or increasing bargaining power in dealings with the rest of the world. As we argued above, however, cooperation of this kind does not usually require trade preferences.

1.4.7 Regionalism and the Rest of the World

RIAs are, by nature, exclusive clubs. After all, every country in the world is excluded from nearly every RIA in the world, and every RIA excludes nearly every country. Their discrimination against excluded countries is real and, according to the latest evidence, can cause significant trade diversion. Trade diversion is mainly a cost to the partners who pay more for their imports, but Chapter 8 shows that in two sets of circumstances, it can be costly to the excluded countries which lose exports.

First, if exports generate super-normal profits, losing them is costly because the income lost exceeds the value of the resources freed up by not having to produce the exports any more. One example would be if the exporter could charge monopoly prices. A second, more important one, is where exports are taxed, because the tax-inclusive price received for them exceeds the cost of the resources used up in production. Export taxes are rare, but trade theory teaches us that import taxes are export taxes – it is the act of trading (turning exports into imports) that is taxed and it doesn't matter which side of the transaction formally faces the tax. Thus, any of the many countries with significant tariffs will lose welfare if its exports fall exogenously. Another way of seeing this is that when exports fall, imports must fall as well to maintain the trade balance, and this results in a loss in tariff revenue.

The second case where trade diversion hurts exporters is if the decline in demand forces down export prices – i.e. worsens the exporter's terms of trade. We present some new evidence that this is significant empirically, at least for Brazil's imports of goods following the creation of Mercosur.

Possibly even more important than the static losses suffered by excluded countries is the issue of whether RIAs are stepping stones toward the long-run goal of globally freer trade, or millstones around the neck of progress towards such a goal. The world of many trade blocs is still too new to allow a definitive empirical answer to this question, and economic theory is not completely clear on the matter, but our reading of the case is that there are significant dangers that regionalism could start to undermine the multilateral trading system. Certainly, it hits at one of the corner stones of multilateralism as a procedure for international affairs – the equal treatment of all.

In terms of outcomes, the majority of analysis of the effects of bloc-formation on the tariffs imposed by non-co-operating governments suggests that tariffs tend to increase with the spread of regionalism. In some cases regionalism has been argued to bring other countries to the negotiating table to agree a new round of multilateral trade liberalisation – e.g. the formation of the EEC and the Kennedy Round – but we argue that this is far from certain and that using such coercive tactics to get others to reduce their tariffs is extremely dangerous. It is possible that one act of regionalism would be met by another – giving rise to so-called domino-regionalism. This seems to lie behind much of the spread of regionalism over the 1980s and 1990s and it is important to note that under such conditions one can not infer that, because regionalism is spreading, it is benign. If everyone is in a gang, you may want to belong to one yourself, but that does not make gangs a good thing.

One of the problems with the theory of domino regionalism is that although enlarging an RIA might increase the incentives for new members to join, it does not correspondingly increase the incentives for existing members to let new ones in. Particularly if RIAs discriminate against excluded countries, insiders will want to stop expansion well short of the whole world – there is no point being inside if there is no one outside to exploit. It is sometimes argued that one way around this would be to insist on open access to all RIAs – i.e. that any country that could adhere to the rules of an RIA could join it and reap its benefits. In theory, this may be true, but in practice, given that accession has to be negotiated because the rules of nearly all RIAs entail more than just tariff reductions, there is no operational way to insist on such access. Relatedly, we discuss the concept of 'open regionalism', which has several definitions. We find it more of a slogan than an analytical tool, for, according to the definition, it either reduces to something else (e.g. multilateralism) or it does not separate 'good' RIAs from 'bad'.

In time, RIAs will obviously impinge on the process of trade negotiations. Some argue that if talks occurred between a few RIAs rather than many separate countries, they would be simpler and quicker. Possibly so, but this ignores the difficulties caused by having to agree positions within each bloc before and during the negotiations. RIAs are also suggested as ways of developing blueprints for technically complex issues before they come to the global level, or as ways of tackling politically difficult issues that can not yet be agreed globally. Again, while we do not rule out the possibility of benefits through these routes, we note that they are far from guaranteed.

Chapter 8 concludes with a discussion of the way in which the WTO handles RIAs. While far from perfect, the current rules for industrial countries are probably about as good as we can get; however, they are currently very poorly enforced. Those for developing countries are looser and make it even easier to create welfare-reducing RIAs. We advocate unifying the rules on the industrial country model and enforcing them more actively. We warn, however, that the rules can not guarantee benign regionalism and that responsibility for ensuring that RIAs do not harm their members falls squarely on the governments that pursue them. In this they would be aided by a very much clearer set of studies of the economic effects of regional blocs than the WTO's current legalistic approach requires.

1.4.8 Rules of Thumb for Regionalism

The final brief chapter summarises our view of what we have learned from the study. As we have noted above, regionalism is too complex and sui generis to generate universal and operational rules. However, we do believe that there are consistent messages in the analysis that apply to the majority of circumstances. These are collected together into rules of thumb – rules that are not inviolable, but which should not be violated lightly - which are listed in Chapter 9.

They are grouped into eight main messages:

- If an RIA is necessary, use it as a pro-competitive instrument: focus on including provisions that will foster greater competition on domestic markets.
- Not all partners are equal: RIAs with high-income countries are more likely to generate significant economic gains than are those with poorer ones.
- RIAs can enhance the credibility of economic and political reform programs, but generally only if they explicitly include provisions and mechanisms that impact directly on the policies of interest.
- The existence of widespread inter-country spillovers calls for cooperation between developing countries in areas other than trade policy—such as regulatory reform and infrastructure provision. Usually, however, these should be pursued independently of trade discrimination.
- RIAs can help to solve political problems, but not unless they are economically sound.
- Consider carefully the transactions and implementation costs that are associated with different types of RIAs.
- The fiscal dimensions of RIAs can be important for countries where trade taxes generate a significant share of government revenue.
- Do not rely on the World Trade Organization to ensure that RIAs are beneficial to members and to outsiders. The WTO forbids some destructive forms of regionalism, but its main contribution in constraining the potential negative implications of regionalism on non-members is as an instrument to pursue global liberalization on an MFN basis.

Annex to Chapter 1:

Selected Regional Integration Agreements with Developing Country Members/Type of RIA/Notification to GATT-WTO

DEVELOPED AND DEVELOPING ECONOMIES

European Union (EU)/Common Market/Article XXIV: formerly European Economic Community (EEC) and European Community (EC), 1957: Belgium, France, Germany, Italy, Luxembourg, Netherlands; 1973: Denmark, Ireland, United Kingdom; 1981: Greece; 1986: Portugal, Spain; 1995: Austria, Finland, Sweden.

European Economic Area (EEA)/FTA/Article XXIV: 1994: EU, Iceland, Liechtenstein, Norway.

Euro-Mediterranean Economic Area (Euro-Maghreb)/FTAs/Article XXIV: Bilateral agreements, 1995: EU and Tunisia; 1996: EU and Morocco.

EU bilateral agreements with Eastern Europe/FTAs/Article XXIV: 1994: EC and Hungary, Poland, 1995: EC and Bulgaria, Romania, Estonia, Latvia, Lithuania, Czech Republic, Slovak Republic, Republic of Slovenia.

Canada-US Free Trade Agreement (CUSFTA)/Article XXIV: 1989.

North American Free Trade Area (NAFTA)/Article XXIV: 1994: Canada, Mexico, United States.

Asia Pacific Economic Co-operation (APEC): 1989: Australia, Brunei Darussalam, Canada, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, Republic of the Philippines, Singapore, Thailand, United States; 1991: People’s Republic of China, Taiwan (China), Hong Kong (China); 1993: Mexico, Papua New Guinea; 1994: Chile; 1998: Peru, Russia, Vietnam.

LATIN AMERICA AND CARIBBEAN

Andean Pact/Customs Union/Enabling Clause: 1969: revived in 1988, Bolivia, Colombia, Ecuador, Peru, Venezuela.

Central American Common Market (CACM)/Article XXIV: 1960: revived in 1993, El Salvador, Guatemala, Honduras, Nicaragua; 1962: Costa Rica.

Southern Cone Common Market, Mercado Común del Sur (MERCOSUR)/Enabling Clause: 1991: Argentina, Brazil, Paraguay, Uruguay.

Group of Three (G3)/FTA/Enabling Clause: 1995: Colombia, Mexico, Venezuela.

Latin American Free Trade Area (LAFTA), 1960/Article XXIV: revived as Latin American Integration Association (LAIA)/Enabling Clause: 1980, Mexico, Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, Venezuela.

Caribbean Community and Common Market (CARICOM)/Article XXIV: 1973: Antigua and Barbuda, Barbados, Jamaica, St. Kitts and Nevis, Trinidad and Tobago; 1974: Belize, Dominica, Genada, Montserrat, St. Lucia, St. Vincent and the Grenadines; 1983: The Bahamas (part of the Caribbean Community but not of the Common Market).

AFRICA

Cross-Border Initiative (CBI): 1992: Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

East African Cooperation (EAC): 1996: [formerly East African Community (1967), broke up in 1977]: Kenya, Tanzania, Uganda.

Economic and Monetary Community of Central Africa (CEMAC): 1994: formerly Union Douaniere et Economique de l'Afrique Centrale (UDEAC), 1966: Cameroon, Central African Republic, Chad, Congo, Gabon; 1989: Equatorial Guinea.

Economic Community of West African States (ECOWAS): 1975: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

Common Market for Eastern and Southern Africa (COMESA)/Enabling Clause: 1993: Angola, Burundi, Comoros, Djibouti, Egypt, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

Indian Ocean Commission (IOC): 1984: Comoros, Madagascar, Mauritius, Seychelles.

Southern African Development Community (SADC): 1980: formerly known as the Southern African Development Co-ordination Conference (SADCC), Angola, Botswana, Lesotho, Malawi, Mozambique, Swaziland, Tanzania, Zambia, Zimbabwe; 1990: Namibia; 1994: South Africa; 1995: Mauritius; 1998: Democratic Republic of the Congo, Seychelles.

Economic Community of West Africa (CEAO): 1973: revived in 1994 as UEMOA, Benin, Burkino Faso, Côte d'Ivoire, Mali, Mauritania, Niger, Senegal.

West African Economic and Monetary Union (UEMOA or WAEMU): 1994: Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, 1997: Guinea-Bissau.

Southern African Customs Union (SACU): 1910: Botswana, Lesotho, Namibia, South Africa, Swaziland.

Economic Community of the Countries of the Great Lakes (CEPGL): 1976: Burundi, Rwanda, Democratic Republic of the Congo.

EUROPE

Central European Free Trade Area (CEFTA): 1993: 1996: Czech Republic, Hungary, Poland, Slovak Republic, Slovenia; 1997 Romania; 1988 Bulgaria.

Committee for Mutual Economic Assistance (CMEA): **PENDING**

Bilateral Agreements between individual CEFTA members and individual Baltic countries.

MIDDLE EAST AND ASIA

Association of South-East Asian Nations (ASEAN): 1967: ASEAN Preferential Trading Arrangements/Enabling Clause: 1977: ASEAN Free Trade Area (AFTA)/Enabling Clause: 1992, Indonesia, Malaysia, Philippines, Singapore, Thailand; 1984: Brunei Darussalam; 1995: Vietnam; 1997: Myanmar, Lao People's Democratic Republic; 1999: Cambodia.

Arab Common Market/Article XXIV: 1964: Agreement for Economic Unity among Arab League States.

Gulf Co-operation Council (GCC)/Enabling Clause: 1981: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates.

South Asian Association for Regional Co-operation (SAARC)/Enabling Clause: 1985: Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka.