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*Supporting Regional Integration – The Roadmap of
Indicators and Tools*

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1. Introduction

Regional integration (RI) occupies a prominent place in the Cotonou Agreement, both as a means and as an end. Further and deeper RI is seen as an important vehicle for reaching higher levels of development for ACP countries and, therefore, as a relevant goal of ACP-EU cooperation. This is in accordance with the new wave of regional integration initiatives since the beginning of the 90s and the (theoretical and political) ratification of RI as a valid policy option and development strategy in the globalised economy.

In the Cotonou Agreement the references to RI are found in several articles: art. 22 (macroeconomic and structural reforms and policies), art. 28 (general approach), art. 29 (regional economic integration), art. 30 (regional cooperation). In Annex IV (implementation and management procedures) RI is referred to in art. 6 (participation), art. 7 (regional programmes), art. 8 (regional programming), art. 9 (resource allocation), art. 10 (regional indicative programme), art. 11 (review process), art. 12 (intra-ACP cooperation), art. 13 (requests for financing), art. 14 (procedures for implementation).

In order to reach the goals of the Cotonou agreement with respect to RI, the EU side proposed a number of policy instruments. These can be classified in three categories: (i) conceptual and technical tools (building blocks) for designing RI processes, (ii) monitoring instruments, and (iii) financial assistance through the EDF.

In this document I will concentrate on the first two categories of instruments. They are clearly inter-linked.

As far as the third category is concerned, the regional envelope of the EDF is aimed at providing resources for funding programmes and projects in support of the RI processes. The programming of this assistance is done in the Regional Strategy Papers and the Regional Indicative Programmes. The relative focus on RI and trade is shown in table 1.

Table 1: Resource distribution between policy areas according to the Regional Indicative Programmes (in %)

	Focal areas			Non-focal areas*
	Regional integration and trade	Transport and communications	Sustainable renewable natural resource management	
SADC	35-45	35-45		≤ 20
West Africa	50	35		15
Central Africa	25-30	35-40	20-25	5-10
Eastern and Southern Africa and Indian Ocean	45-55	15-25	15-25	10-15
Pacific	31	Human resources 28	Fisheries 17	24
Caribbean	75-90			14-18

* Conflict prevention, health, fishery, culture, policy dialogue.

Sources: Regional Strategy Papers and Regional Indicative Programmes.

2. EPA negotiations and the emerging EU view on RI and development

The emerging EU view on the role of RI in the development processes of the ACP countries is part of a broader re-shaping of EU external policy towards the developing world. A complex combination of driving forces lays behind it. Several characteristic elements can be identified; the ones that are relevant for our purpose include: market-based solutions to economic problems, more emphasis on reciprocity (symmetrical agreements), more linkages between policy areas, move from PTAs to comprehensive EPAs, preference for interregionalism, a more pronounced reference to the EU model of RI, tendency towards standardisation of negotiation processes and outcomes, more linkages between micro and macro-levels, ... etc.

In the framework of EPA negotiations, the EC proposed the so-called Toolbox, where the EU view on RI in development has been summarised, as an instrument for the negotiations in the all-ACP phase (table 2). As can be seen, the toolbox is rather general in approach; the adaptation to specific circumstances is expected to be done

through sequencing and timing in a transition phase. At the same time it is rather “practical”, in the sense that no reference is made to models of RI and economic development, although the European model of integration is clearly the underlying point of departure. The toolbox is presented as a proposal which will be subject to negotiation in the early stages of negotiations.

Cooperation on the fifth compartment is expected to be treated outside the EPA negotiations, but in close coordination with it; this means that a partial decoupling of “trade issues” and “development issues” is proposed.

Table 2: EU “Toolbox” Proposal for ACP Regional Integration and for EPA Negotiations

“Compartments”	Contents
Trade in goods	Abolition of internal border measures (tariffs, quantitative restrictions) and simplification or abolishment of internal border controls. Common external tariffs, procedures and trade policy.
Trade in services	Liberalisation of supply modes and commercial service markets. Simplification and harmonization of regulatory systems.
Rules	Harmonization of trade-related rules (sanitary and phytosanitary rules, technical regulations, certification schemes, etc.). Effective enforcement of competition and subsidy rules and setting up of a regional competition authority. Regional design of intellectual property rights, investment and public procurement rules. Regional approach on environmental, labour and consumer rules.
Enforcement mechanisms	Setting up regional appeal courts or binding arbitration.
Regional co-operation in a wider sense	Fiscal and macro-economic harmonization. Upgrading and building of infrastructures. Promotion of competitive industries. Support to rural development in the poorer areas. Setting up structural funds financed by customs and taxation revenues. Upgrading and re-designing of regional

	institutions.
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Source: EC, “EPA Negotiations: Toolbox”, Working Document Ambassadorial Group, EC/NG/WD/12 EN, 2003.

3. EDF 9, EPA negotiations, and monitoring

It is foreseen that the indicative programmes will be adapted to evolving circumstances. For this purpose and to ensure correct implementation, a mid-term and end-of-term review is foreseen. A revision of the resource allocation may also be the result of the review process.

The European Commission proposed a set of indicators “to measure regional integration and cooperation performance” and to support the RCRP. The areas considered are: (i) regional economic integration (trade liberalisation policy, other policy instruments), (ii) functional regional cooperation, (iii) governance and financial issues and functioning of institutions, and (iv) implementation of EDF projects and programmes.

In September 2002 an Informal Workshop with representatives from RI organisations was organised. At that instance, an explicit reference to EPAs was made; according to the European Commission, the RCRP should be relevant for the EPA negotiations.

COMESA and the World Bank presented their views on the Commission’s proposal, but there has been no follow-up yet.

Contrary to the RCRP indicators, the so-called Toolbox, proposed by the European Commission, has not been conceived as an evaluation tool; it contains “elements relevant for successful ACP regional economic integration” and is seen as an important instrument for the first (all-ACP) negotiation phase, being itself subject to negotiation. But it could be converted in an evaluation instrument. As we have seen above, its current status is rather unclear. The principles it contains, inspired by the EU model and adapted to current WTO rules, are rather general. More concrete tools will be needed.

4. Monitoring RI: some general considerations

Designing effective monitoring tools for RI will imply that a number of conceptual, methodological and practical issues will have to be addressed. It is important that the negotiators are conscious of these. The issues include the following:

4.1. Monitoring RI outside the EU-ACP context

The EU-ACP context is not the only context within which a discussion is currently held on the possibilities for designing monitoring instruments for regional integration processes. In order to illustrate the importance of the issue, we might mention the following institutions that took initiatives in this direction: (i) UNECA (based on a specific methodological framework, data have been gathered back to 1994; the first results have been published in 2002), (ii) European Central Bank (proposal by the ECB to measure institutional and economic integration), (iii) Inter-American Development Bank (the IADB is also considering as one of its priority actions within its Strategy on Regional Integration, “gathering, evaluation and dissemination of compatible data to measure progress in the regional integration effort”, (iv) ALADI (preparation of yearly reports on the evolution of integration in Latin America), (v) UNU/CRIS (organisation of workshops and reports on the methodology of constructing RI indicators systems since 2002). In addition, efforts like the World Bank’s Fiscal Decentralisation Indicators are also relevant references. Important lessons could be drawn from these initiatives.

4.2. Ownership of the monitoring process

Since the process of monitoring RI is a direct implication of the contents of the Cotonou Agreement, it should be seen as a joint cooperative effort. However, the right balance of partner involvement has not been reached yet, the European Commission has taken the initiative and is steering the work on RI indicators. And there is of course the (structural) factor embedded in the Cotonou Agreement of linking “progress” in regional integration to resource allocation from the European side.

4.3. Concepts of integration

A core issue in the development of a monitoring tool is the underlying definition of integration that will be used and how it will be operationalised into dimensions and variables. It should be stressed that the delimitation of the concept of integration and the scope of the information system is not an exclusively academic exercise, it involves also political and practical considerations.

Recently, for example, the problem of conceptualisation has been illustrated very well in the context of the discussions about the RCRP proposal of the European Commission. The World Bank, proposed to distinguish between “integration” and “cooperation” on the basis of the degree of sovereignty that countries agree to transfer to supranational institutions, but recognised that the borderline is not clear-cut. The Commission itself proposed a category of inter-state interaction called “functional regional cooperation”.

The conceptual issues which have to be addressed include: states versus processes, formal versus informal (real) RI, new versus old regionalism, direct versus indirect indicators, positive versus negative integration, etc.

4.4. The European model of regional integration

The construction of a monitoring system for RI needs a theoretical framework which allows to select, organise and interpret the variables, and to evaluate the evolution of the indicators. In integration theory, in general, and in the Toolbox presented by the Commission in particular, the European case served as a model. The implications of this should be analysed; a flexible tool, able to monitor the variety of regional experiences from a multi-theoretical perspective, should be preferred.

It should be stressed further, that the qualification of variables as theoretically relevant, does not imply that the direction of their causal linkages with other variables can be easily established.

4.5. Methodological and organisational options related to the design of monitoring tools

Next to preciseness in the concepts used and explicitness in the underlying theoretical adherences, one needs to make a number of methodological and organisational decisions in order to further design a monitoring tool for RI. This will include, choosing between specific or general tools and between the use of area versus country indicators.

There is also a political aspect to the question whether to consider country level or group level indicators. As the World Bank also observes, the evaluation of a regional arrangement, especially when it involves “rewards” or “sanctions” from the international community, like in the case of the RCRP, should be able to handle asymmetries within the groupings, passive or obstructive behaviour by one or a minority of members.

4.6. Integration policies

A number of issues are related to the question whether the monitoring tool should evaluate integration or integration policies or a combination of both. Three examples might be mentioned:

First, in its discussion of the UNECA methodology, the COMESA Secretariat expressed strong reservations over the methodology used, for the reason that the UNECA indicators do not necessarily reflect the effects of programmes being undertaken by regional organisations. COMESA criticised the ranking of SADC and ECOWAS as the most successful regional organisations. According to COMESA, these rankings simply reflect the presence of a member with a large economy in each case (South Africa and Nigeria, respectively). One should therefore carefully distinguish between structural characteristics of countries and regional groupings, on the one hand, and integration policies, on the other hand.

Second, one should be aware that positive integration might suggest more “policy effort” and be captured as such by many indicators, although nothing assures *ex ante* that these measures have more important effects than negative integration.

Third, monitoring tools might be biased towards systematically registering integration policies, whereas policies that rather reflect moves in the opposite direction (disintegration), which are often taken at the national level, are not captured by the tool. In that case, “net progress” in the integration process would not be measured.

4.7. Dimensions and categories of variables

Once the coverage and limits of the monitoring system have been established, the variables should be organized systematically. RI being a multi-dimensional phenomenon, the variables could be organised, for example, according to disciplinary fields, policy areas (the traditional sectoral approach), or on a functional basis, like in the input-output approach.

Recent proposals for classifying variables in indicator systems include the proposals of DG Development, UNECA and ECB.

DG Development made the proposal to classify the indicators of the foreseen indicator system for monitoring economic integration in the ACP countries in the following broad categories: (i) regional economic cooperation, (ii) functional regional cooperation, (iii) governance, financial issues and functioning of institutions, (iv) implementation of EDF projects and programmes.

UNECA considers eight “clusters of activity” to classify the variables and indicators. These are: (i) trade and market integration, (ii) monetary, fiscal and financial integration, (iii) transport, (iv) communications, (v) industry, (vi) energy, (vii) food and agriculture, and (viii) human development and labour markets.

ECB distinguishes between institutional and economic integration. The former is evaluated on the basis of the implementation of decisions in four dimensions, based on Balassa’s stages approach to integration: (i) free trade area/customs union, (ii)

common market, (iii) economic union, (iv) total economic integration. Within the latter category, seven subcategories (and 11 variables) are considered: (i) synchronisation of the business cycle, (ii) convergence of inflation rates, (iii) exchange rate variability, (iv) trade openness and integration, (v) financial market integration, (vi) convergence of interest rates, (vii) income convergence.

As a response to DG Development's proposal, the COMESA Secretariat launched a proposal for a system of indicators with an alternative design. The philosophy of the proposal is different in the sense that inter-regional comparisons are not the main focus, but rather the monitoring of their own integration process. COMESA considers 12 categories of variables.

As has been mentioned above, the Toolbox provides us also with a classification of variables.

Several conceptual frameworks that explicitly recognise the multi-dimensional and dynamic character of regional integration are thus theoretically and practically possible. It is not even impossible to reach an agreement in negotiations starting from different conceptual frameworks. However some minimal agreements on the distinction between different categories of variables might be useful. One might, for example, consider the following categories: (i) regional interdependence (\approx "real" integration) (mobility of persons, economic interdependence, political interdependence), (ii) institutionalisation of RI, (iii) actors involved in RI, (iv) structural factors affecting RI, (v) implementation of RI policies, (vi) effects of RI.

Particular monitoring tools will have to opt for some combination of variables of these categories.

4.8. Pre-conditions for regional integration

In the literature, several attempts can be found to measure the potential (feasibility and effects) of future integration agreements. In the economists' jargon they are referred to as *ex ante* studies. Of special interest for us are those attempts that permit comparison and those that are also relevant for monitoring purposes. The *ex ante/ex*

post approach can be linked easily to the input-output typology of variables, mentioned before. Well-known are the ex ante trade analyses that estimate the foreseeable effect of new regional trade agreements on trade flows and welfare. However, ex ante studies have not been limited to trade issues. Also the public-management capacities for regional integration have been assessed.

4.9. Other technical issues

Independently from the choice of overall objectives, dimensions and contents of the system, a whole range of problems are likely to occur at the moment of implementation. These problems range from the difficulty of measuring a specific variable and the quality of a particular data source to the problems related with managing and funding the system.

If the monitoring tool is used for comparative research, as would be in the case of an indicator system for monitoring different regional integration processes, a choice has to be made between traditional indicators (permitting a direct comparison between regions on their score on a particular variable) and benchmark type indicators (comparing first the performance of each region with its own objectives). The World Bank, for example, favours relative comparisons. A concrete example of relative performance indicators is the one incorporated in the system of Indices of Economic Integration Effort in Africa. Two yardsticks are used: (i) the self-defined pre-determined targets for target-driven indicators (if they exist for particular integration groupings), or (ii) an average of the n best performers.

5. Recommendations for the ACP Group

General (strategic) recommendations:

- To analyse the broader context of the emerging “new” EU external policy orientations.
- To assess the relative importance of RI for development in the ACP context.
- To analyse the implications of the existence of overlapping RI groupings (multiple memberships) for the negotiations, especially in Africa.

- To strengthen regional (common) external trade policies.
- To analyse the modalities and implications of linking intra-ACP RI to the negotiation of an EPA with the EU.
- To horizontally coordinate the capacity building measures during the EPA negotiation phase (monitored by the Regional Preparatory Task Forces), in order to avoid that incoherences across regions rise to the surface in 2006 (“formal and comprehensive review”).
- To activate the role of the ACP Group in current WTO negotiations, especially in relation to the links between RI and development and RI among unequal partners.
- To further identify the potential for EU support to RI processes.

Toolbox:

- To equip the Toolbox with more analytical capacity to define optimal sequencing and timing schemes for liberalisation and integration.
- To connect the Toolbox to the design of economic policies on the national and multilateral levels
- To make the Toolbox compatible with a multidimensional and historical conception of RI processes.

Monitoring:

- To affirm more clearly the joint ACP-EU “ownership” of the monitoring process.
- To include the RI monitoring issues explicitly in EPA phase I (all-ACP).
- To identify the political value added of monitoring tools domestically (national and regional policy levels).
- To realise foresight exercises in order to design flexible tools, able to monitor RI in different scenarios.
- To decide on the relative importance of reflexive versus comparative evaluations.
- To analyse the other monitoring efforts in the world.

- To organise an ACP Technical Group, with delegates from the different regional organisations and other experts, to study these issues.