

Annex I Economic Coordination, Harmonisation and Integration - Definitions

A non-trivial issue concerns the definition of what is meant by the generally used terms regional cooperation, coordination, harmonisation and integration. This concern about semantics goes beyond simple pedantry. It is essential to be clear about these definitions as they involve different objectives, processes, decision-making arrangements, and institutional structures. In attempting – but not always succeeding – to adopt consistent terminology throughout, this study adopts the following definitions in ascending order:

- **COORDINATION** constitutes the lowest level of economic integration. It suggests a voluntary alignment of specific national (project) investments whether public or private in various sectors of activity. It may even involve an alignment of policies at the *meso* or *sectoral* level in such key areas as power, transport, communications, water resource management and so on. It is the level at which several regional integration arrangements (RIAs) in the developing world actually function.
- **HARMONISATION** is the next higher level of integration. It usually involves the adoption of common legislation, on a national basis, governing the way in which countries utilise particular policies or instruments – i.e. tariffs, non-tariff barriers, fiscal incentives and subsidies, investment and other capital allowances, direct and indirect taxes, standardisation of specifications for products or qualifications, monetary management, etc. Although these may be *regionally* agreed they are *nationally* controlled and applied. Preferential Trade Agreements and Free Trade Areas usually require some harmonisation of domestic legislation governing the trade and exchange regimes of member countries.
- **INTEGRATION**, strictly speaking, usually means the assignment of responsibility for formulating regional policies, developing rules and regulations, and for applying these policies to all markets at a regional level, superseding national control. It requires members of an RIA to cede sovereignty over particular economic functions and activities as well as policies and instruments to an authority or institution which exercises its power at the regional level. Integration thus means formulating and applying regional trade, exchange, labour market, fiscal and monetary policies at the regional level. Integration also implies the development of a common currency and a single central bank or monetary authority which regulates the monetary – and indirectly the fiscal – parameters within which national governments function. It implies the free movement of all

investment coordination in priority sectors through one institutional framework, while simultaneously trying to achieve trade liberalisation and eventual market integration through another.

In these instances the coordination option is not a prelude to the normal trade liberalisation route to integration but an adjunct. A variant of the coordination route involves greater political *cooperation* between members at an earlier stage. This is necessary in order to overcome impediments to integration on the assumption that a market-based, trade liberalisation approach may yield limited immediate results given the circumstances in which developing countries usually find themselves.

Such a variant stresses the need for achieving *equity* and *balance* in relations under regional trading and investment arrangements which otherwise are likely to result in the net welfare and efficiency gains accruing from RIAs being captured unequally by different members (this was a problem which exercised Indonesia in ASEAN).

Yet another variant of this approach might be called *enhanced* coordination. In addition to sectoral investment coordination and political cooperation on a wide range of matters, such an approach incorporates the need for compensatory policies, as well as targeted regional investment and development policies, to accompany coordination and/or trade liberalisation measures so as to accommodate the needs of the lesser developed members of the region. It envisions the need for market integration to be accompanied by coordinated regional industrial development, regionally-decided allocation of investment resources, and harmonisation of investment flows toward lesser developed members. This approach was attempted across Latin America, the Caribbean and in some sub-regional RIAs arrangements in Africa (e.g. in the East African Community).

Enhanced coordination is subject to the criticism that, rather than correcting the causes of market failure in exacerbating maldistribution, bureaucratic interventions fail to equalise welfare gains through *directed* regional investments. Such attempts have usually resulted in costly planning and implementation failures without achieving the distributional or development objectives intended. The alternative of *undirected* compensation, as occurs under some regional arrangements (e.g. SACU), has the advantage to recipients of being a general budgetary resource usable at the discretion of governments but with the disadvantage that, for precisely that reason, such revenue can be used to meet recurrent expenditures thus relaxing budget discipline and having little developmental impact.

Annex II The African Experience with Regional Integration Arrangements

The arrangements of African blocs that go beyond preferential trading are similar to those first practised in Europe for customs unions and free trade areas, but adapted to African conditions. Several such arrangements have been attempted in Africa during the colonial period and thereafter. Some have evolved, many have atrophied and others have been abandoned. The most notable examples include those in Southern Africa – i.e. PTA, SADC and SACU-MMA – which were preceded prior to independence by even closer arrangements such as the Federation of Rhodesia and Nyasaland.

Wide cooperation arrangements also existed during colonial days and post-independence in Central Africa (CAU and UCAS), West Africa (CEAO, UDEAC, WACU and OSRS), the Indian Ocean (IOC) and in North Africa (MPCC). Specific and limited cooperative arrangements have been attempted at the level of sectors and for specific commodities (coffee, cocoa, peanuts, tobacco, etc.).

It is obviously impossible to recount experience with all of these arrangements, but it is instructive to dwell briefly on two of the more interesting cases: those of the now defunct East African Community (EAC) and the Economic Community of francophone West African states (CEAO). The special interest of these experiences lies in the attempts to deal with the problem of regional equity.

The East African Community (EAC)

In East Africa, recourse was first made, in 1961/62, to fiscal compensation from a distributable pool of revenue, fed mainly by 40% of the revenue from income tax on companies' profits from manufacture and finance in the three East African countries. Its allocation resulted in a redistribution of revenue from Kenya to Uganda and Tanzania.

The pool was an attempt to compensate the latter two countries for the concentration of industry in Kenya and for their losses of revenue and real income sustained by purchases of Kenyan products within the customs union and common market. The device did not satisfy Tanzania and Uganda.

In 1964, a fresh attempt was made to deal with the problem of inequality in the operation of the common market by adopting administrative measures to eliminate trade imbalances between the three countries. The chosen means were the industrial allocation of new single-plant industries in favour of Tanzania and Uganda, adjustments in the output of existing multiplant firms, and quotas on exports from surplus countries. The provision of a system of

differential incentives to attract manufacturing industry to Tanzania and Uganda was also envisaged, but not simultaneously introduced. The industry-sharing agreements failed, and Tanzania resorted to large-scale import restrictions against Kenya.

The 1967 Treaty which established the East African Community represented a further attempt to devise a framework that would enable the benefits of economic integration to continue to be enjoyed by the three East African countries on an equitable basis.

First, there was to be a decentralisation of the headquarters of certain common services, including railways, harbours, posts and telegraphs, together with some operational decentralisation.

Second, an East African Development Bank was created to give priority to industrial development in the relatively less industrially developed partner states.

Third, so-called 'transfer taxes', which were in effect limited inter-common market tariffs, were permitted to be imposed by countries that were in deficit in their total inter-community trade in manufactures on imports from a country with which it had a trade deficit in manufactures. Fiscal compensation was simultaneously phased out.

The EAC was disbanded in 1977. Foreign policy differences played a significant part in its demise. Difficulties created by the co-existence of state planning in Tanzania and the market-oriented system of Kenya, coupled with problems created by the break-up of monetary union, were in any case proving to be extremely damaging, as was the failure to deal with the financial problems of the common services.

The Economic Community of West Africa (CEAO)

One of the few African integration blocs, apart from SACU, to have survived and to have substantially implemented its trade provisions is the CEAO, which was established in 1973. A significant amount of intra-bloc trade (around 10% of total trade) occurs under its auspices. Part of this is underpinned by preferential tariff arrangements on industrial products and complementary fiscal compensation. The preference operates through the substitution of the regional cooperation tax (TCR) for import duties. This is levied at a lower level than the corresponding import duties, at rates fixed on a product-by-product basis by the Council of Ministers.

Fiscal compensation is paid by the industrially more advanced members – principally Côte d'Ivoire and, to some extent, Senegal – to their less industrially advanced partners. The major part is paid automatically to national budgets through the Community Development Fund to offset two-thirds of the assessed net revenue losses of the partner countries arising from

the importation of industrial products subject to the TCR. The remainder is distributed on a discretionary basis among the member states to support national development projects of Community interest. A Solidarity Fund (FOSIDEC) also exists to contribute to the regional balance of the Community by loans, guarantees and participations. It is required to give priority to the least developed members.

CEAO has survived and has been modestly successful in operating a partial free trade area for industrial products, together with liberalised trade in unprocessed agricultural products. The absence of exchange problems because of the monetary union that embraces all but one of its members has been one important factor in its success.

Another major factor is that each state is given substantial discretion over the degree of industrial integration with its partners through the need for mutual prior agreement on TCR eligibility and rates. The corollary of this discretion is that the opportunities that the regional integration system affords for generating benefits is correspondingly modest.

Its weakness is reflected in the replication of identical industrial plants in several countries where fewer would often have sufficed. The need for lengthy and uncertain negotiations before TCR status can be accorded has discouraged investment inflows and cross-border investment.

RIAs and Outward Orientation in Africa

African RIAs have been portrayed by some international agencies as having a protectionist and inward-looking bias. This has undoubtedly been the case in some past arrangements, and partly explains their inability to generate net benefits, but such a bias is not inherent in RIAs. Even a tariff-averaging customs union may represent a move towards overall trade liberalisation. If the formation of a wider customs union or free trade area were to be accompanied by a general or selective reduction in external tariffs, this could guarantee a significant overall liberalisation within a framework of regional market widening.

The question often posed is whether, given the need for policy reforms within Africa in the context of structural adjustment, regional market integration should be a priority. This issue is raised on the grounds that any integration-induced intra-group trade expansion is likely to be insignificant anyway given present economic structures. Others, while supporting RIAs, have argued against a market-led strategy.

One influential view sees the role of regional market integration in Africa primarily as a support to structural adjustment. In that perspective, a transitional role is seen for reducing intra-African tariffs at a more rapid rate than external tariffs. This is expected to diminish the costs of adjustment by

forcing companies to compete first with firms that have comparable levels of efficiency or inefficiency, before they are exposed to the full force of world competition. Such regional competition could offer the prospect of a reduction in costs, through mergers and take-overs, significant enough to permit the survival of several African industries which increased global competition would otherwise eliminate.

On this, and other grounds, some multilateral donors have sought to identify justifications for supporting regional integration as a component of development strategy consistent with other general policy advice. The conclusion has nevertheless been that benefits are likely to be small, and that its costs in terms of diverting attention away from liberalisation and arriving at a regional consensus may be considerable. Regional market integration is perceived to be justified only as part of an overall liberalisation strategy.

As a general proposition, this emphasis on liberalisation is persuasive. But the often associated conclusion that the net benefits of regional integration, or the costs of non-integration among African countries, are likely to be small, is less convincing and does not necessarily follow. The reason is that such a conclusion would disregard many other benefits of RIAs that are of considerable potential, and perhaps greater significance, particularly in the African context.

Some of these benefits have only very recently been recognised in reappraisals of the gains from trade liberalisation and regionalism. These other benefits deserve to be given full weight by donors. Their importance needs to be appreciated above all by policymakers in southern Africa, on whose degree of commitment to integration its success will ultimately depend.

Annex III Membership of Selected Regional Integration Arrangements

Africa

CEAO (Communauté Economique de l'Afrique de l'Ouest)

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

CEPGL (Communauté Economique des Pays des Grands Lacs)

Members: Burundi, Rwanda, Zaïre

ECOWAS (Economic Community of West African States)

Members: Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo (integrates the members of the CEAO and MRU, and Cape Verde, Gambia, Ghana, Guinea-Bissau, Nigeria, Togo)

IOC (Indian Ocean Commission)

Members: Comoros, France, Madagascar, Mauritius, Seychelles

MRU (Mano River Union)

Members: Guinea, Liberia, Sierra Leone

PTA/COMESA (Preferential Trade Area for Eastern and Southern Africa/Common Market for Eastern and Southern Africa)

Members: Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

SACU (Southern African Customs Union)

Members: Botswana, Lesotho, South Africa, Swaziland

SADC (Southern African Development Community)

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

UDEAC (Union Douanière et Economique de l'Afrique Centrale)

Members: Cameroon, Central African Republic, Congo, Gabon, Chad, Equatorial Guinea

Asia

ANZCERTA (Australia-New Zealand Closer Economic Relations Trade Agreement)

Members: Australia, New Zealand

ASEAN (Association of South-East Asian Nations)

Members: Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand

SAARC (South Asian Association for Regional Cooperation)

Members: Bangladesh, Bhutan, India, Myanmar, Nepal, Pakistan, Sri Lanka

Europe

BENELUX (Belgium-Netherlands-Luxembourg Economic Union)

Members: Belgium, the Netherlands, Luxembourg

BFTA (Baltic Free Trade Area)

Members: Estonia, Latvia, Lithuania

CEFTA (Central European Free Trade Area)

Members: Czech Republic, Hungary, Poland, Slovakia

EFTA (European Free Trade Association)

Members: Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, Switzerland

EU (European Union)

Members: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, the United Kingdom

Middle East

ACM (Arab Common Market)

Members: Egypt, Iraq, Jordan, Libya, Mauritania, Syria, Yemen

ECO (Economic Cooperation Organisation)

Members: Islamic Republic of Iran, Pakistan, Turkey

GCC (Gulf Cooperation Council)

Members: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, the United Arab Emirates

The Maghreb Union

Members: Algeria, Libya, Morocco, Tunisia

Western Hemisphere

Andean Group (Andean Pact)

Members: Bolivia, Colombia, Ecuador, Peru, Venezuela (Chile withdrew in 1976)

CACM (Central American Common Market)

Members: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

CARICOM (Caribbean Community)

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

LAFTA/LAIA (Latin American Free Trade Association/Latin American Integration Association)

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

MERCOSUR (Mercado Común del Sur)

Members: Argentina, Brazil, Chile, Paraguay, Uruguay

NAFTA (North American Free Trade Agreement)

Members: Canada, Mexico, the United States

Global

APEC (Asia Pacific Economic Cooperation)

Members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Thailand, Taiwan, the United States

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