REGIONAL INTEGRATION AMONG DEVELOPING COUNTRIES*

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1. Introduction

Regional integration among developing countries is a subject which has recently struck the headlines. The Mercosur agreement linking Argentina, Brazil, Paraguay and Uruguay into a customs union, as well as the decision earlier this year by the ASEAN countries to proceed to the establishment of a full free-trade area, have drawn renewed attention to a process which is in fact almost as old as the multilateral trading system itself.

Developing countries have been tempted to go into regional integration since the 1950s. In Latin America, under the influence of the prevailing economic philosophy of the time, regional economic integration was seen as a means of achieving economic independence from the North by applying import substitution policies to larger markets. The idea was that larger markets could attract investment, provide opportunities for specialization, reduce unemployment and at the same time reduce the participating countries' dependence on foreign inputs and foreign markets.

It other parts of the world, mainly Africa, the same philosophy inspired regional integration but to it was added the desire to establish structures independent of the former colonial masters.

The result was a proliferation of regional agreements in Latin America and Sub-Saharan Africa. There were much fewer agreements in Asia. We will see that not all of them succeeded equally.

2. GATT provisions relevant to regional integration among developing countries

In principle, Article XXIV of the General Agreement applies to developing countries as much as to industrialized ones. The guiding principle is that "customs unions

* The views expressed in this Article are the personel views of the author and not necessarily those of the authorities or other officiers of the GATT.

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or free trade areas should facilitate trade between the constituent territories and not raise barriers to the trade of other contracting parties with such territories". Except in one or two cases, Article XXIV has not been implemented very effectively. The contracting parties have very rarely been able to agree on whether its disciplines had been respected. Nevertheless, it was felt that special provisions were needed for agreements between developing countries which might not be as far-reaching as those between developed countries.

Part IV of the General Agreement was added in the 1960s, with a view to providing special and differential treatment for developing countries. It does not mention regional integration explicitly but stresses repeatedly the need for increasing exports of developing countries as a means of contributing to their development. It speaks of "special measures" which LDCs may use to promote their trade and development.

The decision of 28 November 1979 on "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries", otherwise known as the Enabling Clause, is much more explicit in this respect. It provides "for regional and global arrangements among less-developed contracting parties for the mutual reduction or elimination of tariffs and non-tariff measures" and presents such agreements as outright exceptions to Article I, or the MFN clause. However, this provision is followed in paragraph 3(a) of the Declaration, by a qualifier since it is laid down in that paragraph that such agreements "shall be designed to facilitate and promote the trade of developing countries and not to raise barriers to or create undue difficulties in the trade of any other contracting party". There is also a provision for notification of and consultations on agreements reached under the Enabling Clause. However, unlike Article XXIV, the Enabling Clause does not provide detailed procedures for ensuring that regional agreements do not raise trade barriers, or for tariff negotiations.

The applicability of the Enabling Clause to customs unions and free-trade areas among developing countries has recently become a subject of debate in the GATT. When Argentina, Brazil, Paraguay and Uruguay notified the recently concluded Mercosur agreement under the Enabling Clause, they were asked to notify it instead under Article XXIV on the grounds that the Enabling Clause was designed to "address developing country preference systems which could not otherwise be justified under GATT procedures, such as ALADI, or partial preferential systems. It was felt that Mercosur was a full customs union which constituted an important event in global trade and that the parties to the agreement should be prepared to subject it to close scrutiny to determine its conformity to the GATT's rules and procedures. The parties to the agreement have instead emphasized the need to recognize that differential and more favourable treatment for LDCs should apply to regional agreements among LDCs, and that they were prepared to submit all the information which could be required to the Committee on Trade and Development where a substantive debate could take place on the agreement. They felt that the demand to apply the procedures of Article XXIV to Mercosur, if met, could mean withdrawing a right that the developing countries had acquired in the Tokyo Round after prolonged negotiations, and reducing the scope and efffectiveness of the Enabling Clause. Attempts at a compromise between these two opposed demands have so far failed.

The fact that the issue has arisen at all is a demonstration of the change in attitudes towards 'special and differential treatment' in all its forms and of the increasingly widespread expectation that developing countries which are in a position to do so, should assume obligations similar to those of developed countries.

One point which has been made in the debate, but which remains to be tested, is that the Enabling Clause does not permit the modification of tariffs or quantitative restrictions and that developing countries entering into a customs union justified under the Enabling Clause would face difficulties in establishing a common external tariff, unless they decided to adopt as common external tariff, the lowest rate of duty applied by anyone of the participants in the customs union.

3. Existing and new agreements among developing countries

Latin America

Latin America initiated the movement in favour of regional integration among developing countries. Under the influence of the well-known economist Raul Prebisch who was Executive-Secretary of the UN Economic Commission for Latin America, much of the continent embarked in the 1950s in the establishment of a free trade area. The purpose of the Latin American Free Trade Area was to increase the proportion of trade among countries of the region and by reducing their dependence on the United States, to save convertible currency. Many of these countries had based their industrial development on import substitution. The establishment of a free trade area was seen as enabling them to benefit from the economies of scale which a larger market would provide, attract more investment and thus foster complementarity among the branches of production in the region.

However, members of LAFTA did not proceed to establish the free trade area by agreeing to dismantle tariffs and other obstacles to trade over a period of time, as is normally done. Instead, participants chose to negotiate common lists of liberalized products. This enabled governments to continue protecting sectors which they were reluctant to see exposed to competition originating from their partners. As a result, the success of LAFTA was extremely limited. The pattern of trade remained much the same as before the agreement, with the OECD countries being both the principal markets and the principal suppliers of LAFTA countries. The debt crisis of the early

1980s which affected Latin America more seriously than any other area in the developing world, required significant adjustment in the current account deficits of these countries. This led them to cut down on imports, rather than try to expand exports and resulted in an extraordinary increase in protectionism.

On the whole, therefore, LAFTA has not been a success. This relative failure can be attributed to the lack of coordination of policies among the participants, the costly bargaining process of a product-by-product negotiation, the conflict between domestic import substitution strategies and a commercial integration scheme, and finally the absence of a mechanism to prevent the uneven distribution of costs and benefits of integration among the participants.

The Latin American Free Trade Area spawned a number of other agreements. In 1981, it gave way to the Latin American Integration Association (ALADI) which inherited much of its procedures for furthering integration, chiefly the method of negotiating liberalization through product-by-product rounds in which only a number of participants took part. In addition to the Latin American Integration Association, the Andean Pact and Mercosur have emerged as regional agreements linking some Latin American countries in a free trade area or customs union. The Andean Pact which was set up in 1969, aims at eliminating restrictions on all products which are not covered by lists of exceptions to which each member state is entitled. It also envisages the formation of a customs union in the long-run. Until recently, not much progress in the direction of these objectives had been noted. However, since 1990, the movement towards integration seems to have accelerated but it should be noted that the level of intra-area trade is still extremely low.

Another and much more recent agreement which has emerged out of LAFTA is the Mercosur. It envisages the formation of a full customs union among the participants over a period of 15 years and is a reflection of a new attitude towards regional integration among developing countries.

Looking now at Central America, the Central American Common Market (CACM) established in 1961 appears to have had a chequered history. Unlike LAFTA, it has accepted from the beginning the principle of free trade in all products with just a few exceptions. In the first few years of its existence, it managed to boost intra-regional trade by liberalizing it for most manufactured products. A five-year schedule was also adopted for the establishment of a common external tariff and the elimination of duties on remaining commodities. By 1966, more than 94 per cent of items in the tariff of the CACM had been liberalized within the region and subjected to the common external tariff. As a result a spectacular growth occurred in intra-regional trade which rose from 7.8 per cent of the total to 24 per cent in 1968.

However, complaints of asymmetry of benefits from some of the poorer members such as Honduras and Nicaragua led to increasing frictions among the participants. Eventually, after the "soccer' war between El Salvador and Honduras in 1969, Honduras withdrew from the arrangement. The remaining countries tried to keep the agreement alive. Because of the political turmoil which engulfed much of the area in the 1970s and 1980s, the Central American Common Market lost a lot of ground. Despite this, it remains one of the few examples of regional integration among developing countries to have succeeded. In fact, in the last few years, efforts to reinvigorate seem to have been fruitful.

The Caribbean

The Caribbean countries have also joined in efforts at regional integration. A free trade area agreement was adopted in 1965 soon after the independence movement was initiated there. This agreement envisaged the elimination of obstacles to trade among the parties but not the adoption of a common external tariff. Intra-regional trade developed quite rapidly but as so often happens in such agreements, the gains were perceived to be biased in favour of the more developed countries in the area. The less developed countries put pressure for the scope of integration to be broadened with attempts to harmonize monetary and fiscal policies and the creation of planning agencies for agricultural and industrial development. In 1973, the free trade area was transformed into a customs union which took the name of CARICOM, the Caribbean Common Market. Plans were drawn up for the adoption of a common external tariff but the protectionist responses arising out of the 1973 oil stock dealt a blow to the efforts at integration. Intra-regional trade fell, and antagonism deepened among the member states, stimulated by the wide differences in economic size between them. Nevertheless, in recent years fresh efforts have been made to revive it and put into force a common external tariff among all the parties.

Africa

There exists a very large number of intra-regional agreements in Africa, and more particularly in sub-Saharan Africa. Seven or eight of them aim at regional economic integration and it is on these that we shall concentrate. All of them relate to sub-Saharan Africa, though the Arab Maghreb Union which is in the process of formation may eventually develop into an organization aiming at economic integration among the countries of the North African coast.

In Sub-Saharan Africa, the appeal of regional integration is obviously intuitive because most of these countries have a low income and limited capital resources. They could therefore benefit substantially from the integration of their markets. However, and as we shall see, practically all the attempts at regional integration in Sub-Saharan Africa have been unsuccessful so far.

To start with West Africa, there exist three important groupings there, namely, the Economic Community of West African States (ECOWAS), the Communauté économique de l'Afrique de l'Ouest (CEAO), and the Mano River Union.

Ecowas was founded in 1975 and groups 16 countries of which Nigeria is the most powerful and the richest. ECOWAS is the largest and most diversified of all regional groupings in Sub-Saharan Africa but it tried to link together countries which are very different in economic and political terms. The traditional structures of a customs union were envisaged for ECOWAS, namely a common external tariff, mechanisms for economic cooperation and harmonization of policies etc. However, because of the poverty of some members, the undiversified structure of their economies, political instability and the imbalance caused by the fact that Nigeria on its own outweighed the other 15 members put together, ECOWAS did not succeed in its objectives.

The French speaking members of ECOWAS, which for the most part also belong to the Franc Zone, joined together in the Communauté Economique de l'Afrique de l'Ouest in 1973, to foster economic integration through tariff preferences. In order to reduce the effect of imbalances between the member states, a development fund and a solidarity fund were set up, essentially to compensate the poorer members of the Community for losses in tariff revenue and to help finance development projects. To a certain extent, these structures helped alleviate the problems, but intra-CEAO trade remains subject to many restrictions.

Liberia and Sierra Leone set up also in 1973, the Mano River Union to which Guinea acceded in 1980. This organization too was designed as a customs union but the political turmoil experienced by Liberia in the past decade has prevented the Union from reaching its objectives.

The six French speaking countries of Central Africa set up the Union Douanière et Economique de l'Afrique Centrale in 1973. This started as an agreement leading to the establishment of a customs union but that objective was abandoned soon in favour of a more modest arrangement whereby tariff preferences are granted to some products manufactured in the area.

Burundi, Rwanda and Zaire set up in 1970 the Economic Community of the Countries of the Great Lakes (CEPGL) with the objective of removing all obstacles to trade amongst themselves, and to undertake joint development projects. However, this agreement has not made much progress partly because two of its members, Burundi and Rwanda also belong to the preferential trade area for Eastern and Southern Africa or PTA.

The PTA which comprises 18 countries in East Africa was set up in 1991. Its ultimate goal was the establishment of an economic community among member states. It started by trying to identify products to which preferential treatment would be given. However, negotiations on drawing up such a list, and on rules of origin stalled and the objectives of the agreement could not be reached.

In the southern part of the continent, the Southern African Development Community brings together the countries which used to be known as the frontline states, i.e., close to South Africa. It was set up in 1980 to reduce these countries' dependence on South Africa. The SADCC did not attempt to constitute a customs union or a free trade ares as such, but merely to promote economic cooperation among the member states. The SADCC performed an eminently political function, i.e., in the struggle against apartheid, and as such received substantial support from outside the continent. In the transportation sector for instance, SADCC has been particularly successful in building the Beira corridor between the Mozambique coast and Zimbabwe, which helped reduce the latter's dependence on South Africa.

Since we have mentioned South Africa, we cannot but refer to the Southern African Customs Union which links South Africa to Botswana, Lesotho and Swaziland. It is both the oldest customs union in Africa, since it was set up in 1910, and the only successful one. Markets are fully integrated in SACU, and there exists a common external tariff and a common currency. However, it remains to be seen whether the SACU will survive the political transformation undergone by the African continent.

Finally, a brief word about the continent-wide African Economic Community which the 51 members of Organization of African Unity (OAU) have recently decided to set up. It envisages the formation of a common market over a period of 25 years and in six stages. It draws its inspiration from the Treaty of Rome and has institutions very similar to those of the EC, namely a conference of heads of state and government, a council of ministers, a Parliament etc. It remains to be seen whether this new Community, the most ambitious of all the existing regional integration arrangements in Africa, will be more successful than its predecessors.

Asia and the Pacific

Asia and the Pacific are two regions where economic integration has not made much progress. Paradoxically, much of East and South East Asia comprise countries which have been singularly successful in developing their economies, and this on a trade-oriented basis. Apart from the ASEAN countries, about which we will have more to say in a moment, none of them -Korea, Hong Kong, Taiwan- have joined any regional integration agreement. Indeed, Taiwan is not even a member of the GATT, and remains for the time being isolated from the world community of nations. Nevertheless, all of these countries have experienced remarkable growth performances, and this to a very large extent because they have followed export-oriented development policies, instead of resorting to import substitution like many other developing countries.

About the only example of regional integration among developing countries in the whole of the Asian continent is ASEAN. Even then, however, ASEAN which was established in 1967, was motivated by political factors, such as the impact of the Vietnam war, rather than economic factors. It had modest economic ambitions to begin with, aiming only at tariff reductions on selected products. The agreement was not designed as a free trade area or customs union arrangement. It is only in 1992 that the leaders of ASEAN have taken a decision to set up a full free trade area amongst their countries, at the end of a fifteen-year transitional period. So far, however, it should be noted that ASEAN countries, which like many others in East Asia have performed very well on the economic stage, only do about 20 per cent of their total trade with each other.

For the only other example of regional economic integration among developing countries in Asia, one has to travel to the other end of the continent, namely the Gulf, where the six countries of the Gulf Cooperation Council signed in 1982 a Unified Economic Agreement which provides for elimination of all customs duties on intra-area trade and the establishment of a common external tariff.

4. Problems encountered and conclusions to be drawn

One can draw a number of conclusions from the experience with regional agreements among developing countries. The first and inevitable conclusion is that with very few exceptions and until very recently, these agreements failed in their objectives. Their performance compares poorly with that of some arrangements such as the European Community or EFTA. There are both political and economic reasons for this. In the first place, the political motivation to integrate economically which pushed individual European countries towards each other, seems to have been absent for a very long time in many developing countries. On the contrary, in several cases countries nominally engaged in economic integration went to war with each other. Obviously, regional economic integration cannot materialize if the countries concerned are not at peace with each other and determined to reinforce peaceful relations through all forms of cooperation, as has happened in Europe, for instance.

But in economic terms, the difficulties encountered have often been substantial enough to prevent regional agreements from reaching their objectives. For instance, many agreements have failed because of the wide disparity in the levels of economic development between participants. While in certain cases, such as the West African agreements, mechanisms were put into effect to compensate for these disparities, and at the same time ensure that the benefits which would normally accrue to the more advanced of the participants, were shared equitably these mechanisms have not been sufficient to keep the agreements in question alive. A consequence of the failure to ensure equitable sharing of the benefits has been that the poorer participants in the arrangements have been inclined to put up barriers to their imports from the richer ones and thus scuttle the whole arrangement in question.

However, it is undeniable that regional integration among developing countries has recently received a boost. Existing agreements have been revived and new ones have come into being. This phenomenon comes at a time when many developing countries are changing their development strategies. Import substitution is increasingly set aside and replaced by trade-oriented policies. As a result, countries are also tempted by regional integration.

It is clear however that regional integration and multilateralism go hand in hand. Indeed developing countries, especially in Latin America, which have sought new forms of regional integration whether with each other, such as Argentina or Brazil, or with developed countries, such as Mexico, have adopted outward-oriented policies which make them much more active than in the past in the GATT. Having spurned GATT membership in the past, Mexico acceded to the General Agreement only a few years before it started negotiations on the North-American Free Trade Area (NAFTA). Argentina and Brazil have set up the Mercosur at a time when they were also actively participating in the Uruguay Round of Negotiations, after many years as mere onlookers in the GATT. This illustrates quite clearly that regional integration and multilateralism are complementary and that they cannot be dissociated from one another.