PN-ABZ-482

EQUITY AND GROWTH THROUGH ECONOMIC RESEARCH

Trade Regimes and Growth

REGIONAL INTEGRATION AND COOPERATION IN SUB-SAHARAN AFRICA

DRAFT

July, 1996

Steven C. Radelet

Harvard Institute For International Development

The project under which this paper was prepared was funded by the U.S. Agency for International Development, Cooperative Agreement No. AOT-0546-A-00-5073-00, Equity and Growth Through Economic Research project, Trade Regimes and Growth component. The views and interpretations in this paper are those of the author and do not necessarily reflect the view of the U.S. Agency for International Development.

ASSOCIATES FOR INTERNATIONAL RESOURCES AND DEVELOPMENT

185 Alewife Brook Parkway, Cambridge, MA 02138-1101 USA 617 864-7770 TEL 617 864-5386 FAX aird@world.std.com I/NET

A

Regional Integration and Cooperation in Sub-Saharan Africa

1. Introduction

There is a long history of regional integration and cooperation agreements in sub-Saharan Africa. The South African Customs Union (SACU) evolved from an earlier union that was established in 1910. Similarly, the countries of the newly-resurrected East African Community (EAC) -- Tanzania (then just the mainland of Tanganyika), Uganda and Kenya -- first established a common internal market during the colonial period. Since the wave of independence movements in the 1960s, African leaders have time and again spoken of the importance of regional cooperation and unity. In fact, there have been more regional integration and cooperation agreements consummated in Africa than on any other continent. But, with few exceptions (notably SACU), these agreements have yielded disappointing results. They have not lead to increased trade within the region, or between the countries of region and the rest of the world. Moreover, except for the franc-zone monetary unions, they have had little success in actually integrating the economies of the member countries. Basically all analysts agree that the great amount of time, effort, and resources expended in the name of regional integration in sub-Saharan Africa has had little payoff.

Yet the enthusiasm for regional integration remains. Most noticeably, there is great hope that the political changes in South Africa can lead the way to increased integration and cooperation around the Southern rim of Africa, and in turn, that the South African economy can be an engine of growth for the entire region. Several initiatives are under way, including an attempt to expand the agenda of SADC to include trade policy, the Cross Border Initiative (established in 1991), and the Common Market of East and Southern Africa (COMESA), which was established in 1993. The resurgence is not limited to Southern Africa: the East African Community was re-inaugurated in March 1996, nineteen years after it had been disbanded.

Are these new initiatives likely to achieve greater success than their forerunners in integrating African economies? Or will they simply divert scarce administrative talent and only undermine the credibility of member governments? This paper examines these and related questions, mainly by surveying the existing literature on regional integration and cooperation in SSA and attempting to distill the most relevant lessons for the recent initiatives. It distinguishes between *integration* agreements (that focus on trade and factors of production) and *cooperation* agreements (that involves selected policy harmonization or joint infrastructure project). It does not evaluate monetary unions, which is a large enough topic for a separate paper.

The basic conclusion is that at this time there is little reason to expect significant gains from regional integration agreements. Such arrangements, in and of themselves, are unlikely to yield appreciable benefits unless they are preceded by decisions within the member countries (particularly South Africa) to follow a strategy of opening their economies to competition on global markets. This is not to say that there is no potential for further developing intra-regional trade in SSA (indeed, there is such potential); rather that formal regional trade agreements are not the most appropriate mechanism to stimulate additional trade. Instead, there appears to be greater potential for gains from individual country efforts to pursue a more outward-oriented trade strategy. These steps could be combined with efforts towards regional cooperation, especially the joint construction of transportation and communication infrastructure and other public goods (such as education and research facilities).

The paper is organized as follows. The second and third sections describe different types of regional integration and cooperation agreements, the theoretical gains and losses from such arrangements, and some stylized characteristics of the types of countries most likely to gain from integration. Section Four discusses the relevance of these issues for sub-Saharan Africa by exploring the extent to which the countries of SSA are likely to gain from cooperation and integration. The final two sections offer suggestions for further research and some concluding observations.

2. Types of Regional Integration and Cooperation Agreements

Regional integration and cooperation arrangements vary widely in their structure, objectives, sectoral coverage, and membership. With respect to structure, a distinction should be made between integration and cooperation (Balassa, 1976). *Integration* is aimed at removing discrimination between foreign and domestic goods, services, and factors of production. There are four classic stages:

- Free (or preferential) trade area: the removal of barriers to trade between partner countries while each partner country maintains its national tariff towards non-member countries.

- Customs union: the removal of barriers to trade between partner countries with the adoption of a common external tariff towards non-member countries.
- Common market: a customs union with the addition of liberalization of the barriers to movement of factors of production.
- Economic union: harmonization of remaining national economic policies, including exchange rate and monetary policies (e.g., a monetary union).

Regional trading arrangements by definition provide preferential treatment for members and entail discrimination against non-members. Bhagwati and Krueger (1995), among others, have emphasized this point with respect to free trade areas, and have argued that they instead should be called *preferential* trade areas.

Cooperation is aimed less directly at trade and factors of production, and involves working together towards a common end or purpose. Cooperation initiatives tend be more selective in their coverage and require less long-term commitment than integration. There are two broad types of cooperation:

- Selected policy harmonization (e.g., the adoption of common standards and consistent regulations, similar tax treatment of foreign investors, mutual defense and security, voting blocks in international organizations);
- Joint production of public goods, including infrastructure (e.g., railroads, bridges, communications systems) or institutions (e.g., education, research).

Integration agreements, whatever their specific structure, also differ in terms of their underlying objectives. A critical distinction is whether a regional integration agreement (RIA) is established to support an inward-oriented or outward-oriented trade strategy. Many RIAs in developing countries are inward-oriented, having been established to enlarge the domestic market for import-substituting firms in what is referred to as a strategy of self-sufficiency. In these arrangements, protected domestic firms operate on a regional rather than national level. In some cases, these RIAs permit limited competition between firms within the region. In other cases, member countries are allocated specific sectors in which their firms can operate with more complete protection from competition. Other RIAs are more outward oriented, established as a first step towards integration with the global economy. These RIAs are designed to expose firms to regional competition with a view towards eventually competing in global markets. The difference in fundamental orientation has a tremendous impact on the potential economic gains from integration, as we shall see later in this paper.

With respect to sectoral coverage, many RIAs are limited to industry, and more specifically, to manufacturing. Others are more broad, encompassing agriculture and services. In general, the more limited the agreement, the more likely it will exclude sectors in which some countries have a comparative advantage, which obviously reduces the potential gains from increased trade.

Finally, RIAs differ in terms of the relative income levels of their membership. Some RIAs, like the European Community, encompass only industrialized countries. Others, such as NAFTA and APEC, include both industrialized and developing countries. Still others include only developing countries. The experiences of RIAs with different memberships have been quite distinct, and the outcomes from one type of grouping may not always be relevant to the others. Langhammer and Hiemenz (1990) refer to the tendency of governments from developing countries to assume that the experience of industrialized country RIAs can easily be replicated in developing countries as "the fallacy of transposition." They argue that "many initial conditions conducive to integration in Europe have been overlooked by governments of developing countries: e.g., a high level of intraregional trade before integration was started; similarities in income and industrialization levels allowing for intraindustry specialization; political congeniality in foreign affairs; capability and willingness to provide compensation payments."

3. Expected Gains/Losses

The structure, objectives, sectoral coverage, and membership of RIAs can substantially influence their potential economic gains and losses. Both economic theory and a vast body of empirical evidence point towards the superiority of full multilateral (rather than regional) free trade as the best strategy to maximize welfare. RIAs are at best steps towards this ideal, and therefore should be viewed as a second-best solution. One way to evaluate RIAs then, would be to compare their outcomes against hypothetical outcomes from more open trade. However, in most models, the gains and losses from RIAs are measured relative to the initial starting point, rather than against the standard of multilateral free trade. From this perspective, RIAs are expected to lead to both static and dynamic gains (de Melo, et al, 1993; de la Torre and Kelly, 1992; Langhammer and Hiemenz, 1990, Robson, 1987, Balassa, 1961)

Static Gains

Static gains result from a one-time reallocation of economic resources such as land, labor, capital, or natural resources. The static effects of RIAs depend primarily on the relative sizes of *trade creation* and *trade diversion*. This distinction dates back to the classic analysis of customs unions by Viner (1950). Trade creation takes place when a member replaces goods previously produced domestically (at relatively high cost) with goods imported from a lower cost firm located in a partner country. For example, consider a domestic shoe company protected by a 50% tariff, sufficient that there are no imports of shoes. Following the RIA, the tariff for shoe imports from member countries is eliminated. If a second member country can produce shoes at a lower cost, the first country will import shoes from the second, creating trade.

Trade creation is welfare enhancing, as it provides gains on both the supply side and the demand side (Viner, de la Torre and Kelly, 1992, Balassa, 1961). Supply side benefits accrue from the reallocation of resources away from protected industries and towards firms producing goods for the regional market, once protection in other member countries is reduced. On the demand side, consumers benefit from lower prices as they can purchase goods from more efficient firms located in other member countries in lieu of relatively high priced domestic goods. These effects have significant distributional consequences: previously protected producers lose, while consumers and low cost producers which can export regionally gain.

Trade diversion takes place when a member replaces relatively lower cost goods previously imported from outside the region with higher cost goods from within the region (which face lower tariffs after integration). For example, prior to integration, a country imposes a uniform 20% tariff on furniture imports, which is moderate enough that some furniture is imported from firms located outside the region. Following integration, the tariff is eliminated for member countries. Some furniture that was previously imported from low cost producers outside the region will now be replaced by imports from higher cost producers within the region.[1]

Trade diversion is generally assumed to be welfare reducing (although strictly speaking this may not always be the case). The loss from trade diversion stems from the reduction in government revenue as imports from outside the region (with high tariffs) are replaced by imports from within the region (with lower tariffs). Although there is an offsetting gain because consumers face lower prices (with an increase in consumer surplus), a portion of the price they pay effectively subsidizes producers in other members countries, rather than accruing to the government for reallocation within their own country. This cross-border subsidy represents a decrease in aggregate economic welfare.

There are at least two theoretically possible ways in which trade diversion will not necessarily be welfare reducing. First, it is possible that the cross border subsidy can be fully compensated by the increase in consumer surplus (resulting from lower consumer prices), in which case trade diversion is not welfare reducing. Second, if member countries jointly constitute a large share of world trade in specific commodities, RIAs may be able to influence world prices (Robson, 1987). Members could conceivably act as a cartel and lower

---

[1] RIAs in which tariffs for non-members are actually *raised* can lead to trade *suppression*, in which imports from non-members are replaced by higher cost domestic production. This strategy, however, is outlawed by the GATT and so is rare.

the price of imports from the world or raise the price of exports to the world. This terms of trade effect could be enhanced by the possibility of member countries jointly imposing an optimal tariff on either exports from or imports to the region. Both of these outcomes, however, are highly unlikely.

Members can also gain from the reallocation of factors of production across borders (if the removal of barriers to factor movements is included in the agreement). Reductions or removals of barriers that impede cross-border movements of labor and capital can improve the overall allocation of resources, with an aggregate gain in welfare. An expansion from country to regional markets for factors of production is assumed to lead to more efficient use of resources and be more consistent with a country's comparative advantage. However, even in the complete absence of legal or administrative barriers, factors of production may still face natural obstacles to mobility. These may include, inter alia, transportation and moving costs, incomplete information, greater risks, and psychological and sociological costs of displacement.

Dynamic Gains

Dynamic gains from RIAs stem from the impacts of integration on productive capacity and potential output, and the resulting impact on the income growth. If there are economies of scale, a larger market may enable firms to lower unit production costs (de la Torre and Kelly, 1992; Langhammer and Hiemenz, 1990, Robson, 1987; Balassa, 1961). Similarly, region-wide transportation and communications networks are likely to be cheaper on a unit basis;

larger markets may also be conducive to spillover effects such as transfers of knowledge from producers to users.

Mutual gains can be realized from the joint production of public goods of common interest, even if economies of scale are not present. For example, member countries can cooperate in the construction of connecting road or rail networks, or from joint management of natural resources (such as ocean or river fisheries).

Dynamic gains can also result from exposing firms to competition in regional markets. Competition can bring about greater efficiencies in production and marketing, and possible gains from industry restructuring. However, RIAs can also result in *less* competition, either because of cartel-like cooperation between firms in the region, or because in some RIAs, members allocate control of different sectors to different countries.

Several other dynamic gains may result from RIAs, including the sparking of greater investment (from both inside and outside the region) as the size of the market increases and internal trade barriers fall; technological improvements through cooperation across borders, and the "importation" of best practices.

The dynamic gains could be especially large if the RIA is an intermediate step towards global integration, rather than an end in itself. In this view, which is essentially an infant industry argument, firms can progress from being domestically competitive to regionally competitive to globally competitive. The assumption in this "training ground" argument is that enlarging infant industry protection to a regional basis will have beneficial impacts on quality control, marketing techniques, and management capabilities that will enhance the capability of firms to eventually compete on global markets (Langhammer and Hiemenz, 1990). Krugman (1984) has referred to this strategy as "import protection as export promotion." While this argument has some theoretical merit, it assumes that members country governments can distinguish "infant" industries from "sunset" industries, or more generally, that members are able to determine which sectors have the potential to eventually compete in world markets. It also assumes that member governments will eventually be willing to expose firms (which will lobby for continued protection) to global competition.

Thus, perhaps the most important dynamic issue is whether or not an RIA is likely to lead to even greater integration with the world economy, a step which would increase joint welfare beyond the limits of an RIA (Lawrence, 1995; Bhagwati and Panagariya, 1995; Bhagwati, 1993). The issue here is how regional integration affects the incentives for decision makers to pursue more extensive multilateral integration. Theoretical work on this issue is in its infancy, and economists and political scientists are divided on the likely outcomes. RIAs could impede further integration, for several reasons. First, member governments might believe the regional market in an RIA is large enough to meet their objectives. Second, the principal motivating factor behind forming the RIA may be for politically influential firms to take advantage of opportunities created by trade diversion, or to extend their protected market to a regional basis. In these circumstances, there may be few political incentives for further global integration (Grossman and Helpman, 1995; Krishna, 1995). Third, because of the smaller number of members in an RIA (relative to full multilateral trade), political opposition can focus more easily on one member, threatening to derail the process. For example, groups opposing the NAFTA agreement in the United States could raise fears at home by focusing attention on policy issues specific to Mexico, a strategy that might be less successful in a more diffuse multilateral agreement (such as the GATT).

Other analysts argue that even if RIAs are inferior to full liberalization, they should be viewed as a positive step in the direction of more open trade. In this view, regional integration is seen as establishing a long-term dynamic towards more complete global integration, and thus is likely to be beneficial in the long run (Summers, 1991). RIAs are seen as easier to negotiate than full multilateral agreements because they involve fewer members, so that some level of integration can take place more quickly. Furthermore, the establishment of an RIA can be costly for nonmembers (if they are hurt by trade diversion), creating an incentive for them to try to join. In this "domino" effect, the more non-members that eventually join, the closer the RIA becomes to approximating world trade (Baldwin, 1993).

Non Economic Benefits

Langhammer and Hiemenz (1990) identified three non-economic benefits from RIAs. First, RIAs can improve the collective bargaining power of member countries vis-a-vis against non-member countries. Acting in concert, member countries may be better able to demand access to markets (or to withstand demands from non-members for access to the region) or to increase their voting power in international fora. Second, RIAs may facilitate member's commitment to political objectives of common interest. RIAs are likely to increase regional dialogue and discussion, which may help diffuse potential regional disputes, and engender mutual political support. Such agreements can expand to security and defense issues.

Effectively, RIAs can provide a means towards a modicum of political integration without governments sacrificing the independence of the nation-state.[2]

Third, membership in an RIA entails some loss of sovereignty, which can be either positive or negative. Governments, especially those in newly independent countries, are loathe to give up any of their new-found power. However, regional agreements can serve as a scapegoat for unpopular policy decisions. By committing to a schedule of tariff reductions, for example, governments effectively give up some of their policy options to the supernational organization, but can then deflect criticism for any negative outcomes by citing the importance of the larger goal of regional cooperation.

Net Gainers or Losers: Some Stylized Characteristics

Integration theory suggest some general guidelines about the characteristics of arrangements that are most likely to result in net gains for member countries. These guidelines are at best rules of thumb: there are circumstances under which each of them may prove to be incorrect. Each integration agreement is unique, and there is no substitute for a case-by-case analysis. Nevertheless, several broad generalizations emerge.

[2] Regional defense and security commitments created a dilemma for The Gambia in 1989 when its membership in two separate RIAs called for conflicting courses of action following a series of border skirmishes between neighboring Senegal and Mauritania. As a member of the Senegambia Confederation with Senegal, The Gambia was committed to a mutual defense treaty with its neighbor. Hence, Senegal demanded that The Gambia join in its defense. But The Gambia was the chairman of ECOWAS at the time, in which capacity it was committed to mediate disputes between members. The Gambia chose the latter course, which was a major factor leading to the demise of the Senegambia Confederation later that year.

- The larger the fraction of intra-regional trade to total trade for the member countries before the RIA, the more likely that trade creation will dominate trade diversion (Langhammer, 1992). That is, the greater the existing trade links, the less likely trade will be diverted from low cost firms outside the regional to higher cost firms within the region.[3]

Neighboring countries are generally considered to be the logical candidates for RIAs under the assumption that geographic proximity creates "natural trading partners" that trade heavily with each other. However, Bhagwati (1992) has pointed out that it is not necessarily the case that neighboring countries form natural trading partners. Other factors, such as geo-strategic alliances, colonial links, and complementarity of production can play a far more important in determining trade flows. The possibility that Chile may become the next member of NAFTA is a case in point.

- The higher the initial tariffs between partner countries, the greater scope for trade creation. Reducing high tariffs between members is likely to lead to the replacement of goods previously produced by highly protected domestic firms with output from more efficient firms elsewhere in the region. In this situation, the greater the difference in production cost structures of firms in different member countries, the greater the scope for increased trade and production efficiency following integration.

[3] Bhagwati and Panagariya (1996) show that even this widely-held result may not always hold, depending on the redistributional impacts of changes in tariffs.

- The higher the tariffs facing non-members after the formation of the RIA, the greater the potential for detrimental trade diversion, and the less beneficial is the RIA.
- The smaller the elasticity of substitution between member and non-member goods, the smaller the likelihood of trade diversion. That is, if goods produced by member countries are not close substitutes for goods previously imported from non-members, trade diversion will be smaller (Bhagwati, 1992).
- The greater the membership, economic size, and share of world trade of the RIA, the greater the scope for trade creation and the less likely is trade diversion (Langhammer, 1992, Robson, 1987). Under these circumstances, the lowest cost producer of any particular good is more likely to be included in the arrangement, and there is greater potential for specialization. The ultimate extension of this argument, of course, is complete multilateral integration.
- Similarly, the broader the sectoral coverage, the greater the possibility that all members will enjoy comparative advantage in some products. In more limited arrangements (e.g., to certain manufacturing sectors) it is possible that countries with comparative advantage in excluded sectors (e.g., agriculture) will gain little, and may in fact lose from the RIA.
- The higher the costs of transportation and communication between member countries, the lower the potential gains from trade creation (Langhammer and Hiemenz, 1990; Balassa, 1961).
- Because RIAs require a great deal of negotiation and compromise, the greater the history of political harmony and support between member countries, the larger the

scope for integration and other cooperation. Countries with a history of animosity are unlikely to be good candidates for RIAs.

- Theory provides conflicting hypotheses about the impact of differences in member country's incomes. Income levels tend to be correlated with factor endowments, so the larger the difference in income levels, generally speaking the larger the difference in factor endowments, and the larger the potential gains from trade (driven by comparative advantage). In other words, dissimilar countries may make better partners because their economies are potentially complementary, rather then competitive (de Melo and Panagariya, 1992). But differences in income are likely to be accompanied by differences in transportation systems, communication networks, and legal systems that may make the potential for increased trade more difficult to realize. Moreover, countries with similar levels of income may share a wider range of goods to trade, and may be able to reap greater gains from intra-industry specialization and product differentiation. Because the demand for more specialized products tends to increase with income, this latter argument may be most relevant for RIAs involving industrialized countries (de Melo and Panagariya, 1992).

4. Regional Integration Experiences and their Relevance for Sub-Saharan Africa

The balance between the potential gains and losses from RIAs is ultimately an empirical question. Economists are divided on the net merits of RIAs -- some believe they are mainly trade diverting, while others maintain that under the right conditions trade creation and other benefits can dominate (de Melo and Panagariya, 1992). The vast experience with RIAs around the world allow us to go beyond these stylized guidelines to explore the types of arrangements that have worked in the past, and those that have not. A brief summary of major agreements around the world is provided in the Appendix.

Basic Outcomes

In general, RIAs involving developing countries have failed to promote trade or industrialization, or to result in significant economic gains for member countries. Empirical evidence suggests that RIAs have had little, if any, impact on intra-regional trade. Within SSA, only the South African Customs Union (SACU) has achieved any significant integration of goods markets (Foroutan, 1993). The CEAO appeared to have a modest positive impact on intra-regional trade immediately following its formation, but trade growth stagnated thereafter. Other RIAs within SSA had no discernable impact (Foroutan and Pritchett, 1993). In RIAs outside of SSA where trade has grown rapidly (e.g., APEC, NAFTA), the trade expansion pre-dated the RIA. Langhammer and Heimenz (1990) concluded that there is no developing country case in which an RIA made a significant contribution to trade expansion or economic development.

The record has been somewhat better with agreements involving industrialized countries (such as the EC), where trade has expanded and RIAs generally are considered to have stimulated increased trade and economic growth. There are several reasons for this different outcome (de la Torre and Kelly, 1992). First, trade creation appears to have been larger in industrial country RIAs, at least partially because member countries were more integrated before the agreement. Second, industrialized countries have exploited gains from intra-industry specialization and product differentiation, which are more important in larger, high income markets. Expansion in intra-industry trade has been a clear outcome in the EC. But in poorer countries where the market for product differentiation is more limited, intra-industry trade has not increased. Third, RIAs in wealthier countries have a much better record of actually implementing agreed policy changes, often ahead of schedule.

More fundamentally, RIAs in industrialized countries have been outward oriented. By contrast, the failure of many RIAs in developing countries can be traced directly to their basic strategy of attempting to foster industrialization based on import substitution. Inward-oriented RIAs have consistently failed to support the expansion of either trade or industry (Langhammer and Hiemenz, 1990; de la Torre and Kelly, 1992; de Melo and Panagariya, 1993). In many cases, trade diversion was the unstated goal of the RIA, with members aiming at expanding intra-regional trade as a substitute for world trade, rather than to foster competition (Langhammer, 1992). Almost all such RIAs have broken down as a result of internal conflicts over distribution of the costs and benefits of the agreement. Member countries in inward-oriented RIAs have tended to develop high and widely dispersed levels of effective protection. In many cases, the high levels of protection led to excess capacity. To avoid this problem, many developing country RIAs either allowed member countries to impose barriers to entry, or explicitly included complementation agreements that allocated specific industries to different member countries. These clauses often led to conflicts, as there were no clearly articulated criteria to guide such allocation decisions (de la Torre and Kelly, 1992). These issues, plus the ultimately limited size of the regional market, led many officials to view (perhaps correctly) inward-oriented RIAs as at best zero-sum games

(Hazelwood, 1979). As a result, member countries attempted to exempt more sectors, further limiting the potential gains from these agreements. Finally, inward oriented RIAs have tended to foster the creation of vested interests, rather than competition. Protected industries have been more likely to fight eventual integration with the world economy, and are less likely to be able to eventually survive such competition. In practice, then, the "training ground" rationale for RIAs has proved elusive, as they have not helped prepare firms to compete on global markets.

By contrast, RIAs that have been designed as a stepping stone towards more complete integration with the global economy have fared better. RIAs have worked best when member countries had previously adopted a basic stance of outward orientation and trade liberalization (e.g., APEC, Nafta, EC). Along these lines, a common conclusion about the true benefit of NAFTA for Mexico was that it locked in earlier liberalizations and set the stage for future reforms, rather than introducing new liberalizations as part of the agreement (Lawrence, 1995; de Melo and Panagariya, 1992).[4]

A different set of problems in developing country RIAs has arisen from the distribution of benefits, especially when there are large differences in income between member countries. Theory suggests that there could be large gains from trade between countries with different incomes and factor endowments. But in the short run, the gains may accrue more rapidly to the larger country (McCarthy, 1994, Hazelwood, 1979). This is especially likely if the RIA is limited in its sectoral coverage, so that the poorer country may

[4] Bhagwati and Krueger (1995) argue that NAFTA was not necessary for Mexico to lock in its earlier reforms, as it could have achieved the same outcome through the GATT.

not be able to take full advantage of its comparative advantage. Capital (and industry) will tend to accumulate in the richer country, since it is more likely to have better infrastructure and deeper financial markets. Labor will tend to follow, if allowed. In an integrated environment, firms will prefer to locate their major operations in the larger (richer) market and serve the smaller (poorer) market from a distance. These problems can be exacerbated if the poorer country experiences a larger loss in government revenue from taxes on trade. The perceived imbalance in economic gains was the major reason for the demise of the East African Community (EAC) in 1977 (McCarthy, 1994: Foroutan 1993, Ravenhill, 1990; Robson, 1987; Hazelwood, 1979).

In principle, the richer country could compensate the poorer country for the differences in benefits, either through explicit financial transfers, differing schedules for tariff reductions, changes in the allocation of industrial location, or location of infrastructure to support the agreement (e.g., regional development banks, organizational secretariat). But in practice, the calculation of the appropriate size and distribution of the compensation payments has proven to be difficult, and have been the source of great friction between members countries. These short-run distribution conflicts have dominated long-term issues of efficiency and growth (Langhammer, 1992).

Four problems have arisen with respect to compensation. First, since measuring the benefits and costs to each country is extremely difficult, members fall back on simple, seemingly transparent, and potentially misleading measures of economic gains and losses (such as lost tariff revenues). Second, members have not always followed through with agreed compensation payments. Third, even where cross-border compensation takes place, it generally is not distributed to the individuals and firms that lose from integration; more often it accrues to the government budget for more general distribution. Fourth, differentiated tariffs or changes in industrial location, where used, effectively provide greater protection for some industries within the region, undermining one of the objectives of RIAs (Hazelwood, 1979). The only example of successful compensation arrangements in SSA is SACU, where member countries have agreed to a split of tariff revenues collected by the South African Customs Administration. But even here the administration of the split is challenged regularly.

A final reason for the relatively poor performance of developing country RIAs in is that where agreements (and member governments) lacked credibility, investment did not occur. Investors have shied away from projects that rely on the region-wide market and the existence of the integration agreement. Such investments will not be forthcoming when the agreement is not credible, or when the agreement relies too heavily on the participation of one large, non-credible country.

Economic Characteristics in SSA

But should we expect RIAs in sub-Saharan Africa to yield significant economic gains? The consensus answer from the literature is no. Countries in SSA do not exhibit the characteristics that generally have been associated with successful RIAs. To begin with, RIAs have been most successful where member countries were highly integrated before the agreement. Where countries have little or no history of strong trading relationships the scope for gains from an RIA is limited. Conversely, with stronger pre-existing trading relationships, RIAs (or cooperative agreements aimed at knocking down administrative barriers at the border) have more potential to facilitate greater trade and factor flows.

In general, the countries of SSA are not highly integrated. For example, the share of intra-group exports in total exports was less than 6% for all of the major RIAs in SSA in 1990, with the exception of the CEAO, where it reached 10.5%. The comparable shares for ASEAN, NAFTA, and the EC were 19%, 42% and 61% (Foroutan, 1993). Although the magnitude of *actual* trade flows in SSA may be larger than the official figures indicate because of unrecorded flows (Husain, 1993; Barad, 1990) the basic conclusion remains that because most trade takes place with countries outside the region, the potential for trade diversion is high, and the potential gains from expanding existing trade are relatively small. Foroutan and Pritchett (1993) used a gravity model to show that the relatively small share of intra-regional trade is about what should be expected, given relative income levels and the geographical characteristics of countries in the region.

One reason for the weak intra-regional trade ties is the strategy of inward-oriented import substitution that has guided many African governments. As long as this strategy is in place as a basic principle, the possibility of exploiting the gains from trade is limited, particularly on a regional basis. Inward-oriented policies are likely to have a larger impact on a country's trade flows with potentially competing countries making similar products (which may include other countries in the region with similar endowments) than with trade with industrialized countries, from which SSA countries must import capital equipment and intermediate products. Foroutan and Pritchett (1993) concluded that "(t)he fundamental explanation for the failure of regional integration in SSA to increase intra-regional trade share is to be linked to the inability and/or unwillingness of these countries to carry out the preferential trade liberalization measures that represent the prerequisite for trade creation among integrating markets."

One particular difficulty faced by African governments in reducing import tariffs and following a more outward-oriented strategy is that tariff revenues account for a large share of government revenue, much larger than in other developing countries. As a result, tariff reductions have an immediate and relatively large impact on the budget and related macroeconomic balances. It follows that to the extent that a more outward oriented basic strategy is necessary to facilitate greater regional trade, significant expenditure and tax reform is a prerequisite for (or must accompany) trade reform.

A second reason for the lack of trade integration within the region is that in many cases, the structure of output is not complementary. On the export side, diamonds from South Africa, copper from Zambia, and coffee from Kenya will not find a large market within Africa. On the import side, demand for capital goods and certain intermediate inputs (such as steel) cannot be met on an efficient basis within the region. There is of course some scope for complementary trade (especially in diversified agricultural products), but it is more limited that in other RIAs.

Intra-regional trade is also inhibited by weak infrastructural linkages (Stern and Guggerty, 1996). Poor port facilities, weak communications links, and underdeveloped road networks all limit the potential for significantly expanding regional trade. Moreover, in many cases, rail, road, and port facilities were designed to strengthen trade ties with the former colonial power, and therefore are less well suited for trade with neighboring countries.

Similarly, many of the strongest commercial ties are between domestic firms and those in former colonial powers, especially in cases where the former have preferential access. These existing arrangements reduce the scope for significant trade expansion in the region, especially in the immediate future (Langhammer and Hiemenz, 1990).

The experiences of RIAs around the world also suggests that macroeconomic stability in each member country is a prerequisite for long-term success. Instability tends to lead members to impose controls on imports or capital flows, which ultimately undermine the RIA. This has been especially the case for inward-oriented RIAs, in which members have less economic flexibility and are less able to adjust to external shocks. These concerns are magnified when member countries depend heavily on a small number of primary commodities for their export earnings, and thus are more prone to large terms of trade shocks. In the event of instability, the periodic imposition of intra-regional trade controls are more likely if members are developing countries, as each member will impose restrictions on other developing countries (including other members) rather than on imports of technology and capital equipment from industrialized countries (Langhammer, 1992). This problem arose in the EAC in the mid-1970s after the oil crisis (Hazelwood, 1979).

African countries' history of both macroeconomic and political instability suggest that they would be relatively poor choices for membership in RIAs. In such an uncertain environment, many of the theoretical dynamic gains from RIAs (e.g., increased investment, product and process innovation) are highly unlikely to be forthcoming. These concerns suggest that taking preliminary steps towards export diversification and achieving and maintaining macroeconomic stabilization would be prerequisites to successful trade integration in the region.

The experiences of RIAs have also shown that the more similar the underlying economic and political strategies of member countries, the greater the likelihood of successful integration. Integration between a state-centered country and a more market oriented country can be problematic, as was shown in with Tanzania and Kenya in the East African Community. Similarly, countries with a history of political support, cooperation, and mutual global interests make better candidates for RIAs, whereas countries with antagonistic histories find it more difficult to negotiate and compromise. It is difficult to generalize about these issues within the context of SSA, as each pair of countries has a unique historical relationship. But in many case, given the recent history of regional and domestic conflicts, and the differences in basic economic strategies at this point in time, negotiations on a multilateral trade agreement can be expected to be slow.

Implementation Issues

In addition to these structural characteristics, RIAs in Africa have suffered from weaknesses in design and implementation. Most agreements in SSA have limited their sectoral coverage to industry, which did not allow member countries to exploit their comparative advantage in other sectors, especially agriculture (Langhammer, 1992). Barry (1994) and Salinger and Stryker (1993), among others, found that removing the barriers to trade in cereals, non-cereals, and livestock could increase intra-regional trade in these products.

Moreover, policy instruments in most RIAs in SSA have been limited to tariff reductions (Langhammer, 1992). Progress on removing other barriers, such as quantitative restrictions, impediments to factor flows (with the exception of the monetary unions), barriers to entry, and administrative and legal barriers, has been limited. These impediments have reduced the scope for trade expansion, even in cases where tariffs have been reduced.

Implementation of RIAs, both in SSA and elsewhere, has been particularly slow where tariff reductions were negotiated product-by-product rather than on an across-the-board basis. Similarly, less progress has been made when RIAs have relied on positive lists of sectors to be included, rather than negative lists of sector excluded. Case-by-case negotiations and positive lists give members considerably more latitude to exclude sensitive products from liberalization (de la Torre and Kelly, 1992), limiting the scope for gains from integration.

Finally, preferential trade agreements (as distinct from customs unions) suffer from the difficulty of establishing rules of origin. These rules, which are often fairly arbitrary in their design, add an additional administrative layer to trade flows, and are increasingly difficult to use in an era of globalization of design, production, and assembly (Bhagwati and Krueger, 1995).

Coordination

Developing country regional agreements aimed at coordination have fared much better than those aimed at integration. Cooperation agreements can focus on any of a wide variety of issues, including infrastructure development, research and development, environmental initiatives, food security, energy management, improved flows of information, and mutual defense and security. The strong consensus in the literature is that the countries of SSA would be far more likely to gain by enhancing regional coordination in these areas than by formal trade integration (Mytelka, 1994; McCarthy 1994; Foroutan, 1993; de Melo and Panagariya, 1992, Ravenhill, 1990; Mulaisho, 1990; Langhammer and Hiemenz, 1990; Robson, 1987).

The best example of successful coordination in SSA is by SADC (formerly SADCC). From its beginnings in 1980, SADC emphasized specific projects and programs, and downplayed the explicit goal of integration of regional markets (Foroutan, 1993; Mulaisho, 1990; Ravenhill, 1990). It purposely did not establish a highly centralized and expensive bureaucracy, and instead established a small secretariat and left most responsibility for various sectors with individual member states. It placed its priorities on enhancing infrastructure and communications linkages among member countries, with some success. For example, between 1980 and 1990, the percentage of transit traffic from the six landlocked member states moving through SADC ports increased from 20% to 60%, despite extensive military activity in the region (de la Torre and Kelly, 1992). The most successful transport project was the development of the Beira corridor between Zimbabwe and Mozambique, which substantially reduced Zimbabwe's dependence on South African ports (Foroutan, 1993). Progress was also made in connecting national power grids, enhancing food security, and cooperative research on new crop strains.

A similar example from outside the region is the Association of Southeast Asian Nations (ASEAN), which also was not primarily aimed at trade integration. Rather, the main objective was to defuse conflict among member states and to forge a common voice on international matters of common concern. Trade integration took a back seat, both because some members (especially Indonesia and Thailand) initially were at least partly following an inward-oriented trade strategy, and because member states initially mistrusted each other's intentions. As these factors both changed over time, the early emphasis on dialogue and cooperation eventually evolved into more substantive discussions on trade. Indeed, ASEAN is now a core component of APEC.

One of the major advantages of cooperation initiatives is that they require much less long term and open-ended commitment by member governments than formal integration arrangements. Their scope and size is flexible: they can be limited to one project or expanded to several initiatives; similarly, they can involve many countries (like SADC) or be limited to bilateral arrangements. As a result of this flexibility, cooperation initiatives are much less threatening to the ruling elite than formal trade agreements in terms of encroaching on national sovereignty (Ravenhill, 1990). They also tend to be lower profile, and thus less risky for policymakers. Cooperation initiatives also usually have smaller secretariats and bureaucratic hierarchies, and therefore are much less demanding on scarce administrative and financial resources than more formal trade agreements. Finally, and perhaps most importantly, cooperation can help pave the way for increased trade integration within the region (and beyond) by improving communication and transportation links and by establishing dialogue between member countries.

5. Directions for Future Research

This overview suggests several possible avenues for future research. To begin with, while the literature suggests some fairly clear general conclusions about the limited potential for successful regional integration in SSA, each agreement is unique and should be examined individually. For example, much could be learned from an in-depth study of the most appropriate ways for SADC to continue to support regional cooperation and the possibility of eventually moving towards regional trade integration.

One research strategy would be to initiate parallel studies in several member countries that would examine more specifically the potential for intra-regional trade, the barriers to trade expansion (both regionally and globally), and the sectors that would most likely be affected by changes in trade policy. These individual country studies could help explore alternative trade strategies, including the possibilities of unilateral and multilateral liberalization (e.g., through the GATT) along with regional integration, as well as the potential for regional cooperation. If these studies addressed similar questions and used similar methodologies, they could form the basis of a region-wide study of the most appropriate directions for trade policy, and the most promising directions for cooperation and integration. In considering the possibilities for regional integration these studies should address two fundamental questions. First, is regional integration a stepping stone towards more complete integration with the global economy, or is it more likely to lead to further isolation from the rest of the world? Second, and related, is a formal regional agreement the most appropriate course towards greater integration with the global economy, or would individual countries be better served by unilateral, bilateral, or multilateral (i.e., GATT) trade strategies?

In designing a multi-country study, however, care should be taken to avoid relying too heavily on trade focussed multisector-multicountry trade models (see Lawrence, 1995, for a discussion). The strength of these models is their ability to examine the static general equilibrium and sectoral affects of changes in tariffs and some other policy instruments. But they generally are limited in their ability to capture the dynamic impacts of policy changes or to explore markets for labor and capital. Although these models might be useful as a starting point in examining some trade issues, they probably should not be the central focus of a multi-country study on regional integration.

A different approach would be to focus research on the potential for increased regional cooperation in SSA, especially in shared infrastructure, but also the possibility of shared research and educational institutions. Studies could focus on individual projects or on more general issues facing countries for multiple projects.

One key issue highlighted in the literature on regional integration is the difficulty in overcoming the fiscal implications of tariff reductions in SSA. More thorough research into the structure of revenues and expenditures in SSA relative to other developing countries might yield insights into the interactions between fiscal and trade policy and how they inhibit trade liberalization in SSA.

6. Conclusions

The consensus of the literature on regional integration and cooperation suggests that formal integration agreements are unlikely to be beneficial to the countries of SSA at the present time. In general, the countries of the region show few of the characteristics that are normally associated with successful RIAs. This conclusion should not be taken to mean that there are no potential gains from increased trade within SSA; indeed, several studies show just the opposite. Rather, the consensus is that formal integration agreements are not the most appropriate first step to realize the potential gains from increased trade. A trade-focussed RIA is unlikely to succeed in the absence of enhanced economic and political stability, stronger infrastructure and communications linkages, a reduction in the administrative and bureaucratic constraints to trade, and, most importantly, a more fundamental shift to an outward-oriented trade policy. In turn, in most cases this latter step will require basic changes in government revenue and expenditure policies.

In the absence of such a shift in policy, RIAs are unlikely to encourage member countries towards greater integration with the global economy. Instead, they could actually be detrimental to the countries involved, either because they might encourage import substitution on a regional basis or simply because they absorb scarce administrative and financial resources. de Melo and Panagariya (1992) concluded that "(d)espite a greater acceptance of outward oriented policies today, the temptation to use regionalism as a vehicle for import substituting industrialization is high. African markets remain small, and the efforts at regional integration will only divert attention from efforts to integrate SSA into the world economy." Given the scarcity of effective policymakers in many of the countries of SSA, such a diversion of effort could carry a significant opportunity cost. Moreover, to the extent that RIAs in SSA are unsuccessful, they could erode, rather than build the credibility of member governments. Ravenhill (1990) concluded by asking the following rhetorical question: "Why persist with schemes that are ignored, that increase frustration, and that, even in the unlikely event that they were to be implemented, offer little prospect of significant gains in the short run?"

A more promising approach is to couple individual country efforts to strengthen the foundation for increased trade with efforts to promote regional cooperation. Cooperation agreements are easier to administer and are less threatening to national sovereignty than formal trade agreements. In the case of joint infrastructure projects, they are also more likely to result in short-term, visible benefits. Most importantly, regional cooperation may help lay the groundwork for greater trade and factor market integration, both within SSA and between the region and the rest of the world.

Appendix

A Summary of Major Regional Agreements

Regional Integration in SSA

West Africa

1975. ECOWAS: The Economic Community of West African States. On paper, ECOWAS is a free trade area and a customs union; it practice it is neither. None of the liberalization plans designed to bring the region into a customs union by 1990 took effect. Intraregional trade remains low (although it is likely that UTT is quite high), and because many members are marginal if not counterproductive parts of the decision making process, ECOWAS directives are often considered impotent. The political imbalance between Nigeria and the 15 other members (Nigeria, with a population and GNP equal to all other members combined, expelled foreign labor in 1983 and again in 1985, a major violation of ECOWAS protocol), combined with bottlenecks in infrastructure, the secular decline in the prices of primary products (fourteen members derive at least sixty per cent of their revenue from one or two commodities), political turmoil in Liberia, Ghana, Sierra Leone, and Nigeria itself, and innumerable differences in tax structures, administrative procedures, and rules of origin (stemming from different colonial histories), suggest bleak prospects for integration. Cooperation, on the other hand, appears to be more promising. Externally financed telecommunications networks and a project underway to computerize regional customs systems (supported by UNDP) may signal a more fruitful route to regional growth.

1974. CEAO: The West African Economic Community. All members of CEAO are also members of ECOWAS and the West African Monetary Union (UMOA), also known as the CFA Franc Zone (the Franc Zone includes Mauritania along with the CEAO members). Despite the fact that members have complementary production structures, relatively good intraregional transportation, factor mobility, and well designed compensation mechanisms (the Community Development Fund for tariff compensation and the Solidarity Fund for development projects in the more depressed areas), this arrangement has been prone to trade diversion. Why? In terms of policy design, the Taxe de Cooperation Regional, designed to limit competition in the region by discriminating against third country sources, has raised the region's ERP: weaker members are allowed to continue producing inefficiently due to the fact that they are protected from the world market by more advanced members. Despite this diversionary effect, however, the CEAO remains operable because members gain access to extraregional funds for development projects (solar energy, etc.), and because monetary union gives the coalition a more balanced association with their ECOWAS colleague, Nigeria.

1973. MRU: Mano River Union. All members of MRU (Liberia, Sierra Leone, and since 1980, Guinea) are also members of ECOWAS. In theory, the MRU has a common external tariff while trade among members is tariff free, but intraregional trade is stagnant due to a lack of complementarity across production structures and the existence of pervasive NTB's.

Central Africa

1976. CEPGL: Economic Community of the Countries of the Great Lakes. Burundi, Rwanda, and Zaire, all former Belgian colonies, comprise this association. The CEPGL was begun by the UN in an effort to keep the peace between Burundi and Rwanda. No progress has been made in terms of factor mobility or liberalization; intraregional trade is insignificant.

1973. UDEAC: The Central African Customs and Economic Union. Comprised of francophone countries in Central Africa, the UDEAC is plagued by a problematic tax structure, the Taxe Unique. Not unlike the Taxe de Cooperation Regional in the CEAO, the TU was designed to protect weaker members but has resulted in a distortionary system which protects inefficient industries from world markets, and because taxation differs by firm, country of origin, destination, and product, the TU is a major obstacle to meaningful regional integration. This difficulty is compounded by discrepancies in levels of development across members: Cameroon, Congo, and Gabon are relatively industrialized, while the Central African Republic, Chad, and Equitorial Guinea are among Africa's poorest nations.

East Africa

1981. PTA: Preferential Trade Area for Eastern and Southern African States. The PTA treaty envisioned the implementation of PTA by 1992 as a stepping stone toward the establishment of an economic community in the region. However, because the policy designers opted for a positive list of goods to be eligible for preferential treatment, rather than coming up with a negative list of exceptions, negotiations stalled on questions of what would be deemed preferential, and the target date for liberalization was moved to 2000. Unfortunately, even that date appears unattainable, because as is the case in ECOWAS, most economies in PTA are not diversified; their dependence on commodities limits the scope for complementarity and exacerbates tension between the less developed members and their more industrialized colleagues (Kenya, Zimbabwe).

1967-1977; 1996. EAC: The East African Community. Interest in regional integration in East Africa was renewed in the spring of 1996 with the reinstitution of the EAC. The EAC (Kenya, Tanzania, and Uganda) has historical roots in colonial customs union. During the transition to independence, however, unease between capitalist Kenya and socialist Tanzania exacerbated existing perceptions that Kenya, once the preferred colony, was a net gainer while Tanzania and Uganda were net losers. Disagreements over the management of shared infrastructure (stemming from different views about the role of government in the economy and the perception that Kenya derived more benefits from these projects since it conducted more trade) combined with the early 70's oil price shocks, causing members to discontinue financing common services. The organization disbanded in 1977, although bitterness lingered.

Regional Integrations Agreements Outside of Africa

North and South America

There are six major trade agreements in the Americas: the North American Free Trade Agreement (NAFTA), the Latin American Integration Association (LAIA), the Andean Pact, MERCOSUR, the Central American Common Market (CACM), and the Caribbean Community (CARICOM).

NAFTA. NAFTA is an expansion and improvement on the Canada-US Free Trade Agreement, CUSFTA, in which several preferred sectors remained protected, notably lumber and agriculture, and the removal of behind the border barriers was disappointing. NAFTA has minimized the first problem by adopting a negative list approach without sectoral exceptions and has also exceeded CUSFTA in terms of harmonization beyond the reduction of tariffs. In addition, NAFTA covers services as well as goods and has promoted liberalized investment. These improvements have set in place a centripetal force that has drawn the interest of Chile and Brazil, and has demonstrated how the multi-track approach to free trade taken by the US within GATT and through regional agreements alike can be finessed. NAFTA is comprehensive in scope and has allowed Mexico, which enjoys no preferential treatment, to import institutional credibility; it has been in the process of reform for several years, but investors from around the globe have only recently been attracted to it as a platform to the US market. NAFTA is therefore a good example of an agreement between nations of differing development levels and illustrates the potential political problems with agreements of this sort (the gains are widely spread and the losses are concentrated in declining industries which form anti-free trade lobbies). In short, NAFTA is much more comprehensive in terms of coverage than CUSFTA, and like the EC, it exerts a strong gravitational force on its neighbors. As it is more extensive and binding than the GATT in terms of foreign investment, services. and intellectual property rights, from the standpoint of US investors, NAFTA is more credible.

LAIA. The Latin American Integration Association was established in 1980 by Argentina, Bolivia, Brazil, Chile, Colombian, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela in the shadow of the failed Latin American Free Trade Association (LAFTA). LAFTA was established in 1960 to remove all tariff barriers among members by 1972. when this was not met the goal was moved to 1980 but little was accomplished. One reason for this failure is the fact that members were at very disparate levels of development. The strong members (Argentina, Brazil, and Mexico) regarded smaller ones as instruments for expanding the market for their manufactured products which were not competitive in world markets - organized trade diversion, if you will. This made the weaker countries perceive that "the Big Three" were receiving disproportionate benefits; they therefore resisted absorbing exports from the larger countries and the integration schedules and agreements disintegrated. Learning from this experience, LAIA explicitly allows for different speeds of tariff reduction, accounting for the economic levels of each member. This looser cooperation provides the scope for differentiated approaches to intraregional trade liberalization. often on a bilateral level. LAIA is therefore a consolidation of bilateral tariff preferences for selected countries and region wide tariff preferences for selected sectors. Unlike NAFTA's evenhanded approach, this format has led to wide variation in terms of preferential treatment across countries of differing development levels. This less rigid and less ambitious approach may be appropriate for the region, plagued by external debt problems and prone to severe foreign exchange shortages and terms of trade shocks which helped speed the demise of LAFTA.

ANDEAN PACT. In an effort to offset the advantages of the Big Three, in the Cartagena Agreement of 1969, five small and fairly homogenous members of LAFTA united in the Andean Pact for the purposes of industrial planning (Chile, Colombia, Ecuador, Peru, and Bolivia). Venezuela joined in 1973, Chile withdrew in 1976. This group did not aim at trade integration per se, but rather economic cooperation. However, plans for a common external tariff and regional industrialization failed when met with concerns over lost sovereignty and conflicting national policy (for example, the relatively industrialized Columbia wanted a low external tariff to promote its manufactures, but the resource rich Venezuela opted for a higher tariff in order to combat tendencies toward Dutch disease in its nontradable sector). Trade relations among members broke down in 1983 and new positions for members were established under the Quito Protocol of 1987. These new plans are less ambitious and more flexible: sectoral development will focus on enhancing existing industries rather than expanding into new ones, and the goal of a common external tariff has been abandoned.

MERCOSUR. Argentina, Brazil, Paraguay and Uruguay have united under MERCOSUR, which means "Southern Market". Founders aimed at a common external tariff by January 1995 (was this achieved?) which represented a significant reduction in border barriers, especially for Argentina.

CACM. The Central American Common Market was founded in 1960 by Guatemala, Honduras, El Salvador, and Nicaragua. Costa Rica joined in 1962. Hope for this scheme was high due to relative regional homogeneity and high levels of intraregional trade. It aimed at full regional liberalization, industrial planning, and a common external tariff. Although the organization made strides in its first ten years in terms of intraregional liberalization, it was less successful in the realm of industrial policy, as Honduras and Nicaragua saw fewer gains than El Salvador and Guatemala. Conflict between El Salvador and Honduras, failure to arrive at a consensus regarding the mobility of labor, and declining prices of coffee, bananas, and cotton on world markets made distributional discrepancies worse by the early 1970's and the organization became effectively obsolete.

CARICOM. Founded in 1973 by eleven island states, Guyana, and Belize, the Caribbean Community is the successor to the Caribbean Free Trade Association (CARIFTA) and has established a common external tariff. Around 90% of intraregional trade is free from restrictions, although members are really very oriented toward trade with non-member countries (intraregional trade ranges from just 6-8% of total trade). CARICOM is directed at eventually developing from a customs union into a common market, but rules of origin have yet to be settled. With the help of the US Caribbean Basin Initiative designed to help increase manufactured exports from the Caribbean to the US, CARICOM has been successful in coordination of infrastructure projects and the use of natural resources, but has not created high levels of intraregional trade, nor was it intended to.

Europe

There are several examples of integration in Europe: the European Community (EC), the European Free Trade Area (EFTA), COMECON, the Gulf Cooperation Council (GCC), and the Regional Cooperation for Development (RCD). The European experience shows how integration can succeed as a cumulative process undertaken in incremental steps, each marked by clear objectives and quick accrual of benefits to all members. Success breeds success; growth in the EC economy created a centripetal force evidenced by efforts on the part of the nations of Eastern Europe, the FSU, and North Africa to harmonize their economic policies and regulatory standards with those of the EC. Economic integration in Europe has therefore been net trade creating, perhaps even for outsiders, for as incomes increase in the EC so does demand for imports from non-members, who have also found it easier to do business with Europe now that it has streamlined product standards and customs procedures.

EC. Conducting fully 20% of international trade, the world's largest trading partner, the European Community (previously called the European Economic Community (EEC) and sometimes known as the Common Market) illustrates that the mere removal of border barriers does not lead to full integration; it is often the behind the border barriers, including regulation, standards, fiscal policies, and so on, which determine the success or failure of a regional integration scheme. The aim of the EC's founders at the signing of the Treaty of Paris (1951) and the Treaty of Rome (1957) was to construct a united, peaceful, and prosperous Europe through integration of its economies. Especially since the 1986 European Single Act (which set the stage for the EC92 common market program by increasing the powers of the European Parliament) the EC has exerted a gravitational pull on its neighbors as the region enjoyed economic growth and policy harmonization. The Maastrict Treaty, signed in 1991, provided for the creation of a European Central Bank and a common currency called the European Currency Unit (ECU) by 1993, but this program was thrown off schedule by Danish voters who rejected the Maastrict Treaty by a narrow margin in a national referendum and by the temporary withdrawal of Britain and Italy from the European Monetary System (EMS). But although the Maastrict goals have been delayed, they have not been abandoned. Common standards, regulation, and increasingly harmonized taxation policies have been achieved in many sectors of the EC economy. However, protectionism disguised in the form of anti-dumping laws, countervailing duties, subsidies, and rules of origin remains problematic. In other words, although Europe is a common market, its economies are not fully integrated due to behind the border distortions. Nevertheless, high expectations for the EC92 program have been self-fulfilling, and although the original deadlines for the Maastrict Treaty were not met, the progress that has been made in uniting multi-lingual Europe is unmatched. The EC has compensated outsiders with preferential access and concessions on tariffs, such as the General System of Preferences (GSP) in which developing economies receive special treatment for their exports and the Lome agreement with developing economies, in which nearly all African, Caribbean, and Pacific countries have tariff free access to the EC.

EFTA. Not all European nations have joined the EC, however, because doing so involves a degree of lost sovereignty over national policy. Led by Britain, EFTA was established in

1959 with Austria, Denmark, Norway, Portugal, Sweden, and Switzerland. Britain and Denmark left EFTA when they joined the EC in 1973, Portugal left to join the EC in 1986. In 1991, the EC and EFTA agreed to establish the European Economic Area (EEA) in which labor, capital, goods, services, and information circulates freely. Austria and Sweden are awaiting approval to join the EC, evidence of the centripetal force of a successful integration design

COMECON. This organization includes many Eastern European countries that are making the transition to a market economy. Not ready for membership in the EC, COMECON members

GCC. The Gulf Cooperation Council is a regional umbrella organization designed to facilitate regional cooperation among Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

RCD. The Regional Cooperation for Development was founded in 1964 by the developing economies of Iran, Turkey and Pakistan. Instead of aiming at liberalization, the plan was limited to pragmatic increases in intraregional trade through bilateral agreements and in selected sectors, including transportation and communication. This agreement has received attention from academics because it is an example of the joint purpose enterprises (JPE) model which is referred to in economic literature as an option for regional integration in cases where a common market is not attainable for political or cultural reasons. In this case efforts to link the three national airlines and to build a railroad connecting the three capitals were never actualized since private investors were not attracted. The Iranian revolt in 1979 ended the RCD, and although it was revived in 1984 as the Economic Cooperation Organization (ECO), political turmoil in the region has paralyzed results.

Asia

Asian regional agreements include the Asia Pacific Economic Community (APEC), the Association of Southeast Asian Nations (ASEAN), the South Asian Association for Regional Cooperation (SAARC), and the AUsNZ.

APEC. The Asian Pacific Economic Coordination Conference is unique among regional integration schemes. This region is already highly integrated in the global economy and is motivated to protect multilateral trade. That is not to say that Asian economies would not benefit from the regional harmonization of rules and more transparency of regulations, but Asia is not the ideal place for a FTA since many of its developing economies still have high border barriers (when coupled with the propensity of many of its nations to protect infant industries, an FTA in Asia would likely lead to trade diversion). Because union along European lines is not likely due to disparate cultural and political philosophies and the largess and abstinence of both Japan and China which do not want to provoke the US and EC, working within the GATT is a better option for developing Asian economies; they have most favored nation status and a good deal of autonomy in domestic policy. What is needed in this area of the world, therefore, is open regionalism. APEC fulfills this role and by including Canada and the US as members, prevents trade diverting effects from the NAFTA bloc.

ASEAN. Founded in 1967 by Malaysia, Indonesia, the Philippines, Singapore, and Thailand (Brunei joined in 1984), the Association of Southeast Asian Nations has aimed at industrial planning, not trade integration. By finessing rules of origin, members have retained the ability to protect industry while agreeing to preferential trade agreements on the surface. ASEAN has therefore not been particularly successful with regard to intraregional trade creation, or, for that matter, intraregional cooperative industrialization, but it has succeeded as a representative of its members in foreign affairs and in the sharing of information and expertise access borders, which has led to more transparency and predictability of national policies within the region. In 1992, ASEAN designed plans for the ASEAN Free Trade Area (AFTA) to be instituted in 2007.

SAARC. South Asian Association for Regional Cooperation (Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka) 1981. Institutional umbrella for cooperation.

Bibliography

Ashiabor, A. 1990. "Emerging Complementarities in African Economies." In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Balassa, Bela. 1961. The Theory of Economic Integration. (....., Richard D. Irwin)

Balassa, Bela. 1976. "Types of Economic Integration." In Fritz Machlup (ed) Economic Integration: Worldwide, Regional, Sectoral. Proceedings of the Fourth Congress of the International Economics Association in Budapest (London), pp. 17-31.

Baldwin, Richard. 1993. "A Domino Theory of Regionalism." Centre for Economic Policy Research (London), Working Paper No. 857.

Barad, Robert. 1990. "Unrecorded Transborder Trade and its Implications for Regional Economic Integration." In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Barry, Abdoul Wahab. 1994. Comparative Advantage, Trade Flows, and Prospects for Regional Agricultural Market Integration in West Africa: The Case for Cote d'Ivoire and Mali. Ph.D. dissertation, Michigan State University.

Bhagwati, Jagdish. 1992. "Regionalism v. Multilateralism." World Economy 15-5 (September), pp. 535-55.

Bhagwati, Jagdish and Arvind Panagariya. 1996. "The Theory of Preferential Trade Agreements: Historical Evolution and Current Trends." *American Economic Review: Papers and Proceedings of the American Economic Association* (May), pp. 82-87.

Bhagwati, Jagdish and Anne O. Krueger. 1995. The Dangerous Drift to Preferential Trade Agreements (Washington, D.C.: American Enterprise Institute for Public Policy Research).

de la Torre, Augusto and Margaret R. Kelly. 1992. "Regional Trade Arrangements." Occasional Paper No. 93 (Washington D.C.: International Monetary Fund).

de Melo, Jaime and Arvind Panagariya. 1992. The New Regionalism in Trade Policy (Washington D.C.: The World Bank).

de Melo, Jaime and Arvind Panagariya (eds). 1993. New Dimensions in Regional Integration (Cambridge: Cambridge University Press).

de Melo, Jaime, Arvind Panagariya, and Dani Rodrick. 1993. The New Regionalism: A Country Perspective. In Jaime de Melo and Arvind Panagariya (eds), New Dimensions in Regional Integration (Cambridge: Cambridge University Press).

El-Egaily, E. 1990. "Imperatives of Economic Integration in Sub-Saharan Africa." In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Foroutan, Faezeh. 1993. "Regional Integration in Sub-Saharan Africa: Past Experience and Future Prospects." In Jaime de Melo and Arvind Panagariya (eds.) New Dimensions in Regional Integration (Cambridge: Cambridge University Press).

Foroutan, Faezeh and Lant Pritchett. 1993. "Intra-Sub-Saharan African Trade: Is it too Little? Journal of African Economies 2-1 (May), p. 74-105.

Grossman, Gene, and Elhanan Helpman. 1995. "The Politics of Free Trade Agreements." *American Economic Review* 85-4 (September), pp. 667-90.

Hazelwood, Arthur. 1979. "The End of the East African Community: What are the Lessons for Regional Integration Schemes?" *Journal of Common Market Studies* 18-1 (September).

Husain, Ishrat. 1993. "Discussion." In Jaime de Melo and Arvind Panagariya (eds.) New Dimensions in Regional Integration (New York: Cambridge University Press).

Krishna, Pravin. 1995. "Regionalism and Multilateralism: A Political Economy Approach." Mimeo, Economics Department, Columbia University.

Krugman, Paul R. and Maurice Obstfeld. International Economics: Theory and Policy. .....

Krugman, Paul. 1984. "Import Protection as Export Promotion: International Competition in the Presence of Oligopoly and Economies of Scale." H Kierzkowski (ed.) Monopolistic Competition and International Trade (Oxford: Clarendon Press).

Lawrence, Robert Z. 1995. Regionalism, Multilateralism, and Deeper Integration. Draft manuscript.

Langhammer, Rolf J. 1992. "The Developing Countries and Regionalism." Journal of Common Market Studies 30-2 (June).

Langhammer, Rolf J. and Ulrich Hiemenz. 1990. "Regional Integration Among Developing Countries: Opportunities, Obstacles, and Options." Kieler Studien 232 (Tübingen: J.C.B. Mohr).

Mansoor, Ali and Andras Inotai. 1991. "Integration Efforts in Sub-Saharan Africa: Failures, Results and Prospects -- A Suggested Strategy for Achieving Efficient Integration." In Ajay Chhibber and Stanley Fischer (eds) Economic Reform in Sub-Saharan Africa (Washington D.C.: World Bank).

McCarthy, Colin. 1994. "Regional Integration of Developing Countries at Different Levels of Economic Development: Problems and Prospects." Transnational Law and Contemporary Problems 4-1 (Spring).

Mulaisho, Dominic C. 1990. "SADCC: A New Approach to Cooperation." In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Mytelka, Lynn (ed). 1994. South-South Cooperation in a Global Perspective (Paris: OECD Development Center).

Oyejide, Ademola T. and Mufutau I. Raheem. 1994. "Long-term Development in Sub-Saharan Africa: Would Regional Integration Help?" In Giovanni Andrea Cornia and Gerald Hellinier (eds.) From Adjustment to Development in Africa: Conflict, Controversy, Convergence, Consensus? (New York, St. Martin's Press), pp. 367-377.

Ravenhill, John. 1990. "Overcoming Constraints to Regional Cooperation in Africa: Coordination Rather than Integration?" In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Robson, Peter. 1990. "The Conceptual Framework of Regional Integration analysis and Appropriate Technology." In The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).

Robson, Peter. 1987. The Economics of International Integration, Third Edition (Boston: Allen and Unwin).

Salinger, Lynn B. and J. Dirck Stryker. 1993. "Regional Economic Integration in West Africa: the Potential for Agricultural Trade as an Engine for Growth in the Western Subregion. Cambridge, MA. Associates of International and Resource Development, unpublished manuscript.

Stern, Joseph and Mary Kay Guggerty. 1996. "Structural Barriers to Trade in Africa." Draft paper, Harvard Institute for International Development.

Summers, Lawrence. 1991. "Regionalism and the World Trading System." In Policy Implications of Trade and Currency Zones. Federal Reserve Bank of Kansas City.

World Bank. 1989. "Regional Integration and Cooperation: From Words to Deeds." In Sub-Saharan Africa: From Crisis to Sustainable Growth (Washington D.C.: World Bank).

World Bank. 1990. The Long Term Perspective Study of Sub-Saharan Africa (vol.4): Proceedings of a Workshop on Regional Integration and Cooperation (Washington, D.C.: World Bank).