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*A Critical Path Towards Regional Integration and  
Liberalisation – The Tresholds*

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The Cotonou Agreement, signed by the ACP countries and the EU in 2000, provided for the establishment of Regional Economic partnership Agreements to replace the non-reciprocal trade preferences that the EU had extended under the preceding Lomé agreements.

The EPAs will involve trade liberalisation within and between groups of countries and the EU, due to take effect from 2008. In addition, the agreements are subject to the explicit requirement that they should be compatible with the WTO rules concerning regional trade agreements (Article XXIV) and economic integration agreements in services. The Cotonou agreement set out four principles that the EPAs should reflect:

- Partnership – which implies rights and obligations on both sides.
- Regional integration
- Development – which implies the EPAs should take account of the economic, social and environmental constraints of the ACP, as well as their capacity to adapt to their new trading environment and the urgent need for poverty reduction. In practical terms, this would require the agreements to be integrated into the development policy of the ACP countries and the support strategies of the EU.
- Link to the WTO – this implies the agreements are intended to act as a stepping stone, facilitating the integration of the ACP countries into the world economy.

In sum, there are two over-arching objectives that the EPAs aim at:

- (i) the integration of the ACP countries into the global economy, and
- (ii) poverty reduction.

Essentially, the EPAs are being put forward to support trade liberalisation on two parallel fronts: internally, among the countries of the ACP regional grouping; and externally, in the trade relations between the regional grouping and the EU. Since the proposed trade agreements are being represented as tools for development and at the same time compatible with WTO rules, the participating states must critically evaluate the potential for development in the context of this two-pronged approach to liberalisation.

More concretely, a number of questions need to be addressed with regard to the most effective strategies for negotiating EPAS:

- (a) what sectors should be liberalised, and how should the timing of the liberalisation process be organised?
- (b) what development and growth strategies need to be adopted to facilitate the effective integration into the global economy?
- (c) what is the appropriate mix between intra-regional and extra-regional liberalisation, and what sequencing should be followed?
- (d) what is the impact of internal and external liberalisation on the social groups, economic sectors, and government revenues within the ACP regional groupings, and on their existing trading partners? More generally, what are the potential social, environmental, health and developmental impacts of such trade agreements? And, how can the negative impacts be reduced or avoided?
- (e) at the level of regional groupings, the issue of liberalisation should be addressed alongside the matter of the institutional framework. To what extent is regional integration capable of both sustaining growth and pursuing liberalisation? Or, is there a need for deeper integration, and for greater political cooperation within a formal framework of policy co-ordination in order to nurture and develop the existing regional arrangements with the ultimate aim of achieving sustainable growth and development?

These broad questions are being posed in this session in order to offer a framework for the discussions that are expected to follow throughout the day. The questions also reflect the serious underlying concerns over the best alternatives for regional integration as a route towards improved welfare for all the ACP countries.

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Regional integration involves a process of economic liberalisation among countries. This process is heavily dependent upon the political will and commitment of the governments concerned, and a sustained desire to cooperate over the long term in order to meet the objectives and common interests of all. In essence, regional integration is a process of deepening cooperation over areas that all parties agree on as common interests shared by each one.

The experience of Europe and the countries in the ASEAN region confirm the gradual and evolving nature of regional integration. So, the question is whether there are any lessons from the historical process witnessed in Europe and ASEAN that might be applicable for the ACP countries.

### **The EU path to liberalisation - internal and external levels**

In 1958, the Treaty of Rome came into effect to create a common market with six countries. The member states adopted a common external tariff on trade with all non-members, and embarked on what was to be a slow process of internal liberalisation. Almost thirty years later there was little real liberalisation of the economic relations among the member states, despite the accession of new members in 1973 and in the 1980s. Non-tariff barriers and government policies on public procurement were obstacles, as were the different standards throughout the member states. The European Community's own approach to integration was then centred around the harmonisation of policies across the community, complemented by the instrument of Community law, with the European Court of Justice (ECJ) acting as the guardian and enforcer of European Community legislation.

Two landmark decisions by the ECJ in the 1960s introduced the doctrine of supremacy (that EC/EU law takes precedence over national law) and the doctrine of direct effect (that EC/EU law is directly applicable at national level), and both of these had far-reaching integration effects in terms of Community legislation. When another ECJ decision in 1979 established the principle of mutual recognition (whereby a national government should recognise and accept the standards of another member state, even when such standards differed to its own) this facilitated an acceleration of the integration process since mutual recognition imposed less stringent requirements on governments as far as legislative and administrative arrangements were concerned than the earlier principle of harmonisation.

Competition policy was a lynchpin of the efforts towards integration – it was set out in the founding Treaty of Rome as one of the key policy areas for Community-level action (together with trade policy and agriculture). The policy was implemented on

the basis of a growing body of competition law, established by the ECJ and implemented with some vigour by the European Commission. Competition policy has continued to play a central role in the drive towards internal liberalisation within the EU. And, the aim has been to establish and maintain free competition as envisaged in the Treaty of Rome.

With the backing of a strong body of law and the regulatory drive of the European Commission, the member states have had to accept that there was no option to competition, and no possibility to claim unfair competition from producers/traders in other member states. The free competition principle is distinctive from the GATT principle of fair competition – which does allow a country to impose restrictions on imports from outside on the grounds that such imports are damaging domestic industrial or national interests.

In the mid-1980s the European Community launched the Single Market Programme. Effectively a deregulatory programme with a timetable and deadline for the completion of liberalisation measures aimed at securing the free movement of goods, services, capital and people across the community, the Single Market Programme represented a further step forward towards internal liberalisation. The proposal required the governments to remove the physical, technical, and fiscal barriers that represented obstacles to total free trade among the member states.

It was acknowledged that the extent of liberalisation would pose serious adjustment problems for the poorer member states, and for industrial sectors and regions with limited capacity for competition. Therefore, the European Commission proposed to strengthen and coordinate the various regional policy initiatives, and to double the funding of these under the umbrella of the Structural Funds. In 1994, when the member states agreed to move forward with plans for monetary union the EU announced the Cohesion Fund to assist the four poorest states (Spain, Greece, Portugal, and Ireland) to prepare for this latest phase of regional integration.

The Structural Funds were, and continue to be, the principal instrument of economic and social cohesion within the EU, providing financial assistance to regions where the per capita income is below the EU average. After the Common Agricultural Policy,

this policy accounts for around 38 per cent of the total EU budget. The stated objective was to ‘promote the overall harmonious development’ of the community, and this is done in practice by funding infrastructure, transport, and employment projects in the lagging regions of the EU. Some countries favoured investment and reconstruction projects (roads, rail networks, urban renewal and regeneration, civic buildings) while others extended the financial assistance to cover employment training, business and tourism support. Eligibility for financial support under the Structural Funds was based upon the submission of a regional development plan, jointly drawn up between the regional and national government – so, the European Commission effectively insisted upon regional planning involving the different levels of government.

In its trading relations with the rest of the world, the EU has pursued a strategy of liberalisation combined with selective protectionism. The successive GATT/WTO trade liberalisation agreements have reduced the average tariff level internationally, and this includes the EU. In addition, a variety of EU preferential agreements have existed alongside protectionist policies for certain sectors, notably agriculture, sugar, textiles. The Europe Agreements of the early 1990s, signed between the EU and some of the Eastern European countries, offered tariff free access to the EU market – except for certain ‘sensitive’ sectors (including machinery and equipment, steel) where the Eastern European producers had a competitive advantage.

From its initial beginnings as a common market, European external trade was subject to the Common External Tariff. Gradual liberalisation came about largely due to the pressures imposed by the GATT, and the pace of external liberalisation accelerated from the 1980s to coincide with deeper internal integration (and liberalisation) under the Single Market Programme and the plan for enlargement. As a leading economic power in the global economy, the EU has a vested interest in pursuing further external liberalisation – provided sectoral interests do not oppose it outright or impose certain limits.

## **The ASEAN route to liberalisation**

ASEAN emerged in 1967 as a regional security organisation, with no initial programme for trade and economic liberalisation. Instead of creating supranational institutions and a programme of economic liberalisation, the then five countries (Indonesia, Malaysia, Thailand, the Philippines, and Singapore) adopted a model of inter-governmental cooperation in the political sphere, supplemented by national programmes for economic development with active state involvement and, from the 1980s, a policy of industrialisation in export-oriented industries where foreign companies were the major players.

In the period of the 1970s and 1980s, the Asian countries shared an approach to development based on interventionist state policies, including the establishment of economic planning agencies, the pursuit of strategic industrial policies, and the promotion of 'national champions'. The national champions were private firms in highly promising industries and sectors, and were strongly supported by the state through loans, grants and subsidies, monopoly rights, tax holidays and import protection.

Prior to the 1990s, ASEAN members prospered with the general wave of growth across the wider region, coinciding with the expansion of intra-regional trade (Asia-Pacific generally) and the vertical linkages between production structures in different countries. These linkages allowed import of raw materials from one country in the region, production and assembly in another, and then the export of final products to destinations outside the region. The model thus facilitated deeper integration within the region based upon economic linkages at the level of market activities, with the support of government policies towards export promotion, and infrastructural investments in transportation and informational facilities.

Following the Asian financial crisis in 1997, the ASEAN group of countries (now totalling ten members) revived an agreement from the early 1990s for deeper



integration, and declared the intention to establish an ASEAN Free Trade Area by 2006. Discussions have also taken place among the ASEAN countries regarding possible arrangements for some form of monetary cooperation.

The significance of the ASEAN model of regional integration lies in the approach, based as it is on the defence of national sovereignty aligned to cooperation across a number of functional areas – tourism, infrastructure, information technology, culture. In many sectoral areas, regional cooperation takes place with limited liberalisation – one example is in tourism, where different parts of the sector cooperate across national boundaries even though there are no high level agreements among the governments and states concerned.

ASEAN countries have a history of cooperation within this institutional framework, and the next phase of cooperation is based upon internal liberalisation. In 1992, it was agreed to have an ASEAN Free Trade Area, with a common effective preferential tariff (CEPT) and a reduction of tariffs on all intra-ASEAN trade in manufactured and processed agricultural goods to 0-5 per cent within fifteen years. Two programmes of tariff reduction were announced: a fast track, one covering some fifteen product areas, where tariffs above 20 per cent would be reduced to 0-5 per cent within ten years, and tariffs at 20 per cent to be reduced within seven years; a normal track - tariffs above 20 per cent to be reduced in two stages, to 20 per cent within five to eight years, and then to 0-5 per cent in seven years, according to an agreed schedule. Under the normal track, the tariffs at or below 20 per cent would be reduced to 0-5 per cent within ten years.

The CEPT scheme was drawn up on a sectoral basis, rather than a product basis, and did allow for three categories of exclusions: temporary exclusions, to be reviewed after eight years; general exceptions, on the grounds of national security, public morals, etc., and unprocessed agricultural products. The rate of progress towards full internal liberalisation continues to vary across the ASEAN member states.

### *Key lessons*

The EU and ASEAN have each adopted their own model of regional integration and liberalisation, suited to the political, economic and social conditions in each region. It is probably fair to say that each region had more choices than currently exist for the ACP countries, or perhaps a greater capacity to choose among alternative courses of action.

Nevertheless some general observations can be derived from the two cases:

- trade liberalisation is a gradual process, and should be supported by an appropriate institutional framework.
- trade liberalisation is not a necessary first step to regional integration.
- there is no winning formula regarding the timing and selection of sectors to liberalise. It depends on the political and social configuration in each country, and on the economic capacity to absorb adjustment costs.
- the European case illustrates also the need for compensatory, redistributive mechanisms to counter the negative impact of integration.

Recent trade agreements signed by the EU with Chile, Mexico, and South Africa mark a new phase in the European strategy of expanding market access in a global economy with intense competition. The former EU policy of extending non-reciprocal market access to developing countries has been replaced by bilateral free trade agreements conforming to the GATT Article XXIV (which requires a free trade agreement to eliminate duties and other trade restrictions on ‘substantially’ all goods from the countries involved). But, as the agreements with South Africa, Chile, and Mexico show, the EU preference extends far beyond a simple free trade agreement covering goods and services. Instead, a typical agreement includes provisions on the liberalisation of investments, public procurement, intellectual property, competition, and dispute settlement procedures.

In all of these areas, the EU has a singular advantage in negotiating with the majority of developing countries because of its own economic strength in the global economy and because internally the EU has common provisions and sophisticated policy arrangements across all these areas, with the broad support and commitment of every member state.

Certainly, the offer of market access for developing ACP countries and sectors is to be welcomed. But it can only be realised if the countries and sectors have the capacity to avail of such offers, and if the non-competitive sectors can bear the adjustment costs, most often expressed in job losses and rising unemployment. Mostly, they do not have the capacity and require not only longer periods of time to prepare for liberalisation and the resulting competition. In addition, internal capacity-building measures aimed at particular sectors and also more broadly across the domestic economy so as to stimulate sustainable growth and development will be required – including investment for education and human resource development, for physical infrastructure, for appropriate technology and especially information and communication technologies.

### **Conclusion**

By way of conclusion, certain recommendations follow on from the preceding points and relate to both the specific and general policy approaches of the ACP countries. The Economic Partnership Agreements are essentially about liberalisation and the pursuit of market access. Implicit in the approach is the notion that liberalisation will bring development, allowing domestic firms and sectors to exploit economies of scale and increase investment. However, these causal linkages may not be direct, nor occur within the reasonable timeframe around which people and governments build their expectations. Instead, the most likely outcome is an asymmetrical share of the benefits and costs between the less developed and more developed partners, favouring the stronger one at the expense of the weaker. In this context, the ACP countries must give careful consideration to the negotiating strategy and to work collectively to identify a set of common interests that could form the basis for further close collaboration, in the context of the EPA negotiations and more generally in the Doha Development discussions.

Specifically, the developing countries must consider the EPA negotiations in the broader context of changing international conditions – including the Doha negotiations, and a review of the EU’s Generalised System of Preferences – and take account of how these changing situations will affect their bargaining power, and especially how the bargaining strength might be increased. Linked to this are the following considerations:

- the sequencing of negotiations with the EU, and giving priority to regional integration before trade liberalisation with the European Union.
- focus more strongly on development, and link any agreement to concrete provisions on capacity-building especially with regard to human resource development, education for all, investments in physical infrastructure, and targeted programmes for poverty reduction – with a commitment to the UN Millennium Development Goals.
- alongside, the developing countries must aim to put development on the international agenda, and to use every opportunity to publicise this goal and to harness all avenues in an effort to operationalise development agendas.
- ACP should strengthen its political identity so as to play a more active and more assertive, as well as more visible, role at the international level.
- in this regard, the ACP must maintain the unity and solidarity of the group so as to enhance the collective negotiating strength.