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**European Community support for regional economic integration efforts among  
developing countries**

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LIST OF ACRONYMS

ADB	African Development Bank
AEC	African Economic Community
ALADI	Latin American Integration Association
AMU	Arab Maghreb Union
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BEAC	Banque des Etats d'Afrique Centrale (Bank of Central African States)
CARICOM	Caribbean Common Market
CBI	Cross-Border Initiative (Eastern and Southern Africa)
CEAO	Communauté Economique de l'Afrique de l'Ouest (Economic Community of West Africa)
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale (Economic and Monetary Community of Central Africa)
CEPGL	Communauté Economique des Pays des Grands Lacs (Economic Community of the Great Lakes Countries)
CMA	Common Monetary Area (Rand zone)
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EC	European Community
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECO	Economic Cooperation Organisation
ECOWAS	Economic Community of West African States
EU	European Union
GCA	Global Coalition for Africa
GCC	Gulf Cooperation Council
IOC	Indian Ocean Commission
JUNAC	Junta del Acuerdo de Cartagena
MCCA	Mercado Común Centroamericano
MERCOSUR	Mercado Común del Sur
NAFTA	North American Free Trade Area
OAU	Organisation of African Unity
OECD	Organisation for Economic Cooperation and Development
OECS	Organisation of East Caribbean States
PTA	Preferential Trade Area for Eastern and Southern Africa
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SICA	Sistema de Integración Centroamericano
UDEAC	Union Douanière et Economique de l'Afrique Centrale (Customs and Economic Union of Central Africa)
UEMOA	Union Economique et Monétaire Ouest Africaine (Economic and Monetary Union of West Africa)
UMOA	Union Monétaire Ouest Africaine (West African Monetary Union)

## SUMMARY

The beginning of the nineties has been characterised by the progressive globalization of economic activity and the increased interdependence among economies in various parts of the world. A symptom, and at the same time a response to these developments, has been a renewed attention towards regional integration.

In Europe, integration has deepened with the completion of the Single Market programme and the formation of the European Union (EU). In the North American continent, a free trade area has been agreed, comprising for the first time industrialised market economies as well as a developing economy. In most parts of the developing world there has also been a greatly increased interest in regionalism, to some extent stimulated by the changes in Europe and North America, the role of intra-regional liberalization as a means of expanding markets and reaping efficiency and scale economies gains, and the attractiveness of regional integration as a stepping-stone towards integration into the world economy.

While recognising the potential contribution of regional political cooperation towards peace and security, this Communication deals mostly with regional economic integration. Further it approaches it as a subject within the wider category of regional cooperation. Whereas regional cooperation can refer to all efforts where a group of countries addresses issues of common interest, regional economic integration or for short regional integration refers essentially to the reduction of policy-related barriers to the movement of goods, services, capital and persons. Regional integration deals with the elimination of tariff and non-tariff barriers to trade, the removal of obstacles to investment from regional partners, and the facilitation of payments. Regional cooperation in the wider sense can also deal with other subjects such as transport and telecommunication infrastructure, education and the management of common resources such as the environment.

Regional economic integration is not an end in itself. Rather, it is part of a strategy to coordinate economic policies and to improve the prospects for sustainable development. Notwithstanding the role of domestic policies as the main determinants for any country's economic growth, for most developing countries, especially the smaller ones, regional integration is an important step towards better integration into the world economy.

The renewed attention to regionalism takes place in an international context of global liberalisation of trade and capital movements. It has been referred to as "outward-oriented" or "open regionalism". In contrast with the fears sometimes voiced, the Marrakesh Act (April 1994) has confirmed the compatibility between regional integration and multilateralism. At the same time it has clarified and strengthened the conditions whereby a regional grouping can claim to have acted in accordance with multilateralism.

Despite the increase in regional integration initiatives, an assessment of past experience shows a lack of success in many cases. Important lessons should be drawn from past experiences, both successes and failures. First of all, regional integration is easier in some regions than in others. This is the result of a number of factors, notably the degree of complementarity among the economies; the nature of geographic conditions, including

geographic proximity; and the similarity of the cultural and historical background. Secondly, there are important pre-conditions as well as factors affecting the success of regional integration. Among these are political commitment, peace and security, rule of law, democracy, good governance and macroeconomic stability. In addition to these pre-conditions, successful regional integration requires a market-friendly economic environment, openness towards third countries, institutions which are sufficiently strong and have a clear mandate, adequate resources and political support. A flexible institutional framework, permitting progress at different speeds ("variable geometry"), broad participation by the private sector and civil society, and a set-up where responsibility for dealing with an issue is kept as close as possible to the population concerned ("subsidiarity"), can also be seen as critical ingredients for success, as the EU experience shows.

In its relations with developing countries and groupings the EU takes these lessons into account. Support for regional integration should respond to the will manifested by its partners for such help. Further, it should focus on encouraging realistic and workable integration schemes. Lastly, it should be conceived as a strategy with several interrelated components, as direct support for integration can be provided through both development cooperation policy and trade policy provisions.

Trade policy can be used in different ways to promote effective regional integration among developing countries. In particular, the application of cumulation in the rules of origin, currently granted to several regional groupings, can encourage intra-regional production and trade. Further, trading arrangements between the EU and integration groupings could be offered to the latter, conditional on the partner grouping having an effective integration structure.

On the other hand, to promote effective regional integration, a development cooperation policy should have the following broad components:

1. capacity building (including training and research), and technical assistance (on areas including the design of sectoral policies, the harmonization of standards, etc.) to help national and regional administrations implement regional integration measures;
2. adjustment assistance to help the private sector exploit the opportunities that become available through regional integration;
3. in some regions, particularly in Sub-Saharan Africa, support for governments that are committed to implementing regional integration measures.

## INTRODUCTION AND MOTIVATION

Over the past five years, there has been a remarkable increase of regional integration and cooperation as part of a strategy to improve prospects for economic growth. This movement has been particularly strong in Europe with the completion of the single market programme and the formation of the European Union (EU). It has taken a looser form in North America with the creation of NAFTA, which is the first regional arrangement comprising industrialised market economies and a developing economy. In most parts of the developing world, but most prominently in Latin America, in Africa and in Asia, there have also been many attempts to launch regional arrangements.

Regional integration can form part of a general strategy for encouraging sustained economic growth. There are many important benefits which regional integration can bring. It is beyond the scope of the present communication to elaborate on these. The most important economic benefits include: greater efficiency in production through specialisation, reduced unit costs because of scale economies, standardisation and reduction of formalities, better bargaining position towards the rest of the world and consolidation of macroeconomic policy reforms. It has also been demonstrated that outward oriented regional integration is compatible with multilateralism.

The EU has encouraged, partly by example, partly through direct support, many of the new regional groupings in the developing world. Most of the support provided by the EU has been on a case-by-case basis, reflecting the varied reality of regionalism in different zones and continents. The intention of the present Communication is to launch a debate in order to increase the effectiveness of future EU support to realistic regional integration schemes.

This communication is structured as follows. A first section sets down the conceptual framework for the analysis and clarifies some of the basic concepts. The second section deals with EU support so far in favour of regional integration among developing countries. For the sake of brevity, the details of this support are given in Appendix A. The third section summarises the lessons that can be derived from past experience. These lessons form the basis for the recommendations that are the subject of the final section. These recommendations are intended to provide elements for a strategy for the EU and its member states to support regional integration in the developing world. As a reference, Appendix B contains a list of the most important regional integration groupings and the countries that belong to them.

## I. CONCEPTUAL FRAMEWORK

### Regionalism is on the increase, even if it covers different situations

One of the key features of the development of Europe in the past decade, next to the collapse of the authoritarian regimes in the Centrally-Planned economies, has been the strengthening of integration in Western Europe. This has taken place in terms of both widening the geographic boundaries of the European Community and deepening the interdependence among its member countries, via the implementation of the Single Market programme, the establishment of the European Union and the creation of the European Economic Area.

Yet, the developments in this region have not been isolated phenomena. Reflecting both technological change and increasing interdependence, regional initiatives have begun to either emerge or take on renewed dynamism in various parts of the world. Hence, as communications improve, East-West and North-South linkages are becoming as important as the relations among industrialised market economies. Population growth and migration, environmental degradation, global warming, security issues and drug trafficking cannot be tackled at the national level and all require international cooperation to be properly addressed.

On the institutional front, the creation of the World Trade Organisation (WTO) and the completion of the Uruguay Round have stimulated renewed interest in regionalism. At the same time, revised and more precise trade rules have facilitated open regionalism.

Yet the emerging regionalism is markedly different from that in Europe. Indeed, even though it is committed to strengthening its economic ties with its Eastern and Southern neighbours, the EU remains, for the time being, the only example of a well-developed regional integration scheme among industrialized countries. This, together with very specific historical factors, and the centuries-long common heritage, underpin the uniqueness of the European integration experience.

Unlike European regionalism, the regional initiatives that are emerging or being renewed in the rest of the world are taking place either among industrialized and developing countries or among developing countries only. The challenges posed to these arrangements differ notably as the discussion below will show.

### Delimitation of the subject

Regional integration can cover a wide range of issues. Regional groupings often embody a blend of both political and economic elements. The motivation of many groupings is political, even though concrete goals might be mostly economic. So far, the support granted by the EU to regional integration efforts in the developing world has been mostly limited to the trade and development cooperation fields. However, it has become more and more apparent that many issues of a political nature, such as conflict prevention or drug trafficking can be tackled more appropriately by deepening regional efforts. Moreover, the Maastricht Treaty has granted the EU new competences in the political sphere: this trend could well

increase in the future. It is therefore unsurprising that more and more developing countries are requesting the EU to provide support in the political field of regional integration. An example can be found in the Berlin Declaration of September 1994, where SADC countries and the EU agreed to collaborate in several areas, including the improvement of regional security and the reduction of international crime and drug trafficking.

The importance of the political field of regional integration cannot be disregarded. However, it is a new area of action where the EU has not yet acquired a great deal of experience. In order not to reduce the operational character of the present communication and its ensuing debate, the coverage is limited to analysis and recommendations on regional economic integration issues.

Even though there is no precise definition of regional cooperation and regional integration, there is a broad agreement on what they mean in practice. Regional cooperation is a general concept that refers to all efforts on the part of (usually) neighbouring countries to address issues of common interest. These efforts or initiatives can be divided into two broad groups: those whose objective is the elimination of policy-induced barriers to intra-group movement of goods, services and factors of production (usually referred to as "regional integration"), and those aimed at reducing other barriers to the intra-group flows (such as the facilitation of transport and communication infrastructures), as well as any other activities leading to furthering the interdependence of the economies and to the better management of common resources (usually referred to as "regional cooperation").

The communication focuses on the first sub-group of activities. However, it should be clear that this does not mean that only trade aspects are covered. Regional integration efforts include all activities that contribute to the establishment of a single market in goods and services. For example the coordination of macroeconomic or sectoral policies very much influence the formation of a single market and are thus part of regional integration as defined above. Establishing a single market clearly has also legal implications for example in the domain of company law and the agreement on standards.

### Regionalism among industrialized and developing countries

The most notable initiatives among these countries are NAFTA, ASEAN and APEC. North America has seen the establishment of NAFTA as a free-trade area. Furthermore, with the encouragement of both the US and Japan, these two countries, together with some advanced developing countries in Pacific Asia, have established APEC. This loose, but progressively strengthening organization of many of the countries in the Pacific area including some Latin American countries, foresees the elimination of trade and investment barriers among its members within the first two decades of the next century.

In South-East Asia, ASEAN, which encompasses a newly industrialized country such as Singapore, together with less advanced countries such as Indonesia and the Philippines, has accelerated its efforts, particularly since 1992, to develop further its intra-regional trade via the establishment of an ASEAN Free-Trade Area (AFTA); further, new members are expected to join this grouping in the coming years.

The disparity among the members of these groupings creates particular challenges that,



to some extent, also explain their unwillingness to go beyond a free-trade area. A first challenge deals with what in European integration terms is known as "cohesion", i.e., both the willingness and the ability to use non-market instruments to ensure an equitable distribution of the fruits of integration. As the disparity among members increases, the costs of cohesion goes up as well. Therefore, initiatives of this nature are less likely than those among similar partners to evolve much beyond trade-policy measures. A second challenge results from the perceived risks for the more advanced countries within the grouping of environmental and social dumping from the less advanced ones.

While both of these challenges limit the degree of integration, the relatively-high institutional sophistication of even the less advanced members of these groupings plays in favor of integration success. In other words, the institutional capabilities associated with middle and upper income countries ensure a certain degree of implementation and success in their integration efforts, once a commitment in that direction has been made.

### Regionalism among developing countries

In parallel to the increased emphasis on regional economic integration in industrialised countries, or among the latter and some developing countries, there has recently been a revival of regional initiatives among other developing countries and a strengthening of trade within their regional groupings. Over the last two and a half decades world exports have increased by a multiple of about 12, while trade within regional groupings of developing countries has risen by a multiple of nearly 17. This growth is remarkable, as it is only since the end of the 1980s that these groupings began to overcome the great institutional and trade crises they experienced throughout the 1980s.

The move towards the spreading and strengthening of regional initiatives has been the strongest in Latin America. New arrangements, such as Mercosur, have advanced very rapidly in the reciprocal lowering of trade barriers. At the same time, older ones, such as the Andean Pact, have finally begun implementing policy steps decided years ago. The results in terms of intra-regional trade growth have been remarkable in both cases. Likewise, the free-trade area already established among the most integration-minded members of the Central American Common Market, has begun to bear fruit. In CARICOM, the share of intra-regional trade in total trade has been around 10% in recent year after a long period of stagnation at a much lower level.

In Africa, over the past few years, there has been a great increase in regionalism, which however has not yet led to a significant rise in recorded regional trade. Countries in Eastern and Southern Africa and the Indian Ocean have signed a Treaty on the Common Market for Eastern and Southern Africa (COMESA). In Southern Africa, SADC has adopted a new explicit integration agenda. With South Africa becoming a member, SADC is now the regional grouping in Africa with the highest share of intra-regional trade. In West and Central Africa the various monetary unions are seeking to evolve into fully fledged economic unions (UEMOA and CEMAC, respectively).

In Asia, SAARC and ECO are showing renewed interest in strengthening their integration efforts, the second grouping now including countries that used to be part of the

Soviet Union. Other regional initiatives that have begun to take shape in the region of the former Soviet Union include those involving the Caspian and Black Sea countries.

Last, but not least, although still in its infancy, regional cooperation and integration are seen as a cornerstone in the Middle East peace process as well as in the economic development of the Mediterranean Basin and Western Asia. The Gulf Cooperation Council and the Union du Maghreb Arabe, also in this area, are examples of regional schemes still in their early stages of evolution.

Even among the group of developing countries, integration schemes face different challenges. At the risk of excessive generalization, it can be said that some of these groupings, such as those in Sub-Saharan Africa, face particular difficulties. Firstly, some of their (potential or actual) member countries are themselves weakly integrated, both in economic and in political terms, and institutionally weak. Secondly, some of their members' public finances rely particularly on customs' duties: the liberalization involved in the process of integration can thus create problems for public sector finance. Thirdly, weaknesses in the financial sector, including the non-convertibility of several currencies, make exporting to the industrialized countries (from whom hard currency can be obtained) more attractive than exporting to regional partners.

#### International support for regional initiatives among developing countries

The renewed interest in regional integration amongst developing countries is being actively supported by several development cooperation agencies. This is particularly noteworthy, as in the past some of these agencies had been reluctant to appreciate the development value of regional integration initiatives. Indeed, their past support for national structural adjustment programmes had often placed an insufficient emphasis on the regional and subregional obligations of these countries. Moreover, structural adjustment programmes have generally failed to take into account the regional dimension of the reforms.

By emphasising that regionalism is not an alternative to integration in the world economy, the European Commission has been influential in making both the IMF and the World Bank more sympathetic to regional initiatives. Indeed, the Commission's support for the new regionalism is based on the view that outward looking or open regional integration is a complement and a facilitator of multilateral trade liberalization. The contribution of the EU has often been recognised by numerous regional groupings and international organisations, as well as by fora of donors and beneficiaries, notably the Global Coalition for Africa (GCA).

Likewise, the OECD has been following with interest the move towards regionalization in the developing world. In the first meeting ever held by its Development Assistance Committee on this issue, in 1992, its members encouraged the donor community to be more supportive of these efforts. Similarly, UNCTAD, the international institution that has been most outspoken in its support for these initiatives, has begun to push for the establishment of some form of a dialogue forum where donors and regional institutions can analyze and encourage the support of regional integration initiatives among the developing countries.

## Regional integration and multilateral trade liberalisation

Until recently, the history of regional integration among developing countries has been dominated almost consistently by a great gap between the rhetoric of expressed intentions and the hard facts of the unwillingness or inability to carry out these intentions. The strength of current efforts and a number of their features seem to suggest that, in some promising instances, past difficulties are being overcome; in contrast, other attempts remain halfhearted. Successful regionalism owes much to the context of global liberalization of trade and multilateralization of concessions. Some liberalization initiatives have been unilateral, even if undertaken on the advice (and even pressure or conditionality) of the Bretton Woods institutions. Others have taken place in the context of GATT negotiations. Unsurprisingly, this new approach to regional efforts has been referred to as "open regionalism". Another feature of successful schemes has been the built-in automaticity and clearly-set deadlines for the dismantling of barriers.

These features tend to reduce possible shortcomings in terms of trade diversion and other inefficiencies, as well as to short-circuit efforts at slowing down the liberalization process. At the same time, they can facilitate the compatibility of regional integration with multilateralism as long as they comply with the minimum requirements set forth by GATT's Art. XXIV.

As recognised already in the recent Commission Communication "Free Trade Areas: An Appraisal", the Marrakesh Act which concluded the Uruguay Round confirmed the compatibility of regional integration and multilateralism while strengthening the conditions whereby a regional grouping can claim to have acted in accordance with multilateralism when establishing itself or expanding geographically. The Act reaffirmed that regional integration initiatives must cover substantially all trade. Furthermore, it has established that the dismantling of mutual trade barriers should only exceed ten years in exceptional circumstances. In addition, the resulting arrangement, once fully implemented, should result in reciprocal and symmetrical trade liberalisation. Within the framework of the World Trade Organisation (WTO) regional integration initiatives must be notified for scrutiny without delay, and periodic reports have to be given by the parties involved on the functioning of the agreement. Differences between WTO members on regional integration can be referred to WTO dispute settlement.

## **II. EUROPEAN COMMUNITY SUPPORT TO INTEGRATION EFFORTS THROUGHOUT THE DEVELOPING WORLD**

The European Union is a "natural" supporter of regional initiatives. Furthermore, its success as a regional grouping has, in turn, fuelled demands by developing countries for political and financial support for these regional initiatives. Thus it is not surprising that the support for regional integration and regional cooperation appear frequently in EEC and EU documents on development policy.

This support can be traced back at least to 1969, when the Second Yaoundé Convention established that the regional organizations of the Convention's signatories could be beneficiaries of Community aid, that special preferences could be granted to African

regional enterprises bidding for EC-financed contracts, and foresaw the possibility of extending preferential duty-rates on imports from regional groupings of Convention signatories. Five years later, the Development Council meeting of April 1974 adopted a "Resolution on regional integration among developing countries"<sup>1</sup> in which the Community expressed its willingness to respond favourably to development aid requests from countries that were undertaking regional integration and cooperation initiatives.

More recently, the Lisbon European Summit of 1992 gave a new emphasis to regionalism. At this summit, the Heads of State and Government confirmed the importance of pursuing policies in support of integration efforts in Latin America, selected the support for moves towards regional integration as one of the five priorities for the Union in the Maghreb, and declared their willingness to contribute to regional cooperation and integration in Central and Eastern Europe. Several Summits since then have referred to regional integration in the context of EU external relations. Thus, the last European Summit of December 1994 in Essen spoke of the need to support Mercosur's integration efforts and endorsed the Commission's proposal to establish a Mediterranean-wide free-trade area.

So, regional cooperation and integration support has been a cornerstone of EU development policy, particularly in those countries and areas that have shown a special interest in receiving part of their assistance in such form.

The dialogue from region-to-region (Rio Group-EU, San José, ASEAN-EU, SADC-EU) has also contributed in a major way to enhancing the political status and the economic bargaining power of EU regional partners, thereby strengthening their commitment to deepen and to further institutionalize their own integration arrangements (Mercosur, ASEAN, SADC).

Article 130u of the Maastricht Treaty specifies that policy in the sphere of development cooperation shall foster "the smooth and gradual integration of the developing countries into the world economy". One way this can be achieved is by a process of regional integration which can pave the way for multilateral integration. By competing in regional markets, developing countries can gradually and smoothly increase their competitiveness so as to become integrated into the world economy in a sustainable way.

Currently, all major strategy documents and undertakings of the European Commission addressing the problems of developing countries, and the EU's relations with them, place a high priority on the support of regional initiatives. This was true for the 4th Lomé Convention, whose present mid-term review has confirmed the importance of regional integration to address the development problems of the ACP countries. It was true of the 1992 Guidelines for Cooperation with Latin America and Asia. Similar considerations underlie the Mediterranean Basin and the Asia strategy papers issued by the European Commission in the second semester of 1994.

The above reflections provide a comprehensive overview of the strong commitment

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<sup>1</sup> "The Community will respond favourably to requests for assistance coming from developing countries or groups of developing countries that are in the process of carrying out the creation or consolidation of economic cooperation or regional integration, in cases where it is anticipated that it can make an efficient contribution."

that the EU has made to support regional initiatives among developing countries. Whatever the instruments chosen (trade policy, financial and technical cooperation, political dialogue), the main purpose of this support until now has been to facilitate the development process of these countries. Yet as some of the more recent regional initiatives involving the EU have shown, the latter's role has changed with the Union becoming an active partner in the integration process rather than remaining a supportive and interested, but essentially non-participating outsider. This is the case regarding the new regional initiatives concerning the EU and Mercosur, as well as the new strategy for the Mediterranean.

This development has two important implications which distinguish these recent efforts from earlier EU support for regional initiatives among developing countries. Firstly, as these initiatives are based on the idea of partnership, they respond to interests of particular importance to the EU as well as to the grouping of developing countries. Secondly, they involve a negotiation process and a change of policies, not only on the part of the developing countries, but on that of the EU as well. While it is perhaps too early in this new process to derive useful lessons or recommendations for the future, it is nonetheless important to keep in mind that the challenges posed by those initiatives differ from those that arise in the earlier approach. Moreover, it is not anticipated that one approach should replace the other, rather the specific circumstances of the developing countries concerned as well as the interest of the EU should determine the line to take.

The efforts of the EU to promote and support regional integration among developing countries should not at all be interpreted as an attempt to "export" the European integration model. Clearly, there are different approaches towards integration and economic development. It should be recognised that the European model, shaped by the continent's history, is not easily transferable nor necessarily appropriate for other regions. On the other hand, to the extent that the European model of integration has become an unavoidable "reference model" for virtually all regional initiatives, the EU should share with other interested parties its experience on: improving the functioning of regional institutions, absorbing the adjustment costs originated by lowering barriers, and sharing the benefits from integration.

The details of EU support for the promotion of regional integration among developing countries are given in Appendix A.

### **III. LESSONS LEARNT TO DATE**

There are a number of lessons that can be drawn from the experience of regional integration in various parts of the world. Probably the most important lessons can be derived from the European experience, not only on account of its relatively-long history but also because, to a large extent, it can be considered as the only successful example of regional integration so far. However, an examination of the European experience should not be limited to the highly advanced character of the European Union following the Maastricht Treaty. It is the evolution over time of European integration and the way in which various obstacles were surmounted in the process that are most relevant, rather than its specific institutional set-up. In addition to the European experience, there are also important insights to be gained from the relative success of some regional integration initiatives and the failure so far of many others in various parts of the developing world.

The lessons learnt can be subdivided into those related to the preconditions and success factors, the design and the implementation of regional integration initiatives.

### 1. Preconditions and success factors for regional integration

Regional integration is not the only strategy for developing countries to follow: to make a success of regionalism, countries must be both able and willing to strive for the benefits of integration and accept the costs that such a path implies. As a result, the chances of success vary widely and have to be analyzed on a case-by-case basis. Thus, while regionalism might be working for some countries, others might prefer or might need to chose other arrangements or different routes for insertion in the world economy.

To start with, geographical constraints might play a key role in limiting integration options. Physical barriers such as the Andean Cordillera or the Himalayas are enormous obstacles to trade: the costs of overcoming them might induce countries to look elsewhere rather than for neighbouring partners.

Furthermore, two sets of preconditions as well as factors affecting the success can be distinguished:

#### a. Preconditions as regards the actual and potential relationship among partners

Existence of genuine common interests. Such common interests can arise in very diverse areas: a common border, a common river basin or a shared natural resource. In many cases the common interest is a function of proximity so that regional integration often starts with neighbouring countries. A common interest can also take the form of reacting to a common threat as integration makes it possible to pool resources in order to be better able to cope with a threat, be it economical or political. The protection of the Amazonian Basin, which has given rise to the Amazonian Pact, exemplifies the idea of a common interest resulting from a shared natural resource. The same can be said of the regional use of water as a building block for peace and cooperation in the Middle East. Similarly, the struggle against desertification may constitute a stimulus for integration among several African countries in the Sahelian zone. As the threat of an extension of Soviet hegemony constituted an important encouragement for economic integration in Western Europe, the SADC was formed to better cope with the destabilisation of the apartheid regime. Both the GCC and ASEAN also rose with the aim of strengthening cohesion because of a security threat.

Compatible historic, cultural and political patterns. Common interests or even physical proximity are not a guarantee for integration, or for it to be the best option for every country. As relations between neighbours such as the countries of South America, or India and Pakistan, or Israelis and Palestinians, or as Iran and Iraq show, both culture and history can work as incentives or as disincentives for regional integration. ECO's relaunching on the basis of Islamic solidarity and Yugoslavia's breakdown are alternative examples on the role that a cultural factor such as religion can play, as either a binder or a diluter of regional initiatives.

b. Preconditions as regards the internal political and economic situation in partner countries.

Political commitment: Integration calls for a strong political will to that effect. In addition, this political will should be sustained in order to be credible for economic actors and trigger self-fulfilling expectations among society at large. Political commitment also implies the willingness to share certain aspects of sovereignty.

Peace and security: Progress on regional integration and peace, security and stability within the members of the grouping are closely interlinked. Lacking both the resources and the incentives to implement the necessary policy reforms, countries that suffer from civil strife or conflict will not be able to participate effectively in integration initiatives. By the same logic, political and economic migration will transfer some of their problems to their neighbours.

c. Factors that facilitate the success of regional integration.

Rule of law, democracy and good governance are necessary for a meaningful political dialogue among partners that will ensure the irreversibility of the process. They are also necessary for giving confidence about the predictability of policies and of the economic environment. Rule of law and good governance are essential for the proper functioning of basic economic institutions, while democratic legitimacy provides the necessary political underpinning. Without confidence in government there will be no long-term investment, but rather there will be a tendency towards capital flight and plunder.

Macroeconomic stability: Integration should be accompanied by compatible economic policy frameworks. These include reasonably stable exchange and inflation rates, and adequate management of public finances and of the balance of payments.

It has often been observed that there are important feedback effects, once integration is successful, to help "lock-in" the above preconditions. In other words, once integration is working it becomes easier for countries to maintain security and macroeconomic stability. In the European case integration could only start because peace and security, as well as democracy, were reasonably assured. However, at the same time, European integration further consolidated this peace and security as it became inconceivable that there would again be a serious conflict among the EU member states.

The above preconditions and success factors appear not to be satisfied in many developing countries. Therefore, it is not surprising that the results of integration efforts have, so far, been disappointing.

## 2. Design of regional integration

Two basic alternative approaches, intergovernmentalism or supranationalism, may secure an institutional framework for regional integration. Intergovernmentalism means that governments continue to exert their full sovereignty: institutions are only created to act as a Secretariat, preparing and implementing integration policies. Supranationalism means that governments decide to share jointly, through an institution, some specific aspects of sovereignty. Under supranationalism, the legal provisions for integration take precedence over

national laws, and these provisions are enforceable through the courts if necessary. In this case the budget to carry out integration policies is determined, implemented and controlled by common institutions. Under intergovernmentalism, states agree on certain matters that become part of their national legislation, but there is no body of common law.

European integration is a blend of supranationalism and intergovernmentalism. Virtually all other integration initiatives, including those among developing countries, are almost fully intergovernmental, even if there are a few exceptions in the monetary field (e.g., the cases of the CFA zone and the CMA).

The lesson to be learnt in relation to the design of regional integration is not that organisations should be supranational or intergovernmental, but that whichever approach is taken the institutions should have a realistic mandate. They should also have available adequate resources to fulfil this mandate. It helps if own-resources are generated automatically, via, for instance, the proceeds of a common external tariff, rather than paid out of national budgets. It seems likely that most of the integration initiatives among developing countries will remain by and large intergovernmental. Still, the complexity of integration calls for institutions that are capable of formulating and implementing regional policies. Human and financial resources should be in line with the objectives. Finally, there should be no conflict or overlapping between the mandates of different institutions, as is presently the case for example in Sub-Saharan Africa, because this leads to inefficiency and waste of resources.

Other lessons learnt from experience refer to the principles of subsidiarity and variable geometry. The subsidiarity principle implies that the responsibility for dealing with an issue should be kept as close to the population concerned as possible. The logic of this principle is very strong, as it is difficult for civil society to accept that those decisions that can be most effectively be taken at a low level should be referred to an intergovernmental or supranational body. This principle may also offer some guidance for determining a realistic and appropriate mandate for different regional organisations.

Furthermore, the framework for regional integration should allow enough flexibility to permit progress at different speeds. If all member states of a regional grouping must move at the same speed, progress will be determined by the speed of the slowest moving member state. In contrast, the principle of variable geometry implies that, within a grouping, some sub-groups of countries may move faster than others towards the integration objectives. Hence, variable geometry makes it possible for a grouping with a large number of member states to contain one or more sub-groups that have a more ambitious programme, while all share the same core programme. Variable geometry is not compatible with overlapping groupings, because in that case there will be inconsistencies in the policies to be implemented.

### 3. Implementation of regional integration

One of the most important lessons from the limited success of past integration efforts among developing countries is that there should be sufficient openness towards third countries. While regional integration introduces, by definition, a preferential treatment for partner countries, regional markets should remain open. A balance should be struck between openness and regional preference. Past experience demonstrates that success does not result from very high regional protection levels that encourage expensive trade diversion.



Furthermore, integration should not only or mainly be an official affair. The private sector and civil society should participate fully in the process. If integration does not reflect the aspirations of the private sector and civil society, it has little chance of success.

Finally, an aspect of implementation to which much attention has been devoted concerns the distribution of costs and benefits of integration over the participating countries. As with economic liberalisation in general, there is a tendency for costs to be concentrated and short-term, while benefits are likely to be more dispersed and long-term. In the European case, the importance of regional and social policies designed to facilitate adjustment and reduce transition costs has increased gradually. These policies amount to a redistribution from the wealthier parts and groups of the Union, that normally benefit from the large European single market, to less prosperous parts and groups that need to adapt so as to benefit from the integration opportunities. Some of the integration groupings of developing countries have devised a redistribution policy (e.g. the CEAO in West Africa). In most cases, these redistribution policies have not been successful. Alternatively, transition could be facilitated by allowing longer transition periods for countries facing a high adjustment cost. External support could also play an important role.

#### **IV. RECOMMENDATIONS ON EXTERNAL SUPPORT FOR REGIONAL INTEGRATION**

In spite of the known benefits of regionalism and despite sizeable external support, many of the earlier regional integration initiatives among developing countries did not fulfil their expectations. The lessons outlined above help to explain this situation. The question to be raised then is how EU external support for regional integration can be made more effective. An important aspect is to see what external support can do about the pre-conditions described above, bearing in mind that the promotion of peace and security, good governance and macro-economic stability are outside the scope of the present Communication.

The recommendations below address the design and implementation of integration arrangements. Recent initiatives to promote more effective regional integration among developing countries, in which the EU was involved and included in the overview presented in appendix A, provide essential elements for these recommendations.

These recommendations take into account the existence of three broad categories of developing countries' integration groupings. Firstly, neighbouring regions whose own regional integration is closely connected to the European Union's integration, e.g. the Mediterranean region. Secondly, the middle-income developing countries, mainly in Latin America and Asia, that are relatively advanced along the integration path. Thirdly, the other developing countries, especially in Africa, where regional integration, while badly needed, faces difficult challenges for economic, institutional and political reasons.

##### 1. EC trade policy as a way of promoting regional integration with and among developing countries

As regional integration consists mainly of lowering or eliminating tariff and non-tariff

barriers, it is of crucial importance for the region to receive proper trade treatment from the EC, which is the main world trading partner. Two dimensions of trade policy can be particularly relevant in this respect:

a) Establishment of free-trade agreements with developing countries of a certain region

There are important arguments for moving gradually towards less unilateral preferences and more reciprocity in the trade regimes between industrialised and developing countries. A reciprocal arrangement increases transparency and facilitates regional integration and integration of developing countries into the world economy. A reciprocal arrangement also improves the credibility of economic policy reform, which is a necessary condition for long-term investments to take place.

The prospect of a free-trade area such as the one already proposed for the Mediterranean Basin, starting with bilateral agreements with Morocco, Tunisia and others, could act as a major incentive for the partner countries to lower intra-regional trade barriers in order to get into a region-to-region liberalization deal with the EC. This will apply, as the Peace Process evolves, to the Middle East and is being contemplated for the EU-Mercosur. Evidently, the offer of a free trade area arrangement must generally be supplemented by a series of actions aiming at legislative convergence, harmonisation of standards and easing the restructuring of the partner economies so as to avoid major distributional imbalances. This is why the policy package proposed for the Mediterranean region and for Mercosur includes the promotion of European investment in the region, technological cooperation, the encouragement of small and medium enterprises, as well as assistance for the alleviation of the social impact of liberalization policies and for the improvement of regional infrastructures.

b) Granting of cumulation in the rules of origin and other concessions within the Generalized System of Preferences regime

Neither the Lomé Convention nor the Generalised System of Preferences imply conditionality on the beneficiary countries in terms of regional integration. However, the GSP provides for the cumulation of rules of origin for regional groupings that request this privilege. In the case of Lomé, the cumulation of rules of origin applies automatically to the full ACP group. This cumulation provides an indirect, yet significant support for intra-regional trade and investment liberalization. Efforts to extend and improve its use should continue. Moreover, some special GSP regimes such as the drug scheme granted to the Andean and Central American countries are also proving supportive of these regions' efforts towards integration.

2. Development cooperation policy

External support for regional integration under the heading of cooperation policy could be subdivided into the following broad categories that will be described below: a) support for capacity building and institutional strengthening; b) aid for the private sector to strengthen competitiveness; and c) assistance for governments to facilitate policy reform.

a) Capacity Building and institutional strengthening

The design and implementation of regional integration proposals are not straightforward. The availability of the necessary skills cannot be taken for granted, but must be developed. The EC is in a unique position to be able to offer assistance and advice based on its own experience. This is clearly demonstrated in the demands for technical support addressed to the EC by Mercosur, ASEAN, UEMOA, SADC and the Andean Pact countries, among others.

Attention should continue to be devoted to technical assistance and to training with a view to increasing the local capacity to formulate and implement regional integration policies. This should be directed at both national and regional administrations. Exchange of staff between European institutions and those in developing countries to deal with specific technical subjects could be beneficial in strengthening integration initiatives.

The eventual success of regional integration initiatives will depend on how well the measures are internalised. This is particularly relevant in Africa where it is crucial to help build up the local capacity to undertake and implement the reform agenda. In UEMOA, assistance to set up a multilateral surveillance scheme offers an example of how this might be approached. Similarly, at a more basic level, the assistance provided to national Technical Working Groups in the countries that participate in the Cross-Border Initiative offers a useful model of how to build up local capacity and a "constituency" in favour of the reforms.

Another aspect of capacity building is related to research. Endogenous research on regional integration, which the EC has supported for years particularly in Latin America (e.g., SELA -Sistema Económico Latinoamericano-, ALADI) should be promoted in other regions as well. This should preferably be done in a research programme framework, rather than in a fragmented ad hoc way. Programmes should also be set up to raise awareness and the involvement of the private sector and civil society (including trade unions) in the subject of regional integration. Easily accessible databases on regional regulations and procedures should be developed for the benefit of private sector operators.

#### b) Direct support to the private sector to help firms exploit the opportunities resulting from regional integration

As with any liberalisation process, regional integration will inevitably lead to adjustments at the level of the private sector. Some firms will be able to expand and benefit from the new opportunities, and new firms will emerge. At the same time, other firms will suffer from the increased competition and may have to close down. The lobbying of those who are likely to suffer might diminish the political will to sustain integration. It is therefore crucial to provide some form of adjustment assistance to the private sector to support the integration effort. Given budgetary pressures, external support becomes important as most governments in developing countries will not be in a position to offer much help. This is especially true as regards both the poorer countries of Sub-Saharan Africa and those Mediterranean countries facing the formidable challenge of creating an FTA with the European Community.

Support in this area can take a variety of forms including e.g. financing meetings of entrepreneurs to encourage joint ventures, setting-up advisory and information centres on market opportunities, providing training for acquiring new skills, and facilitating seed- and

risk-capital activities. The EC has already developed programmes along these lines for Latin America and the Mediterranean (AL-INVEST, MED-INVEST and ECIP).

In the Indian Ocean region, as a complement to the policy reforms already underway as part of a more general process of regional integration, a pilot project is presently being set up to assist the private sector. The project offers a combination of small loans and grants to finance services which firms may need to reorganize their activities. A similar pilot operation is being examined for Southern Africa. Such projects should become an essential component of an EC strategy to support regional integration efforts in those countries with weak private sectors.

The absence of compensation mechanisms makes some countries or sectors face a disproportionately high adjustment cost. Donor support could supplement intra-regional solidarity and much improve the cohesion of an integration grouping.

Another important way to assist the private sector with the integration process is to improve the availability and efficiency of financial services. In most cases, Northern exports to the South are generally appropriately covered in terms of credit guarantees. However, it is usually difficult and very costly to secure finance for exports from the South to the North and even more for South-South intra-regional trade and investment. Thus, in many countries, the actual implementation of increased cross-border economic activity by the private sector is likely to be impeded by weak financial and payments systems. Especially in view of the need for open integration efforts, rather than excessive regional preferences, it is important to improve the financial instruments available to exporters from the South. Otherwise, southern firms will continue to face a serious competitive disadvantage. Some work undertaken in the context of the CBI could be useful in developing projects for other integration efforts.

#### c) Balance of payments/budget support to help meet net transitional costs

Intra-regional economic liberalisation implies policy reform that will lead to costs to the public sector and the balance of payments of the integrating countries. One of the main impacts on the public sector budget is the reduction in tariff revenue. The costs occur mainly in the short run, and they are likely to be offset by gains resulting from the expected supply response. However, the tariff revenue loss might still have to be compensated by increased indirect taxes of another type (for example, the introduction of a value added tax). Nevertheless, these transitional costs contribute to explaining why the political will has been lacking in many developing countries to implement the decisions agreed in past attempts at regional integration.

External assistance can play a crucial role in getting the process moving. This is especially the case for the smaller and poorer developing countries, largely concentrated in the ACP group, for which it will be difficult to implement regional integration without transitional external support. The Cross-Border Initiative (in Eastern/Southern Africa and the Indian Ocean) has developed an approach to using balance of payments/budget support for the countries undertaking regional liberalisation as a complement to their national adjustment. This approach could be relevant for other parts of the developing world.

### 3. Donor coordination

Regional cooperation in general, and regional integration in particular, are areas where donors often act in an uncoordinated and sometimes conflicting way. In some cases donors support a particular organisation without looking at the wider context. This situation diminishes the need for the organisations themselves to harmonise and rationalise their programmes. Rather, they are encouraged to formulate duplicating requests in as many domains as possible in order to maximise their own external funding. Some critics even attribute the proliferation of regional institutions in the developing countries (particularly in Africa) to the role of donors in creating and keeping them afloat.

There should be more effective donor coordination on the promotion of regional integration. In view of the Maastricht treaty, the Commission should take the initiative to improve coordination already at the EU level. The Commission should also continue coordination efforts in other fora such as the Special Programme of Assistance for Africa (SPA) of the World Bank, the Global Coalition for Africa (GCA), the DAC and UNCTAD.

Under a mandate from the Global Coalition for Africa the Commission initiated efforts to formulate recommendations to rationalise and strengthen integration institutions in Africa. It may be useful to carry out a similar exercise for other parts of the developing world.

As regards donor coordination, the EU has been instrumental in developing a novel approach towards Africa. EU member states with a keen interest in the subject and the multi-lateral agencies have formed steering committees together with the Commission (e.g. in UEMOA). This is a way to achieve the coordination of policies envisaged under the Maastricht Treaty. Indeed, the EU is now committed to ensuring the coordination of development cooperation policy of the Member States and the Union, as well as the overall coherence of EU policies with the objectives of development cooperation. This applies to all aspects of development cooperation policy including initiatives regarding support for regional integration and cooperation.

It is also worthwhile to develop a mechanism to inform the EC member states collectively through an annual report prepared by the Commission. Such a report would have the added benefit of keeping the public informed of developments, and of the results of EC support to integration efforts in developing countries.

## Appendix A

### OVERVIEW OF EC SUPPORT FOR REGIONAL INTEGRATION AMONG DEVELOPING COUNTRIES

The European Union has supported regional initiatives and projects of all kinds, without making distinctions between support for regional cooperation or for regional integration. However, in line with the subject of the Communication, this appendix deals with EU support for regional integration, rather than for regional cooperation in the wider sense. The emphasis is on recent initiatives that are relevant for the formulation of recommendations on how to increase the effectiveness of external support for regional integration.

#### a. Latin America

Latin America is the developing region which has traditionally received the largest portion of EC development assistance in the form of technical and financial aid for regional initiatives. There are two main reasons for this: firstly, in Latin America, the idea of regional integration has strong cultural and political connotations; secondly, it is also a region which has shown strong interest in receiving support for regional initiatives as opposed to national projects. Support for regional initiatives has mostly focused on three regional groupings: the Central American Integration System (SICA), the Andean Pact and Mercosur.

As regards the Central American Common Market, the most visible component of SICA, the European Community was the key external player in the efforts to revive it, after its near-collapse resulting from the effects of war and the debt crisis of the region. Much of the support has come in the form of political and economic dialogue with the region (the "San José dialogue"), based on annual ministerial level and more frequent technical-level meetings. A cooperation agreement between the EC and the Central American countries has also facilitated European cooperation with the region and contributed to reinforce regional efforts. Aside from political support, assistance also came at the beginning of the 1990s in the form of financing for the restart of the payments clearing facility; this financing was made conditional on the elimination of intra-regional trade barriers. When the need for this facility became unnecessary, the remaining funds were reconverted and used for a program to encourage intra- and extra-regional exports of the weakest members. By channelling the management of a number of regional projects through institutions of SICA, and by supporting the Central American Parliament, the EC has also contributed to the institutional strengthening of the grouping.

In the area of trade, the EC granted the Central American Common Market in the mid-1980s, the possibility of regional cumulation in the rules of origin, thus providing incentives for intra-regional production and trade. Similar support for integration comes from the fact that all of the members of SICA receive the same special preferential treatment within the EC's GSP scheme.

For many years now, the EC has been an instrumental supporter of the Andean Pact. Much of the assistance has been in the form of institutional support, mainly of JUNAC (Junta del Acuerdo de Cartagena), the executive arm of the grouping: 85% of the funding received by this grouping is provided by the EC. This has taken the form of both technical assistance and the financing of regional projects managed by this institution. While some of these

projects have emphasized regional cooperation in a general sense or have contributed to a strengthening of the general economic fabric of the region, others explicitly emphasized production and trade links within the region. Projects being currently prepared deal with the harmonisation of Andean standards and with assistance for the implementation of the Andean Common External Tariff.

As with the Central American region, the EC maintains a cooperation agreement with the Andean Pact, rather than with each country individually, thus contributing to the reinforcement of regional identity and of the regional institutions. The Andean Pact has also been granted the possibility of regional cumulation in the rules of origin. In response to requests by the region to avoid any adverse effects on their integration efforts, the EC has extended to Venezuela (in spite of its relatively high per capita income) the special preferential treatment that its other Member countries receive within the GSP scheme.

Support to Mercosur is the most recent regional intervention of the EC in Latin America. Until recently, much of the support for this grouping was political and high-profile, by choice of both Mercosur and the European Community. Thus Mercosur made its official entry on the international scene in Brussels, when the Foreign Ministers of its four Member countries visited the European Commission and Council in April 1991 and asked for EC technical assistance to strengthen their emerging regional initiative. The EU has since then been a committed supporter of this integration initiative which, against many odds, and in record time, has eliminated most barriers to intra-regional trade.

Although the EU has signed cooperation agreements with each of the Member countries of Mercosur, a separate inter-institutional agreement was signed between the Commission and Mercosur at the request of the latter, so as to pave the way for the European Union's funding of training and technical assistance in priority areas of regional integration and for a consultation mechanism. Currently, the EU supports Mercosur in three main areas: the coordination of some important aspects of agricultural policy, customs management and the harmonization of technical norms. The EU has also provided financial support for the strengthening of some of the institutions of Mercosur in the form of technical assistance in policy design, of human resources management and for the evaluation of administrative support needs.

The EU is now in the process of further strengthening its relations with Mercosur via the establishment of an inter-regional agreement for trade and economic cooperation that foresees a deepening of the current political dialogue, an expansion of EU cooperation with the region to strategic areas of common interest, a consultation mechanism on trade issues and the preparation of reciprocal trade liberalization. Current strategy towards Mercosur, already approved by the European Commission and currently under discussion by the Council, foresees for the more distant future the possibility of establishing a Free Trade Area between the EU and Mercosur.

#### b. Mediterranean Basin (including the Middle East)

While numerous factors (historical, cultural) make it possible to consider the Mediterranean Basin as a cohesive region, it is nevertheless characterised by a low level of economic interdependence among its countries. Evidently, there have been some initiatives,

both political and economic, to redress this situation. The North-Western African countries with the Maghreb Arab Union (MAU) as well as the Gulf region with the Gulf Cooperation Council (GCC), and more recently a number of non-Arab Muslim states in Western/Central Asia have made efforts at establishing regional groupings.

In a recent Communication, calling for a Euro-Mediterranean Partnership, the Commission placed high priority on encouraging regional integration and cooperation throughout this area. The Commission envisages this area to be a zone of peace and stability, based on economic arrangements comprising a Free Trade Area (FTA) and wide-ranging economic cooperation between the EC and its Mediterranean partners.

The FTA, which should be completed by about 2010, would provide for free circulation of manufactured products, progressive liberalisation of trade in agricultural products of interest to both parties, liberalisation of the right of establishment for companies, provision of trans-border services, and free movement of capital. There would be largely identical rules of origin among the parties, mutual recognition of standards, a high level of protection of intellectual property rights and provisions concerning rules of competition.

The first steps in this process are already under way, with negotiations nearly finished with several countries. Negotiations with other countries are to start soon. Once these negotiations are completed, the EC hopes that similar free trade arrangements will be negotiated among the Mediterranean countries themselves, and between them and the European countries that are not members of the EU.

The process towards free trade is intended to be complemented by a substantial cooperation effort on the part of the EU in favour of these countries, including assistance for the modernisation of the private sector and for the alleviation of the social effects resulting from the transition to more open economies, as well as for the improvement of regional infrastructures.

Regional integration and cooperation occupies a significant place in the EC's participation in the Middle East peace process. The EC supports an eventual free trade area between Israel, Jordan, Egypt and the Palestinian Territories with a view to taking advantage of the complementarities in the region and using them as a vehicle for stability and growth.

As regards the Gulf Cooperation Council (GCC), the EC always strongly supported the process of regional integration. This support reflects the economic importance and strategic significance of the Gulf region. A stronger and more integrated GCC would contribute to stabilising the Gulf area and providing an institutional framework for an economic, energy and security partnership with the EU. The EC support for the GCC's regional integration has so far been concretised by the conclusion of a region to region cooperation agreement in 1989 and the launching of a number of cooperation activities intended to strengthen the GCC's regional integration including technical assistance for the development of a GCC customs union. In addition, negotiations are under way on a free-trade agreement between both regions.

The EC's relationship with the Economic Cooperation Organization (ECO), a nearly dormant group until very recently, is still in its infancy. However, the EU has an interest in



following closely the evolution of this grouping which might help stabilize this geopolitically volatile region, and has shown a willingness in assisting in the development of its institutions and in providing technical assistance for furthering its economic integration.

### c. Asia

Of all developing areas, Asia is so far, the one which has shown the least interest in regional integration. The existing groupings such as SAARC and ASEAN have on the whole been loose cooperation arrangements, rather than integration undertakings. In some cases, this is due to the relative economic size of some of the countries in this region, not necessitating regional integration to be able to exploit economies of scale. With national development becoming more successful, especially in the ASEAN region, and the increased need to develop their own markets, the incentives for regional integration have recently increased. There are now moves towards tighter integration arrangements. In its recent Asia Strategy the Commission has emphasized its willingness to support these moves, whenever required.

As regards the South Asian Association for Regional Cooperation (SAARC), it has recently expressed its intention to establish itself as a preferential trade area. Hence, although some major operational questions still need to be decided, its member states signed an agreement to that effect in 1993 under the name of SAPTA (South Asia Preferential Trade Arrangement). Its first formal contacts with the EU date only from 1994. The fruit of these contacts has been the expressed intention of the European Commission to assist in the strengthening of SAARC institutions via technical assistance and training of officials.

The Association of South East Asian Nations (ASEAN) was founded in 1967 to encourage economic cooperation between its member countries, as well as to promote peace and stability in the region. Aside from strengthening their political, social, cultural and overall economic ties, ASEAN established itself as a preferential trade area. An agreement to deepen this trade arrangement into an ASEAN Free Trade Area (AFTA) was reached in 1992. While the original target date was the year 2008, the conclusion of the Uruguay round has brought it forward to the year 2003.

The formal basis for ASEAN's relations with the EC is provided by a cooperation agreement, between the EU and the ASEAN countries as a group. The overall political and economic relations are dealt with at the foreign ministers level every two years. The EU also participates together with the other main "dialogue partners" in the Post-Ministerial Conference and in the recently created ASEAN Regional Forum which deals with security issues. These periodic meetings together with the operations of the joint sub-committees established by the cooperation agreement have served to increase ASEAN's internal coordination in some of these areas. Additionally, financial assistance for institutional support is currently granted to ASEAN's Secretariat, reinforcing its structure and establishing links with the EC and several other leading international organisations. Furthermore, the EC has already offered assistance and is currently considering a proposal for a project in support of the AFTA integration scheme. Finally, in the trade field, ASEAN countries also enjoy regional cumulation in the application of the rules of origin in the context of the GSP.

#### d. Sub-Saharan Africa (SSA)

Sub-Saharan Africa has a long tradition of regional integration and cooperation. Since 1960 a large number of regional organisations have been created for this purpose. There is also a trend of Pan-Africanism, exemplified by the signing in 1991 of the Abuja Treaty on a Pan-African Economic Community. The Pan-African Community can be considered as a long-term goal, that first requires progress towards integration at sub-regional level. The EU has a long tradition of support for regional initiatives in SSA through the Lomé Convention provisions for regional cooperation. In terms of cooperation projects, attention has been focused on cross-border infrastructure, education and the struggle against endemic cattle diseases.

Despite the attention for regional integration in SSA, so far progress has been limited and disappointing. The Global Coalition for Africa (GCA) from its creation in 1991 has reiterated the need for effective regional integration as a crucial component of a strategy to overcome the constraints facing the African economies. Over the past few years, the Commission has collaborated with the GCA on defining ways to increase the effectiveness of regional integration in Africa. The brief overview below reflects that collaboration.

Regional integration efforts in Eastern and Southern Africa and the Indian Ocean have been mainly conceived through four organisations: the Preferential Trade Area for Eastern and Southern Africa (PTA), the Southern African Development Community (SADC), the Southern African Customs Union (SACU) and the Indian Ocean Commission (IOC). In addition, there have been steps towards a revival of the former East African Community (EAC). The PTA has recently been transformed into the Common Market of Eastern and Southern Africa (COMESA).

EC support for integration efforts in this sub-region has come in a variety of forms. Of the institutions mentioned above, the COMESA has been the first to develop an explicit integration agenda. The EU supported work on items such as trade preferences, non-tariff barriers, transport and insurance documentation and regional clearing of payments through studies and technical assistance.

Until 1992, EC support for SADC has focused on sectoral cooperation including mainly transport infrastructure. The present orientation of SADC is to develop and implement an agenda of market integration. There has not yet been significant EU support for integration of SADC, but it intends to make this an important priority for the future (in line with the Berlin Declaration signed in September 1994 by SADC and the EU). Support for integration could also be provided to facilitate the restructuring of SACU.

As regards the IOC, its members have agreed that one of their main priorities in the 1990s will be the promotion of trade in the context of regional integration. An important project is under preparation (PRIDE) to enable its private sector to reposition itself and enhance its competitiveness on regional and international markets.

Additionally, since 1992, EC support for regional integration in this sub-region has been focused on a broad initiative to facilitate regional trade, investment and payments in Eastern and Southern Africa and the Indian Ocean under the name of Cross-Border Initiative.

CBI. This initiative is geared to members of COMESA, SADC and/or IOC. It intends to promote regional integration in a novel and pragmatic way and address the regional dimension of adjustment. The initiative is co-sponsored by the African Development Bank, the International Monetary Fund and the World Bank. Reflections on its development have involved various regional and sub-regional organisations in Africa.

The participating countries were asked to set up Technical Working Groups consisting of public and private sector representatives. These working groups made an inventory of the most important obstacles to cross-border business. They also made recommendations on how to remove these obstacles. The emphasis has been on identifying the regulatory constraints that increase the cost of private sector cross-border business. Examples of such constraints are licensing and duties for imports, complex procedures for the allocation of foreign exchange and time-consuming arrangements for approving investments. The country level recommendations were synthesised in a common programme of action that was subsequently endorsed at a ministerial meeting in August 1993, in Kampala, Uganda.

Many of the recommendations on removing the obstacles to cross-border business dealt with issues that were already on the agenda of the above-mentioned organisations. However, practical implementation was lagging behind. CBI therefore supports these organisations in carrying out their work programme. The emphasis on removing regulatory constraints is not meant to forget the importance of diminishing physical obstacles (e.g. in the area of transport and communications infrastructure). Progress should be made in both areas. However, removing regulatory constraints can lead to very rapid results at a low budgetary cost and should not be postponed. The Commission intends to maintain the priority for removing the physical obstacles to cross-border economic activity through its regional cooperation programmes.

The CBI co-sponsors, including the EU, have indicated their willingness to support the initiative by helping to cover the short-run transitional costs that may arise at country level from this implementation. This will mainly be in the form of balance of payments assistance. In addition, work is under way to set up complementary support projects with the regional organisations. Some of these projects are aimed at facilitating the restructuring of the private sector in view of the wider regional and world markets. Other projects will address the facilitation of payments through an export credit guarantee system. Finally, there are also projects to strengthen or build the capacity to deal with regional integration issues, particularly at regional organisation level.

The strong awareness in the West African Region of the need for in-depth regional integration encouraged the seven member States of the West African Monetary Union (UMOA) to transform their monetary union into a fully-fledged Economic and Monetary Union (UEMOA) in 1990. The main axes are: to work towards the convergence of macro-economic policies, to establish a macro-economic surveillance mechanism, to harmonise the legal and regulatory framework, to create a single market and to adopt common sectoral policies. External support for the initiative is being provided by the EU as well as by France, the IMF and the World Bank.

The initiative foresees a progressive implementation of this integration scheme, based on the existing core of a monetary union. It is open to other countries in the region and is

compatible with the integration efforts pursued by the Economic Community of West African States (ECOWAS).

Beyond the integration created by opening economies to each other, the most innovative aspect of these reforms is the regional multilateral surveillance mechanism, which will permit the coordination and harmonisation of economic policy. The UEMOA Commission, set up at the beginning of 1995, should quickly take decisions relating to the implementation of the planned reforms, notably in the field of multilateral surveillance and the establishment of a customs union.

Within the framework of the Regional Indicative Programme of Lomé IV, the Central African region has decided to focus on the economic integration process by building on an existing regional initiative, the Central African Customs and Economic Union (UDEAC). The UDEAC was already founded in 1964 and benefited from the start from a single currency (the CFA franc). Nevertheless, national policies pursued by its members progressively withdrew all substance from the Union, resulting in the fragmentation of the regional market. Negative repercussions were felt by firms and were reflected in public finances, employment and investment levels, and the formal economy in general. In view of this situation, the six heads of State of UDEAC approved in 1990 a Regional Programme of Reforms (RPR) supported jointly by the EC, France, the World Bank and the IMF. The aim of these reforms was notably to restore a Customs Union, with a Common External Tariff together with the harmonisation of internal indirect taxation. Another area of reform, directly supported by the EU, has been inter-state transit transport.

Following the devaluation of the CFA Franc in early 1994, the UDEAC members expressed their desire to create a more ambitious framework for economic integration, and signed a Treaty to establish the Central African Economic and Monetary Community (CEMAC). CEMAC is still at an embryonic stage, but aims at the creation of a fully-fledged economic and monetary union in the region.

#### e. The Caribbean

The Caribbean region is characterised by a large diversity in the history and ethnic background of its population. Several regional integration initiatives have taken shape in the region. The Organisation of East Caribbean States (OECS) groups the smaller and least developed anglophone Caribbean states, which all share a common currency. Almost all of the OECS members are also members of the Caribbean Common Market (CARICOM), which includes most of the other anglophone Caribbean states. The Association of Caribbean States (ACS) was founded recently, in 1994, and groups all the countries of the insular Caribbean and of the Central American and Latin American coastline of the Caribbean Sea.

CARIFORUM is a grouping of the Caribbean ACP states, ie CARICOM plus Dominican Republic and Haiti. It acts mainly as a coordination body for regional cooperation under the Lomé Convention. Since 1992, the EU cooperation with the Caribbean Lomé states includes regional integration as an important component. Operational programmes are focused on regional trade and tourism development.

The potential for regional integration within CARICOM is constrained by the small

size of the market reflecting a population of around five million. However, there have been some significant achievements including the strengthening of the Caribbean voice in international fora, the joint promotion of exports with EU support and the attraction of investment through the Caribbean Development Bank. The EU is currently preparing further work on trade development at the wider CARIFORUM level.

f. The South Pacific region

The South Pacific region is highly diverse, and distances are huge in comparison to virtually any other region. This probably explains the absence of an integration framework. There are however some loose regional groupings that have mainly a cooperation objective. The South Pacific Forum (SPF) groups most of the states in the region and has an important role for the implementation of Lomé regional cooperation. Another grouping is the Melanesian Spearhead Group. The eventual possibility of regional economic integration in the South Pacific region will depend greatly on the efforts of Australia and New Zealand.

## Appendix B

### LIST OF MAJOR ECONOMIC INTEGRATION GROUPINGS INVOLVING DEVELOPING COUNTRIES AND THEIR MEMBERSHIP

#### A. AFRICA

##### Arab Maghreb Union (UMA)

Algeria, Libyan Arab Jamahiriya, Mauritania, Morocco, Tunisia

##### Economic Community of West African states (ECOWAS)

Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo

##### West African Economic Community (CEAO)

Benin, Burkina Faso, Côte d'Ivoire, Mali, Mauritania, Niger, Senegal

##### Preferential Trade Area for Eastern and Southern African States (PTA)

Angola, Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Uganda, Tanzania, Zambia, Zimbabwe

##### Southern African Development Community (SADC)

Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

##### Southern African Customs Union (SACU)

Botswana, Lesotho, Namibia, Swaziland, South Africa

##### Indian Ocean Commission (IOC)

Comoros, Madagascar, Mauritius, Réunion, Seychelles

#### B. ASIA AND THE PACIFIC

##### Cooperation Council for the Arab States of the Gulf (GCC)

Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates

##### Economic Cooperation Organization (ECO)

Afghanistan, Azerbaijan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, Turkey, Uzbekistan

##### South Asian Association of Regional Cooperation (SAARC)

Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka

##### Association of South East Asian Nations (ASEAN)

Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand

Melanesian Spearhead Group (MSG)

Papua New Guinea, Solomon Islands, Vanuatu

C. LATIN AMERICA AND THE CARIBBEAN

Latin American Integration Association (ALADI)

Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela

Central American Integration System (SICA)

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama

Central American Common Market (CACM)

Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Andean Group

Bolivia, Colombia, Ecuador, Peru, Venezuela

Southern Cone Common Market (MERCOSUR)

Argentina, Brazil, Paraguay, Uruguay

Caribbean Community (CARICOM)

Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Trinidad and Tobago

Organization of Eastern Caribbean States (OECS)

Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines

D. OTHER GROUPINGS

Asia Pacific Economic Cooperation (APEC)

Australia, Brunei Darussalam, Canada, China, Hong Kong, Indonesia, Republic of Korea, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Province of China, Thailand, United States of America

North American Free Trade Area (NAFTA)

Canada, Mexico, United States of America

South Pacific Forum (SPF)

Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, New Zealand, Niue Island, Papua New Guinea, Western Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu

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