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United Nations Conference On trade and Development

REGIONAL INTEGRATION AND THE GLOBAL ECONOMY

High-level segment of the forty-seventh session of the
Trade and Development Board
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Note

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INTRODUCTION

The United Nations Conference on Trade and Development (UNCTAD), at its tenth session, held in Bangkok, Thailand, from 12 to 19 February 2000, adopted the Bangkok Declaration, which emphasized the role of regional integration in helping to ensure that the multilateral trading system fulfils its potential in terms of promoting the integration of all countries, particularly the least developed countries, into the global economy. Paragraph 137 of the Bangkok Plan of Action, also adopted at UNCTAD X, calls upon UNCTAD to analyze and identify options available to particular economic groupings and to study "the effects of regional trade agreements on the development of developing countries and on trade flows, taking into account the relationship of regional arrangements and groupings with the multilateral trading system."

Accordingly, the theme selected for the high-level segment at the forty-seventh session of the Trade and Development Board, held in Geneva from 9 to 20 October 2000, was "Regional Integration and the Global Economy". This all-day session, which took place on 16 October 2000, was divided into three parts. The morning session focused on the question, "Has regionalism contributed to development in a globalized world?" Five panellists addressed this question with special reference to the experiences of different regional groupings involving developing countries only or both developed and developing countries, and highlighted various lessons learned from their successes and failures. There was a special focus on trade-related issues.

The afternoon session had two parts. The first part focused on regional monetary issues. Given the modest scope and pace of reforms of the international financial architecture, attention is turning increasingly towards a possibly greater role for regional initiatives to tackle the growing frequency of currency and financial crises confronting developing countries and economies in transition. Three panellists presented some of the policy and institutional issues involved.

The second half of the afternoon session discussed the theme

“Investment provisions and regional integration: a new feature in regional integration agreements”. Three panellists discussed how successful regional integration agreements have been in attracting foreign direct investment, what factors and policy measures influence FDI inflows into a region, and both the positive and negative effects of FDI in different regions.

At each of the sessions, the panellists’ presentations were followed by general discussions in which representatives from a number of countries participated. The Chairman of the High-level Segment, Dr. Supachai Panitchpakdi (Thailand), then presented a summary of the main points made by the panellists and other participants.

Part I

Has regionalism contributed to development in a globalized economy?

The High-level Segment of the forty-seventh session of the Trade and Development Board was opened by *H.E. Ambassador Camilo Reyes Rodriguez (Colombia), President of the Trade and Development Board.* Mr. Rodriguez welcomed the President of UNCTAD X, Dr. Supachai Panitchpakdi, Deputy Prime Minister of Thailand and Minister of Commerce. He thanked him for the enormous contribution he had made to UNCTAD and for agreeing to preside over the high-level segment.

DR. SUPACHAI PANITCHPAKDI
Deputy Prime Minister of Thailand, Minister of Commerce, Chairman of the High-level Segment

First and foremost, I wish to express my deep appreciation for the honour bestowed upon me to chair this High-level Segment of the forty-seventh session of the Trade and Development Board. This tradition of an annual high-level segment is evidence of the continuity and vitality of UNCTAD that was clearly demonstrated at the Bangkok Conference.

In my capacity as the President of UNCTAD X, I can only reiterate my Government's deep and continued commitment to UNCTAD. As you know, at the Conference I committed myself to making my presidency as proactive as possible, and to contribute to the maximum extent possible to the work of the Organization. The tenth session of UNCTAD provided a timely opportunity to reflect on contemporary issues of great importance to the process of development. At Bangkok, we sought possible national and international responses to the main challenges of the development process in this new era. In this respect, the Bangkok Conference and the deliberations that took place among development partners was an ideal preparatory process for the key issues that we have been addressing in the course of this year at different fora.

UNCTAD X helped to highlight the growing convergence of opinions and ideas about development and the impact of globalization. One view, widely shared among developing countries, concerns the difficulties of managing the process of development in a rapidly globalizing and changing international economic environment. Although some countries have benefited from the twin processes of liberalization and globalization, these processes have also increased uncertainty in the world economy, thereby, in that process, undermining social cohesion, traditional values and cultural diversity.

The emerging consensus is that, for globalization to be better managed in the future, a new global order is needed to correct the effects of market failures and to minimize the dangers of marginalization of weaker economies. Furthermore, consensus on the way in which the global system should function can only be reached by balancing competing interests, not by imposing an ideological agenda.

The Bangkok Conference also helped to highlight the convergence of views among development partners on the future of multilateral trade negotiations. The general view was that demand growth in the world economy is a precondition for expanding trade and development. In this connection, it is becoming increasingly clear that the major international policy issue in the new millennium is global governance. At UNCTAD X, it was evident that a global partnership for peace and prosperity can only emerge if the concerns of all members of the community of nations are listened to and respected. This is not just a North-South issue; it is also a regional and sub-regional issue.

Therefore, in the Bangkok Plan of Action, it was decided that UNCTAD should continue to focus on the implications of globalization for sustained economic growth and sustainable development. One of the tasks that we assigned to UNCTAD as part of its engagement in the Bangkok Plan of Action is to examine the role of regional integration - both among developing countries and between developing and developed countries - in ensuring increased economic stability and mitigating the impact of adverse external shocks. This should also include analysis of the experiences of regional integration. UNCTAD should provide a forum for the exchange of experiences among developing and developed countries on regional and sub-regional integration.

This therefore leads me to the first subject that we are addressing this morning under the broad title, "Regional Integration and the Global Economy". This morning, we will address the following question: Has regionalism contributed to development in a globalized economy? Although the need for cooperation and coordination at the regional level has long been acknowledged, there is no single unified approach to fit all regions and different types of countries. Attempts at balancing the positive and negative aspects of regional integration agreements have resulted in a variety of approaches to regional economic integration. A common approach has been to conclude arrangements such as customs unions and free trade areas. In other cases, informal approaches, without secretariats, that emphasize voluntarism, trade and investment facilitation and cooperation have been adopted. So there are a large variety of so-called regional integration agreements or RIAs.

The first wave of regional integration efforts was characterized by inward-oriented integration amongst similar countries that focused predominantly on tariff and non-tariff measures. Recently, however, the trend is moving towards outward-oriented mixed agreements where developed countries are signing RIAs with developing countries. Perhaps the most significant development in RIAs is their trend towards deep integration issues that go beyond border measures. Increasingly, they now include measures on investment, competition policy and services. This expansion into non-border measures has also included, in some cases, areas of domestic law such as standards.

This session will focus on identifying some of the issues related to the trade aspects of RIAs and their impact on development. We have five outstanding speakers from a range of institutional and geographic perspectives to help us better understand the development impact of RIAs. Before I call upon our distinguished panellists to make their presentations, I would like to give the floor to my friend the distinguished Secretary-General of UNCTAD, Mr. Rubens Ricupero.

MR. RUBENS RICUPERO
Secretary-General of UNCTAD

The convening of the High-level Segment of the Trade and Development Board on the topic of regional integration is timely, given developments in the global economy. In the past, the focus on regional integration has mostly been in the context of trade and investment issues. However, the recent financial crisis has brought regional monetary issues sharply into focus and this is particularly the case of Asia. On the other hand, in the post-Seattle atmosphere, we have been witnessing the renewal of comments already heard during certain moments of the Uruguay Round that reflect a real or supposed tendency to perceive regionalism no longer as a complement to, but as an alternative for, the multilateral trading system. I refer to editorials of important economic newspapers commenting on this issue. I must say that I have been around long enough, here in the Geneva scene, to know that this is sort of a cycle that goes up and down depending on the fortunes of the multilateral negotiations. There is no doubt that there is now a renewal of interest in this very central issue, namely, to what extent regional integration can be a building block for the multilateral trading system that we all cherish and would like to see reinforced.

Today's meeting is an opportunity to reflect on the role of the regional integration effort in this current context. Developing countries have always considered economic integration as a key element of their strategy for development as well as a stepping stone for their progressive integration into the world economy.

The regional and sub-regional pact is possibly the only practical pact for developing countries, or for most of them, to integrate into the world economy. Through such mechanisms they can insert themselves into the global economy at a pace that will allow them to be competitive.

There is a greater logic in starting with the sub-regional and regional approach, than in attempting total and immediate liberalization with the productive sectors exposed to and unprepared for intense competition. Conventional wisdom in economic circles has it that the best way to learn to compete is by competing, and that is largely true. But competition, like development, is a learning process, and to learn, some conditions are required including those that allow countries or firms to prepare for competition incrementally. This is precisely where I see the main role of regionalism and sub-regionalism. If to learn to compete requires competing, there may be no better way to prepare for competition than for firms -especially small and medium-sized firms - to compete against other firms that are more or less equal. Of course, equality never exists in arithmetical terms, but it makes eminent sense for initial competition to be between neighbouring
States that may understand the needs of the weaker. Such a process allows countries to gradually achieve the conditions required to compete later in the larger multilateral arena.

Regional integration, under the right conditions, can be conducive to attracting foreign direct investment in developing countries. Transnational corporations can establish regional integrated production networks to access markets for intermediate and final goods and, in some cases, help domestic firms develop an independent productive capacity. Again, this depends upon an incremental approach that gives developing countries the flexibility to design and implement policies that are development friendly. In this regard, I would also like to stress the fact that in some cases - some very significant cases - of regional integration schemes, the investment decisions taken by transnational corporations may, perhaps, be seen as the root cause of those integration schemes in the first place; that is, it was investment, in many cases, that led to trade integration, and not the other way around. A clear example is the case of North American Free Trade Agreement (NAFTA) and the automobile industry.

It would be useful at this point, in order to avoid any misunderstanding, to explain where we personally stand here in UNCTAD. First, there is no doubt for us that the developing countries badly need a rules-based multilateral trading system. Indeed, they probably need it more than other countries, precisely because they are vulnerable. Second, we are firmly of the view that international trade has the potential to become one of the most powerful tools for development. And third, no longer does anyone suggest that developing countries should set up a parallel rival trading system - a sort of utopian alternative trading system.

We know very well that there is no alternative to the global trading system that we have, and we have to try to make it better and better. This does not mean, however, that developing countries should passively accept the system as it is, particularly in terms of the imbalances that have accumulated over the years in the liberalization process itself.

For instance, what kinds of sectors should be covered or not by multilateral rules and in the field of norms, as those relate to subsidies, anti-dumping, trade-related investment measures, etc.?

Apart from the difficulties encountered in international trade, the increased frequency of international currency and financial market crises - including in countries with a record of good governance and macroeconomic discipline - suggests that financial stability is systemic in nature and global in reach. Moreover, short-term financial flows have been at the centre of recent crises in developing countries, while trade imbalances and other external shocks have undoubtedly added to the difficulties of managing more open capital accounts.

The main reason for the growing vulnerability of developing countries to external shocks has been the dismantling of institutional checks and balances at the national level, and particularly, the failure to redefine appropriate government interventions and controls as economies become more integrated into the global economy. Therefore, there is a need to examine regional mechanisms that could reduce the likelihood of such crises, and to manage them better when they occur.

Given the links between trade and finance, existing regional integration agreements may well serve as an appropriate platform to address a number of concerns identified in the wider debate on reform of the international financial architecture. Better information gathering, standard setting and the surveillance of national policies have all been stressed in the wake of the Asian financial crisis. However, greater familiarity with, and sensitivity to, local conditions that would complement any global efforts could, perhaps, be expected from regional institutions. Furthermore, regional monetary arrangements should be able to pool significant national reserves and act as effective crisis lenders when the global modalities regarding the provision of liquidity, its adequacy, the conditions attached to lending and its funding, still contain large gaps. But many of the proposed features are controversial, and it remains to be seen whether such an approach is feasible.

International economic integration is a complex process, and on its own will not solve all the problems faced by developing countries. However, if properly managed, regional and multilateral economic integration could make a significant contribution to enhance the position of developing countries in the world economy.

In designing this High-level Segment, we had in mind the need to convey a clear and practical message to the international economic community, particularly to those who are daily involved in trade negotiations or negotiations of correlated issues. To this end, it would be useful if our discussion did not concentrate too much on the more or less well-known general aspects of the problem. For instance, the fact that regionalism, properly dealt with, should be seen as an element of a multilateral system, not as an alternative or as something that would lead to and reinforce the process of building a strong multilateral system. But, rather, how could we translate that into concrete reality?

I would like to suggest that, particularly in the debate - in the questions coming from the floor - it would be useful to have pointed questions or specific cases that present the difficulties in dealing with this subject instead of having more general statements of position. For instance, I believe that it would be useful to look at the variety of regional agreements, and in that variety, try to identify what are the best lessons. How, for instance, do some agreements deal with problems like anti-dumping? We know that the agreement between New Zealand and Australia, for example, has totally abolished the resort to anti-dumping. What has been the practical experience of this initiative? How have other agreements dealt with problems related to subsidies or to countervailing duties? Rules of origin have been perceived in some of the agreements as being a much more serious obstacle to open regionalism than tariff preferences. So what has been the experience with the rules of origin in different agreements and how can we go beyond these experiences? I do not want to be exhaustive – I am only mentioning a few examples.

I would like to conclude with one example that shows how, in reality, there is no contradiction between regionalism and multilateralism, and this is in the field of dispute settlement. It is quite impressive indeed that, even member countries of strong regional agreements, such as free trade area agreements or customs unions, are increasingly resorting to the WTO dispute settlement procedures to solve problems among themselves. This has been the case, as you know, both with NAFTA and the Southern Common Market (MERCOSUR). It is interesting to see how those problems play out in real life. It is with these suggestions that I would like to conclude, expressing my hope that, by the end of the day, Dr. Supachai could try to summarize the few points that would be useful for us in dealing with those issues.

CHAIRMAN

Thank you, as usual, for your thought-provoking remarks. Today, we are privileged to have some distinguished panellists, who I would like to introduce to you before we start the session. First, we have Mr. Mike Moore, Director-General of the WTO; Mr. Long Yongtu, Vice-Minister of Trade from China; Mr. Iddi Simba, Minister for Industry and Trade from the United Republic of Tanzania; Mr. Carlo Trojan, Permanent Representative of the European Commission; and Dr. Luis Abugáttas Majluf of the Andean Community.

To lead the discussions on the questions whether regionalism can contribute to development in a globalized economy, and whether regionalism would help as a building block to multilaterism, there is no one better to address the issue than Mr. Mike Moore.

MR. MIKE MOORE
Director-General of WTO

I was re-reading a work by Karl Popper who did most of his writing when he was in my country. He said this: We all have imperfect knowledge. No single party holds the ultimate truth, and perhaps, if we work hard today, we can get closer to a coalition of truthful positions. We in the WTO are bound by what our Ministers tell us to do. The last time our Ministers were in a meeting that concluded was in Singapore, and there, they reaffirmed the primacy of the multilateral trading system. They recognized that a global economy calls, more than ever, for a global system of trade rules. More than ever, we need a global forum for continuing negotiation, and more than ever, we need a global platform for building the new trade agenda. They recognized the fundamental principle of non-discrimination on which the WTO operates and the obligations of generalized most-favoured-nation (MFN) and national treatment.

Multilateral liberalization is what the WTO is ultimately working towards in two ways. First, by encouraging Governments to lower trade barriers which discriminate between domestic and foreign products; and second, by insisting that, if a country lowers its trade barriers to one country, it ought to do so for all WTO members, so that all foreign producers are able to compete on a more level playing field. I think that the record of the last 50 years is impressive. We are well on our way to eliminating discrimination in trade.

Over the past 50 years, trade barriers have been slashed by successive multilateral agreements. The WTO's most recent round of negotiations resulted in an agreement to dismantle the Multi-Fibre Arrangement, which, for over 30 years, had severely handicapped developing countries' exports of textiles and clothing. It also strengthened WTO rules and disciplines on agriculture and developed a framework of rules on services. And, thanks to the expansion of the WTO s membership to 139 countries, these agreements now cover the vast majority of the world's economy.

One of the main exceptions to this core principle of non-discrimination is the case of regional trade agreements (RTAs).

The aim of the GATT/WTO rules on regional trade agreements is to minimize the risks of trade diversion and distortion and ensure that multilateral and regional liberalization go hand-in-hand and aim for the same objectives. One of the conditions is that trade restrictions must be eliminated on substantially all trade among parties to a free trade agreement.

It is true that, over the past decade, there has been a huge increase in the number of regional and cross-regional trade agreements, varying widely in scope and coverage. There are about 170 regional agreements in force around the world, half of which have come into force since 1990. Another 70 or so are under discussion, negotiation or due to come into force by 2005. Every country, except Japan and the Republic of Korea, is a party to one, and both these countries are looking to conclude preferential deals soon. In Africa alone, there are 13 different trade agreements, and by 2005, virtually all the Euro-Mediterranean area and the Americas will be involved in regional integration. Ninety per cent of Canada's and Mexico's trade takes place within NAFTA.

Over a third of world trade takes place within regional trade agreements and around three-fifths is conducted on a preferential rather than a most-favoured-nation basis.

To the extent that RTAs among developing countries contribute to the process of multilateral liberalization, they are to be welcomed. Regional trade agreements, working in parallel with general liberalization, can help countries - particularly developing countries - build on their comparative advantages, sharpen the efficiency of their industries and act as a springboard to integration into the world economy. In addition, they help focus and strengthen the political commitment to open economies and trade regimes, which is essential to maintain. They have also served as an important context for trade policy innovation (e.g. the EU on competition policy, and APEC's work on information technology and trade facilitation). And regionalism can sometimes accelerate the pace of other regional and multilateral initiatives, such as the positive impact that the EU's telecommunications policy had on the WTO telecommunications negotiations.

Regional agreements can also provide useful channels for designing and managing the global system. One of the most striking developments in the lead-up to Singapore was the way Governments used their respective regional arrangements - the EU, the Latin American Integration Association (ALADI) and APEC - to develop common objectives for the multilateral agenda. And during the Singapore Conference itself, regional groupings - both formal and informal - played a pivotal role in streamlining our process to help us forge a better consensus. Moreover, the contribution that RTAs have made in their own right in promoting dialogue, cooperation and peace should not be underestimated. Many RTAs are as much political as they are economic, and the experience of the European Union is a case in point.

So regionalism can provide an important complement to the multilateral system. But it would be a grave mistake

for us to see it as an easy substitute. Not only could this be burdensome - serving to impede integration and distort trade - but it could also jeopardize multilateral efforts to liberalize trade, and even undermine the huge achievements that have been made over the past 50 years.

It should not be forgotten that it was not regional agreements that allowed nations in my region to bounce back following the Asian crisis - it was a more open Europe, open United States and open Japan. Regional deals on their own may even divert more trade than they can create. For instance, if a tea-producing country signs a preferential trade agreement with a coffee-producing country, each may import more from the other, but consumers may not necessarily benefit at all, since the price of tea and coffee is set on world markets; trade may simply have been diverted.

There is also a risk that, when trade barriers are lowered for neighbours but kept high for others, they create new vested interests that may try to block multilateral liberalization. Import substitution failed to deliver prosperity both for developing and developed economies in the past. It will also fail for regional groups of developing countries or others that try. It is essential, therefore, that the pace and direction of regional and general liberalization are matched, particularly for small developing countries. The multiplication of preferential trade agreements may strain their already limited negotiating capacity. Thirty of the TO's 139 members do not have offices in Geneva. How can they possibly hope to negotiate effectively in several regional forums as well as the WTO?

Free trade agreements among some countries are a second-best substitute for free trade among all. But they are not going to disappear. That is why we need a clear vision, backed by well-negotiated rules, of what is acceptable and beneficial. We must ensure that our multilateral goals remain as ambitious as our regional efforts. And this is why it is crucial for developing countries to push hard for a new WTO round that takes into account their needs.

Moreover, a tangled web of preferential agreements creates huge new administrative burdens and problems for developing countries that have to cope with various rules-of-origin requirements and differing industrial and health regulations. This is not to mention the burdens that diverse and complex rules and regulations impose on business operations, and the possibilities that complicated regimes create for malpractice, even corruption. If present trends continue, preferential arrangements will cover a wider share of world trade, perhaps to the point where MFN and national treatment become the exceptions in international trade relations rather than the rule.

Multilateral liberalization under the WTO opens up access to all markets, not just some. And through its dispute settlement mechanism, the WTO binds in domestic liberalization and access to markets more effectively than any other means. There is no inevitable contradiction between regionalism and multilateralism - that is a fight we need not have. The only contradiction is between free trade and protectionism. So I hope that this seminar is not misunderstood, and that we can give a clear signal at the end, that the multilateral system is the best hope and option, that a new round, as broad and deep as to offer the maximum comfort and hope to a common membership, is an important step for all of us, and that regionalism can offer progress and can be an effective and important stepping stone.

Finally, I do understand the political imperatives. I know what it is like to be a minister and to watch trade negotiations drag on year after year. Ministers and officials do need a sense of achievement and I do not blame them for working hard on regionalism as an option when I see not enough happening in this city. So, if I can repeat one final fact, regionalism has an important political component as well as economic one and there is no contradiction between the work that is being done here and the work being done down the road. We ought to do both.

CHAIRMAN

I am sure that the few issues raised by the Director-General of the WTO would need to be discussed further - after I have given the opportunity to all panellists to make their presentations - particularly the conditions that would make regionalism conducive for advancing into the multilateral arena. That is a focus issue that we need to further elaborate upon. May I now invite the Vice-Minister of Trade from China, Mr. Long Yongtu, to make his presentation.

MR. LONG YONGTU
Vice-Minister of Trade, China

I think holding a meeting in UNCTAD on the theme of regionalism and the global economy is very important today. China has actively participated in regional economic organizations like APEC, and from our many years of experience, we can say that APEC has played an important role in the development of the global economy. The following reasons come to mind. First, of course, paradoxically, APEC is not a regional organization in the raditional sense - it is actually a forum. As a forum, it plays an important role in enhancing dialogue and coordinating macroeconomic policies between member States. Also, it can explore new situations and new issues that concern its members.

Secondly, I feel that in the past 11 years, APEC has created a new mode of cooperation. This mode of cooperation has very prominent characteristics based on voluntarism and consensus. It recognizes the economic, social and cultural diversities that exist among the members of APEC. Consequently, it insists that in the process of liberalization of trade and investment, there must be flexibility, that its work should be based on mutual benefit and respect and that the purpose and objectives of liberalization of trade and investment should be realized in a gradual manner. This principle of voluntarism is quite different from the traditional mode of cooperation in trade.

Thirdly, APEC also promotes the enhancement of economic and technical cooperation among its members. Its members include developed countries, such as the United States of America and Japan, but most of them are developing countries. However, we feel that, only by enhancing economic and technical cooperation among them, can they realize their common objectives and promote the continued development of APEC. Our experience has shown us that it is not in the interest of the development of the region to have a closed kind of regionalism.

Only an open regional grouping, which works through market forces to promote trade and investment liberalization of the region can, through the linking of this region with the rest of the world, contribute to the liberalization of the global economy.

Regionalism cannot replace globalization, but it can be a mechanism that can enhance and strengthen the global economy. As you know, China's negotiations for accession to the WTO have faced many obstacles and some have wondered whether we really need to participate in this organization, since 80 per cent of our trade and investment relations has to do with the 20 or so members of APEC. However, we believe that economic globalization must emphasize the global multilateral trading system, and that is why we still insist on negotiating with WTO for accession.

One question that merits our attention is, how can we support the development of the developing countries? Globalization has made us pay more attention to the important issue of the increasing gap between developing and developed countries, and we cannot ignore this problem. At the global level, we need to formulate a comprehensive framework to support the development of developing countries - not only their technical development, but also their trade and investment liberalization. That is why we need a lot of good organizations including WTO, UNCTAD, UNDP, and institutions like the World Bank and other financial and economic institutions to support programmes that are in the interests of developing countries.

Some developing countries working in their own regions or regional organization need support in playing a greater role in the multilateral trading system. So we feel that discussions here in UNCTAD about regionalism and the global economy have a particular significance, and we hope that UNCTAD can come up with a plan to provide these countries with the necessary support. We also believe that the WTO can play a major role in supporting developing countries, particularly in the upcoming negotiations, by focusing on the questions most relevant to these countries and that these countries themselves consider most important to address.

CHAIRMAN

The issues raised by Minister Yongtu deserve further elaboration later on, particularly the emphasis on the unique characteristics of some regional arrangement like APEC and the need for alignment between the directions of regionalism and the directions of world trade in order to make them mutually supportive.

MR. IDDI SIMBA

Minister for Industry and Trade, United Republic of Tanzania

I am pleased about this invitation to participate in this session in my capacity as Chairman of the Industry and Trade Committee of Ministers of the Southern African Development Community (SADC). I am particularly happy to have the opportunity to use UNCTAD as a forum for exchanging views with more experienced policy makers on matters of international trade within the current complexities of globalization. We in Tanzania, have come to look to the able leadership of UNCTAD for technical guidance and support in our attempts to cope with the numerous challenges we are facing as a trading partner in regional and global markets.

The complex disparity between our obligations, on the one hand, to open our national markets to other countries? exports and our right, on the other hand, to sell in the external markets, remains a real challenge to us in Tanzania, as for other African economies. We have succumbed far too quickly to pressure for fulfilling the obligation to open our markets without the necessary corresponding efforts in domestic production.

Before I proceed any further, let me say that the reason why our countries decided to give greater importance to regionalism, is really because we are not yet able - and possibly, not for a few years to come - to build up our internal capacities to produce and sell. The world as it is today, seems to impress upon us - and we agree - the importance of liberalizing our economies and opening our markets to other countries' exports. But the world does not seem well positioned to give the necessary assistance in building up that internal capacity, which we need, to produce and to play our effective role in the world market.

As weak economies, we find that the only practical method that we can apply is to pull our regional resources together and see how we could help each other in building up that capacity. I must confirm to this august gathering that we are not opposed to multilateralism. We deliberately decided to become a member of the WTO and follow, to the extent we can, WTO rules. But we simply cannot be reliable members of this multilateral body if we are not able to produce and sell. We take regionalism to be a first step towards multilateralism, and therefore, we see absolutely no conflict in this.

We in SADC believe that a higher level of cooperation would enable the countries of the region to address more effectively the problems of national development, and to cope with the challenges posed by a changing, and increasingly complex, regional and global business environment.

"Regional Integration and the Global Economy" is a theme that is quite relevant to regional integration efforts in SADC.

Increased regional trade and cross-border investment alone could yield significant benefits. More importantly, the restructuring of the productive sectors, as a basis for self-sustaining development and growth, and as part of our response to an increasingly globalized world economy, would be more feasible - much more feasible - on a regional, rather than a national basis. Moreover, the countries of the region need to collectively address the disparities in economic performance of their individual member States as the only viable basis for fulfilling, in the long-term, the principles of balance, equity and mutual benefit which form the foundation for regional integration.

I must admit that these are difficult objectives to achieve, as we know from experience in going through the cumbersome and complex negotiations of the SADC Protocol on Trade concluded in 1996. During the first WTO Ministerial Conference held in Singapore about four years ago, we announced the conclusion of the SADC Trade Protocol, which provides for the gradual establishment of a SADC Free Trade Area over a period of eight years. Since then, member States have been preoccupied with intensive negotiations for tariff liberalization and in agreeing certain principles and special arrangement that should be observed to ensure beneficial participation for each member State. From my recollection, not less than 20 rounds of cumbersome negotiations have taken place since that time. By August 2000, we had agreed on a set of tariff liberalization schedules committing member States to have liberalized their trade by at least 85 per cent by the year 2008 and by 100 per cent four years later, in 2012.

As I have already said, it was not an easy task because of disparities in our economies. This was demonstrated by member States negotiating various special arrangements as a cautious approach to complement the trade liberalization programme we had agreed upon. Such special arrangements include the setting up of a dispute settlement mechanism and a negotiated set of rules conferring the originating status that would apply for products to be traded and for those that would enjoy preferential treatment. There is also a special arrangement on trade in sugar, which aims at coping with distortions caused by the world sugar market, and another for trade in textiles and clothing. In addition, member States have agreed on other institutional mechanisms for the implementation of the SADC Trade Protocol to manage our free trade area. These mechanisms include the establishment of a trade implementation unit and sub-committees on customs cooperation and trade facilitation; as well as coordination committees on sanitary and phyto-sanitary and technical barriers to trade, on standards and quality assurance and on accreditation and metrology. We are still going through these processes in the face of continued pressure to open our borders even wider to international trade to which we are committed.

This session is supposed to address two key issues: whether regionalism has contributed to development in a globalized economy and whether regionalism, given its complex and even conflicting interactions, has helped or hindered development. In theory, regional economic blocs aim at creating larger markets with the objective of accelerating economic development and growth among member States. Similarly, regionalism is expected to encourage foreign direct investment that is seeking to take advantage of larger markets. Regionalism is thus supposed to enhance the competitiveness of member States. Assuming this theory is correct, regionalism would contribute to development. Sadly, however, in our region, this hypothesis has yet to be proved. And it has yet to be proved because what is happening out there in the global economy does not meet, as of now, the internal difficulties of implementing some of the goals that we have set in our international agreements. I should point out, nevertheless, that given the ever increasing globalization of the world economy, regional economic blocs are assuming greater significance, and this is simply because our countries have no other option.

In respect of overlaps, and the complex and sometimes conflicting nature of regionalism, all I can say is that the phenomenon can hardly be avoided. What is important is for such economic blocs to work together to rationalize their individual systems for the benefit of member States.

At the individual level, member States reserve the right to rationalize their memberships in regional groupings. The underlying factor would invariably be their capability to bear the costs of membership and the benefits they perceive to derive from it. It was on the basis of this kind of analysis that my country, Tanzania, decided to pull out of the Common Market for Eastern and Southern Africa (COMESA), effective September this year. We are trying to cope with the problems of the East African Community and SADC and to strengthen these regional groupings as the first step towards globalization.

We do not believe that we can enter into the international arena under today's rules if we do not go through these steps at a regional level.

We, in the SADC region, realize that integration is fast becoming a global trend. Countries in different regions of the globe are organizing themselves into closer economic and political entities. These movements towards stronger regional blocs will transform the world both economically and politically. Firms within these economic blocs will benefit from the economies of scale provided by the larger markets. At the continental level, efforts continue, principally under the auspices of the Organization of African Unity, to promote closer economic relations. Both the Lagos Plan of Action of 1980 and the Treaty establishing the African Economic Community signed by OAU Heads of State and Government in June 1991, make regional economic communities the building blocks for the continental community. We therefore view our efforts at regional integration in Southern Africa as part of this continental effort.

The primary objective of the SADC Free Trade Area, which will soon be notified to the WTO, is to mobilize resources and to facilitate the development of regional capacities to enable member States to participate more effectively and beneficially in regional and multilateral trade. We do recognize that almost all of the SADC countries continue to play a marginal role in the world economy because of their general underdevelopment. SADC therefore believes that economic integration of the region is a necessary precondition for enhancing member States' capacity to check further marginalization. While acknowledging the growing importance of global interdependence, SADC believes in the existence of very special synergistic attributes that make regional economic blocs more meaningful, beneficial and sustainable among member States.

We, in SADC, see a growing interest in both global as well as regional integration in Europe, the Americas and Asia.

Our view is that the coordination of interdependence between and among various regional economic blocs is an important issue that needs to be addressed. However, speaking as a SADC national, my desire is to see a supportive and participatory international community, supportive to the whole process of transforming SADC into a viable economic partner.

Encouraging the free flow of trade is not enough; support in terms of increased investment is also critical. The SADC Free Trade Area should provide a basis for attracting investment into the region. As part of their strategy to encourage investments, SADC member States have put greater emphasis on the need to maintain more realistic economic policies, accountability and transparency. Another priority agenda for development of the region is the promotion of peace, security and conflict resolution, as well as democratization and good governance.

Drawing from other experiences, we in SADC have come to appreciate those in the private sector as mutual partners in development. For this reason, SADC has introduced a system of interaction between our Governments and SADC business leaders. In addition, a memorandum of understanding has been signed between SADC and the SADC Chambers of Commerce and Industry. This is part of a process to promote dialogue and cooperation in matters of common interest for those in government and in business.

With the launching of the free trade area, the industry and trade sector within SADC is facing new and demanding challenges. We need to relate closely and learn from the experiences of other economic integration blocs such as NAFTA, the European Union, the Association of South-East Asian Nations (ASEAN), the Economic Community of West African States (ECOWAS), and so on. We also need to assist member States in articulating global trade issues within the WTO for the benefit of our members. The SADC Industry and Trade Coordination Division (SITCD), which is located in my country, will have to be strengthened to play this role. At this point, I wish to thank your cooperating partners who have already started providing us with technical and financial assistance and support, notably UNCTAD and the United States Agency for International Development (USAID). We will need continuing support and assistance to build SITCD capacity to serve member States more effectively.

In conclusion, as I have already said, we are fully committed to, and we do appreciate the role of, the WTO and all multilateral mechanisms for the promotion of global trade. But we are saying it is not enough to ask us to be faithful members of the global community, and trade according to international rules. It is not enough because we cannot sustain it and we cannot be reliable players.

Mechanisms will have to be established to enable our young economies to build up our international capacities to produce. We have liberalized far too much already. Our markets, because of growth liberalization, are full of goods which cannot sell in more developed markets.

Sugar is an example which I mentioned earlier; we are receiving a lot of subsidized sugar from Europe and elsewhere, and we cannot produce our own sugar because we are told to open our markets, and are therefore doing so. We do not see how we will be able to get into the international arena if we do not strengthen our own regional groupings in order precisely to build up our national as well as regional capacity to produce and sell.

CHAIRMAN

Thank you Minister Simba. You raised interesting points about the use of regional groupings as a precondition before developing countries like Tanzania can advance to the arena of the multilateral trading system. I think that is an interesting issue because it seems that different regional groupings have different set-ups. Some groupings like APEC, as mentioned by Mr. Long, have a composition of more advanced and less advanced countries in the same grouping, and so it is a model, of a sort, of the world trading system in itself. But SADC has different characteristics, and it is interesting to hear how economies in Africa are being affected by the ongoing liberalization process, an issue that we should address.

MR. CARLO TROJAN
Permanent Representative, European Commission (former Secretary-General of the European Commission)

I am particularly pleased that the subject of regional integration is being discussed at UNCTAD and I would like to congratulate the UNCTAD secretariat for having circulated a very interesting issue paper.

As you are aware, the EC has been historically a staunch supporter of regional integration, for itself and for its partners. This support is in no way in contradiction with the main notion that above all governs the EU's trade policy, that is, multilateralism. As the WTO has often repeated, regionalism and multilateralism are complementary notions that reinforce each other as long as regionalism is open. I very much agree with most of what Director-General Mike Moore said earlier, and I also understand the concerns voiced by Minister Iddi Simba, and I will come back to these later.

Evidently, EU integration is a very special case of deep integration. It encompasses not only a customs union and a single market, but also economic and monetary union and a broad set of accompanying policies. The degree of political and economic integration achieved by the member States of the Union over the past 40 years is unique in history.

European integration has secured peace and stability for the member States of the Union and indeed for the whole continent. It has also provided the basis for sustained increases in economic welfare and a reduction in regional disparities. I think this latter point is very important for all models of regional integration.

In pursuing its integration, Europe has been able to lock in policy advances and develop strategies to cope with transition costs. This would have been far more difficult in the absence of the regional integration process. We are convinced that others can draw inspiration from our experience. However, this does not mean that we are advocating European integration as a blueprint for the whole world.

At the same time, liberalization of the world trading system has advanced significantly, and the European Union can be proud of being in the forefront of multilateral initiatives to reduce barriers to trade.

We believe that there is no contradiction between greater regional integration and full participation in global trade liberalization. However, accompanying measures are extremely important in the process of deeper economic integration. The strains caused within economic groupings must be dealt with effectively through a wide range of instruments in order to facilitate cohesion within

economic groupings.

Examples of such measures include the harmonizing of legal frameworks and technical standards, economic and monetary cooperation, structural funds and social cohesion funds.

Over the past decade, developments throughout the world have given a new boost to the process of regional integration. At present, there are few countries that are not members of at least one regional grouping pursuing the objective of closer economic integration, and the Director-General of the WTO gave some interesting figures earlier. The reasons for this development are intimately linked to the process commonly referred to as globalization. As barriers to trade and other economic exchanges fall, entire populations and particular sections of society are confronted with adjustments, which, however necessary, carry short-term costs and must be addressed by Governments. Regional integration can provide mechanisms that can assist in managing the process of change. Furthermore, there is a learning process involved in regionalism in the sense that, for many developing countries, involvement in economic integration at the regional level is the first real experience of contractually based trade liberalization. As such, experience at the regional level provides a manageable introduction to the rules-based multilateral system.

The European Union, through its member States and institutions, has been in the forefront of providing encouragement and assistance to these endeavours. I would like to mention the pioneering work supported by the Union through the Lomé Convention. The European Development Fund has given assistance to regional bodies throughout Africa through its specific regional programmes. One of the aims of this assistance is to promote greater economic integration. For example, in West Africa, the EU provides support to ECOWAS and to the West African Economic and Monetary Union. I wish also to refer to the progress achieved within the Cross-Border Initiative in East and Southern Africa. In Latin America our support for regional integration has old roots and continues to be manifested in our trade policy towards both Central America and the Andean Community. This support is also clear in our commitment to establish much closer trade and political links with MERCOSUR.

As regards the Mediterranean, the EU has already begun implementing free trade agreements (FTAs) with some countries, and is finishing negotiations for FTAs with the remainder of them. The EU's main objective is to provide both an anchor for the economic reforms these countries need to undertake and an incentive to them for lowering their mutual trade barriers. Thus the EC is encouraging them to establish FTAs among themselves with the final objective of arriving at a Euro-Mediterranean economic space in the near future. It should also be emphasized that support from the EU to regional integration bodies is being accompanied by support to ACP participation in the WTO.

The support provided by the European Union to regional bodies is closely linked to the objectives pursued in the framework of its overall development strategy. A fundamental element of these objectives is to assist our partners in their pursuit of greater integration into the world economy. This, of course, is not an end in itself. Through such integration, countries create the potential for raising standards of living and attaining the objective of sustainable development. For many developing countries, economic progress is still constrained by the small size and lack of diversification of their economies. There is no alternative but to seek closer collaboration and greater coherence. The EU is ready to support and facilitate this process.

The EU is committed to supporting integration programmes that aim to eliminate constraints to cross-border trade, investment and payments. We stand ready to support the necessary process of change in both the private and public sectors in order to maximize the benefits from opportunities created by such integration.

The European Union is also committed to supporting the efforts of developing countries in confronting the challenges of globalization. Specific attention will be paid to the need for such States to participate actively in multilateral trade negotiations. Attention will also be given to the special needs of developing countries with regard to implementation of the results of these negotiations.

Earlier, Minister Iddi Simba mentioned the paramount importance of capacity building and technical assistance and I concur with him. I also concur that special and differential treatment is a very important principle, and as a matter of fact, all these issues at this very moment top the WTO agenda as we the discuss implementation issues of the Marrakech Agreements. These are among the guiding principles, which have been incorporated into trade and cooperation agreements concluded with our partners amongst countries in the Mediterranean region and, most recently, with the Republic of South Africa. They are examples of how preferential trading arrangements can be made compatible with WTO rules.

As you know, the European Union has just recently concluded negotiations with its ACP partners for a successor agreement to the Lomé Convention - the Cotonou Convention. An essential objective that the parties have identified is the smooth and gradual integration of the ACP States into the world economy. Within this setting, particular attention has been given to promoting greater regional integration amongst ACP countries. The new agreement also provides for gradually moving towards reciprocal trading relations between economic groupings and the EU in the form of economic partnership agreements. The new provisions, which aim at enhancing trade relations between the countries of the ACP group and the European Union, illustrate this emphasis on regional integration.

The new EU-ACP partnership aims at providing a more comprehensive framework for trade development with an emphasis on a stable and predictable trade environment. A result of such an environment will be positive incentives to economic operators and potential investors.

The negotiation of economic partnership agreements will begin at the start of 2002. The new agreement takes into account the specific needs of the Least Developed Countries (LDCs). It also provides guarantees on stable market access to the EU. The economic partnership agreements will be asymmetric in nature.

Thus, there will be a transition period to enable the reinforcement and deepening of regional economic groupings. These principles of asymmetry and flexibility are necessary to take into account the different levels of development between the EU and the ACP, and the new approach advocated by the EU is consistent with its objective of poverty alleviation.

Many distinguished commentators have expressed concern at the growth in regional economic agreements. Some see regional groupings as obstacles to progress in multilateral trade liberalization, rather than stepping stones. The European Union does not share these fears, provided the fundamental principle of open regionalism is at the heart of economic integration initiatives.
Quite the contrary; the experience of contractual trade relations between neighbouring countries, detailed trade negotiations, the strengthening of political ties and exchanges between civil society are all factors with the potential to bolster the multilateral process and reinforce political stability.

In addition to its many political benefits, including confidence building and conflict reduction, regional economic integration can be a very useful tool for facilitating economic development. However, this is true as long as integration is not used as an excuse for protecting inefficient sectors or for insulating economies from the rest of the world.

Regionalism must be open - the lowering of tariffs among its members needs to be accompanied by a progressive opening towards the rest of the world. Equally important, regional initiatives must be open to new members, and we should assist countries in developing such regional cooperation agreements.

MR. LUIS ABUGÁTTAS MAJLUF
Andean Community

The question as to whether regionalism has contributed to development raises various complex issues. First, we need to define success indicators in each integration agreement on the basis of its own objectives. Here, I think that much of the discussion on regionalism and development has tended to look for what integration can really provide. So development in general has not been achieved, or has not managed to ensure major progress. However, integration is just one of the components of a much broader strategy. Integration cannot go beyond national policies and other multilateral strategies. So, given that economic integration goes much further than trade, I think we need to go beyond discussions about the creation of trade possibilities and look at some other types of indicators or measures of the impact of integration agreements on development. A second methodological problem is to isolate the impact of integration from other variables. And a third element - very well presented in the secretariat document - which is to consider what would have happened without integration patterns, is quite complex because we have not so far got any group which could look at the differences between the different systems and see how different the situation would have been without them.

Another point, which is no less important, is the question as to when we should expect results from integration. That is, the time period over which a scheme for integration could actually produce results. Here, in the specific case of the Andean Community and patterns of economic integration in Latin America in general, while it is true that the various agreements were signed many years ago, integration is a fairly recent phenomenon. In Latin American, there was paralysis because of what we call the lost decade of the 1980s, which seriously affected integration. However, there was considerable discussion about integration, and now, more recently in the 1990s, a new stage of economic integration has been embarked upon with greater solidity. The question is whether we can expect immediate results from those efforts in terms of development, or whether this is something we shall be seeing in the future.

Concerning discussions on regional integration and multilateralism, we are looking at an advent - regional integration is already occurring and with ever greater dynamism. More and more agreements are being entered into in greater depth, and I think the most appropriate response would be to address two aspects for central analysis. First, we need to have a very clear idea of the new variables of regionalism - at least as they exist in Latin America - and on the basis of that analysis, to design mechanisms which could make it possible for this new regionalism to make an effective contribution to economic development, and particularly to the welfare of national majorities. In that context, we should see what type of assistance is necessary for the new regionalism to begin to produce those goods expected by the countries involved. Andean integration has significantly benefited from the technical cooperation of the EU and I would like to take this opportunity to express very special recognition of this. I think there are many fields where integration can derive real benefits. Countries may benefit from technical cooperation, both bilateral as well as from UNCTAD.

In terms of the new integration schemes, I would simply like to point to some of their major features and the implications of multilateralism. A first element that can be highlighted in the literature is that current integration is a component of a new strategy of national development.

Part of the impetus for the new regional integration comes from countries unilaterally introducing economic reforms that produce a harmonization of policies. This generates some areas where work needs to be done in terms of standard setting and restructuring.

Many of the earlier rules were designed to support development policies based on import substitution. We now need a regulatory reformulation to adapt to new policies of national development.

A second problem that is creating tensions is how to address the various speeds of reform within the context of integration. Not all countries can make progress in economic reform at the same speed and this is generating certain problems in implementation. At one time, this even threatened the survival of the Andean Community, but thankfully, it has been overcome. The analysis raises the question as to whether the model, which many of the Latin American countries have followed since the 1990s, is producing the expected results.

The illusion that was harboured 10 years ago with regard to reform, privatization and market deregulation has begun to give rise to certain discordant voices, as the new economic approach has not yet yielded the expected benefits in these countries. So the question arises as to whether it is a problem of integration itself, or whether the underlying development problem or model has to be changed for integration to produce results.

The second characteristic of integration, which today, has profound and extensive effects, covers all areas of policy, not just investment competition and services. In the case of the Andean Community, there have been interesting developments in biodiversity and we are working on community rules to facilitate electronic commerce and rules for the protection of indigenous knowledge. Integration covers virtually all areas of policy, and is, in fact, superseding conceptual set-ups that we have defined as integration, such as free trade, customs union and so on. Today, we find elements of the common market without having perfected a customs union. So I think we have to do some reconceptualizing to be able to understand the implications of this new type of integration, which is obviously a much wider integration. That is, trade should be measured in its true dimension.

A third characteristic, and which I think is essential, is the simultaneous participation in various integration agreements. Today, in Latin America, each country is taking part in two, three, four or even five integration agreements, all with rather ambitious goals. This generates a whole area that has to be developed consistently between the multilateral and regional frameworks. But consistency is also needed among all the levels where commitments are made. In the specific case of Peru, it takes part in the Free Trade Area of the Americas (FTAA), in ALADI and in the Andean Community. Furthermore, it is negotiating agreements with other countries in addition to existing bilateral agreements. This has generated another complex panorama that produces strong pressures on the institutional capacity of nations States as well as secretariats to manage this type of situation. The second element that has to be highlighted in respect of the simultaneous participation is for agreements to make sense. Each agreement has to introduce a further plus. In other words the FTAA will make sense if it is a WTO plus, the Andean Community and MERCOSUR will make sense as long as they are FTAA plus, and the Andean Community will make sense if it introduces an additional plus. Similarly, bilateral agreements will have to add another plus. How can we arrive at a compromise balance of all these pluses? Here, I think there is some rather interesting work to be done.

With regard to consistency, I would like to mention a few problems that are arising, such as with safeguards. Some countries participate in agreements that have not incorporated emergency safeguard clauses while in other agreements safeguard clauses are being considered. And there are situations where a country may depend on its partners but not on a third partner because the agreement it signed does not allow for the incorporation of safeguard measures. Rules of origin are also generating a rather complicated problem, as it is virtually impossible for a company to navigate among all the safeguard clauses concerning the market to which the company is exporting. The Secretary-General mentioned the problem concerning the settlement of disputes. Agreements provide for their own dispute settlement mechanisms but there is a strong resistance to accepting these mechanisms, and it is likely that, with the multiplication of dispute settlement mechanisms, the situation will become even more complex.

A fourth trend that is apparent is the progressive convergence among integration agreements. At the South American level, we have initiated convergence with MERCOSUR, and there is a presidential mandate to begin the second round of negotiations designed to create a common MERCOSUR trading area. The Andean Community has also been negotiating with El Salvador, Honduras and Guatemala for the creation of a free trade area. Our experience in trying to negotiate bloc-to-bloc shows there is a lack of capability - negotiators are accustomed to bilateral negotiations but there have been a lot of problems in how to address interregional negotiations, which would explain the failure of the first Andean Community-MERCOSUR attempt. This is another area where work needs to be done in order to make different rules and regulations compatible in these new set-ups.

Another important trend that is new, is the formation of North-South regional blocs. In Latin America, the FTAA, I think, is the most ambitious process and we also have the bilateral agreement with Canada. It is important to begin to assess the implications of this type of integration agreement involving the participation of both developing and developed countries of the region. On the one hand, this is, perhaps, the end of the period of unilateral concessions, as all agreements introduce the concept of reciprocity. But it leads to a renewed debate on the distribution of the benefits of integration - a subject which has somewhat fallen by the wayside in recent years.

And finally, another characteristic of this new integration, which also demands other approaches, is that earlier, top-to-bottom schemes of integration were set up and now the trend is the other way around. In other words, how can integration be demand driven, and how can we structure or configure these mechanisms for participation in the various integration schemes? There are strong pressures in the Andean case, for example, but we have not yet succeeded in structuring the true participation of civil society in integration, and in devising mechanisms to respond especially to those interests.

Serious problems are being generated by clauses on special and differentiated treatment within [these] North-South agreements. How will these agreements affect special and preferential treatment within the multilateral context? There are rather important problems in terms of the distribution of benefits, not only among countries but also among national sectors of countries.

In conclusion, I would like a few elements of what we are able to perceive, so far, from the results of this new integration. With regard to trade, the results are significant. Suffice it to review the interest in interregional trade between the Andean Community and MERCOSUR. But even more important is the structure of trade in the Andean Community: exports to the world, comprise 70 per cent commodities and 30 per cent manufactures while intraregional trade is just the opposite - 70 per cent manufactures and 30 per cent commodities. This has enabled us to diversify exports and to export goods with more aggregate value. An analysis of the impact on trade of the 1998-1999 crisis enables us to see how this contributed to reducing the vulnerability of exports. The intraregional aggregate value of goods has had much less of an impact than the fall in commodity exports. A second effect, which I think is rather positive, is when regionalism translates into collective action towards the outside. I think we have significantly strengthened the capability of participating countries in this exercise vis-à-vis the multilateral framework that is managing globalization.

We need to strengthen the idea of [regional groupings] being partners in managing globalization, and to make sure that the decisions that are taken result in an equitable distribution of benefits.

A third area where there have been very important results is how regional agreements have contributed to the implementation of multilateral agreements. For example, the Andean Community has just adopted a new decision on intellectual property which will require us to adapt the rules of our countries. Thus there is a dual effect, as participation in the multilateral framework has contributed to harmonizing national legislation. So it is really cross- fertilization. I have already referred to how regionalism has enabled us to alleviate the impact of external forces, and within the Andean community, financial mechanisms have alleviated their impact in the commercial as well as in the financial area.

An element that I would like to emphasize - and here I see the most direct link between regionalism and multilateralism - is that the whole context in which countries negotiate agreements has changed. It is no longer the old traditional market - three units for three units. The current trend in Latin America is not to loose access to markets because one country has more preferences than another country. Finally, I just wish to point out that 86 per cent of the hemisphere trade will be free of tariffs in 2004 and we are now thinking of the MERCOSUR-Andean Agreement and a FTAA. Within that context, we have to liberalize, and that is the greatest contribution of regionalism to multilateralism.

GENERAL DISCUSSION

CHAIRMAN

Now that all our panellists have made their statements, I would like to open the discussion for general participation. Since most of the issues in general terms have been touched upon in quite eloquent and clear presentations, I hope that you will not repeat the same statements. There is a request from France to intervene on behalf of the EU.

REPRESENTATIVE OF FRANCE

Thank you Mr. Chairman. I have the honour to speak on behalf of the European Union and the countries associated with the EU - Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia, as well as Cyprus, Malta and Turkey (likewise associated countries) that wish to be associated with this statement.

The context of the globalization of trade more than ever means that the problems of development should be addressed within the framework of contiguous geographical spaces exceeding and linking up the national dimension which sometimes becomes too narrow.

The dynamics of regional integration are not new. The origins of European building can be traced to the period following the Second World War and there has been progressive opening up of the process of regional integration, which is now the most complete ever known. In South-East Asia, ASEAN was set up in 1967, and today, it has gathered 10 countries to join in efforts to create a free trade area by the year 2002. In the 1970s, there was substantial development in regional integration, and the past decade has witnessed a renewal of interest in this process as a result of growing globalization, liberalization of trade, capital movements and movement of persons; MERCOSUR was created in 1991 and NAFTA in 1994. This phenomenon concerns not only the most advanced industrialized and developed countries, but also developing countries.

Encouraging initiatives have also been taken in Africa since 1991, with the meeting of Ministers of the Conference of the Free Area of Ouagadougou and the creation of the Economic and Monetary Community of Central Africa and the West African Economic and Monetary Union. These groupings appeared as a response to the risks of marginalization of the African economies, which, as has already been said, account for only a small part in the flow of world exchanges - trade and financial. They were also the result of a growing awareness among African leaders of the many areas of interdependence in their national economies.

The European Union is convinced of the benefits of regional integration. It has great potential and represents one of the surest ways for the progressive integration of economies in world exchanges in conformity with WTO rules. It enables the emergence of new institutional capacities. And finally, it makes possible the setting up of decision-making processes that are more democratic, more locally and culturally sensitive, more neutral and less reversible.

The EU has resolved to work for regional integration within the context of the multilateral commercial system. Regional integration, as a complementary process to the integration in world exchanges, constitutes very often a *sine qua non*, an apprenticeship designed to prepare developing countries for entry into the world economy by strengthening their competitiveness. The development of a harmonized framework appears necessary and essential to stimulate cooperation in all trade-related areas and to strengthen the competitiveness of economies on the international market, particularly by reducing constraints which traditionally affect supply and trade. The existence of common rules enables companies in the region to enjoy economies of scale made possible by access to wider markets.

For regional integration projects to be productive, relative homogeneity among States is necessary, with proper administrative structures, proper national accounting,

management of regulations governing trade and credit, an investment code and budgetary and fiscal laws.

Areas such as water supply, combatting desertification and the construction of infrastructure are other important aspects in a regional sense. Specific problems confronting developing countries require particular attention. For example, in Central Africa, the internal problems of States poses particular difficulties for regional integration. Some countries experience uncertain political situations and could gain from regional cooperation in the institutional area. The international community should provide unanimous support to efforts of countries confronted with political internal and external troubles to overcome their difficulties. Developing countries - particularly the poorest among them - having decided to grasp the opportunities provided by regional integration to progress towards peace, stability and security, and towards democracy and the rule of law, must be encouraged in their efforts. Regional integration is indeed a powerful vector for the improvement of dialogue between neighbouring countries and for the prevention of conflict and the establishment of peace.

At the tenth Ministerial Conference held in Bangkok, from 12 to 19 February 2000, over which you presided, the EU expressed its concern about ensuring the promotion of cooperation and regional integration and according this an important place; it will continue to do so. To this end, we consider that UNCTAD has an important role to play in supporting the efforts of developing countries, especially LDCs, in actively pursuing and developing regional integration processes. The Bangkok Plan of Action, and particularly paragraphs 119, 137 and 164, provided a mandate to UNCTAD to base its technical cooperation on the promotion of cooperation among developing countries, sub-regionally, regionally and interregionally. In this context, the EU encourages UNCTAD to develop technical assistance activities and respond to the demands of the developing countries - in particular, the least developed among them - to assist in drawing up regional free trade agreements. As a result of its own unique experience in this area, the EU has always supported regional integration processes, as Ambassador Carlo Trojan pointed out earlier.

Within the context of contractual policies and partnership, the agreement between the ACP and the EU countries in Cotonou, provided an impetus to trade cooperation between them. The Barcelona process is further evidence of EU efforts to improve the economic integration of various regions in the world and to establish a Euro-Mediterranean free trade zone. The EU also gives priority to the strengthening of regional partnerships. At the Council of Europe meeting in Feira in June 2000, the EU resolved to consolidate the Euro-Mediterranean partnership created by the Barcelona Declaration. Commitments were taken to strengthen good neighbourly links, to increase prosperity, to eliminate poverty, to promote and respect human rights and fundamental freedom, democracy, proper management of public affairs and the rule of law, to encourage cultural and religious tolerance, and to develop cooperation with civil society, including NGOs.

The EU attaches importance to current regional integration efforts that aim to go beyond just commercial economic and financial fields and also cover cultural and environmental aspects. The economic fallout linked to the consolidation of a stable regional framework and good neighbourly relations is far from negligible, and therefore, such relations ought to be encouraged.

REPRESENTATIVE OF INDIA

India is for an open, equitable, non-discriminatory trading system. It also accepts that efforts to create regional economic spaces should not be contradictory to the creation of a unified economic space at the multilateral level. In fact, regional spaces should be building blocks for that bigger effort. But over the last five or six years, we have been noticing that, with the proliferation in RTAs, intraregional trade is gradually replacing interregional trade. Since the Geneva Ministerial Meeting in 1998, India, along with some other countries, has been trying to focus attention on this issue.

The basic principle is to facilitate trade between the parties, and as long as these regional groupings create trade they are all right. But when they divert trade and

> ***raise barriers to trade from third parties we have a problem. Reduction of external barriers on a MFN basis, in conjunction with preferential liberalization, is the key requirement that needs to be accepted if the building block strategy is to be implemented successfully.***

When Article XXIV of GATT allowed RTAs, it was only as an exception, it was not to become the rule. This Article also provided checks and balances, as did Article V of GATS from the services side. But the terminology is vague. However, the experience, when reviewing the consistency of the various RTAs with the provisions of Article XXIV of GATT and Article V of GATS, has been somewhat mixed. The inability to reach a conclusion in this regard is largely because of the lack of clarity on the systemic issues, such as what is meant by "substantially all trade" and "other regulations of commerce".

In this context, I have two questions: One, if there is more intraregional trade as a result of increasing RTAs, is this trade not at the cost of the multilateral trading system, and would it not then be at the cost of developing countries? And what does the WTO intend to do about this? And my second question is, what is the WTO doing to clarify the various systemic issues and how does the Director-General of the WTO see the systemic debate unfolding over the next few months?

MR. MIKE MOORE

I will just give an update on what we are doing. At this moment we are in negotiation on the important issue of implementation. Implementation was an issue that brought us to our knees at Seattle and after Seattle and I want to give praise to the Indian Ambassador to the WTO who has done so much work in preparing us for that negotiation. At the same time on the agenda given by Ministers at Marrakech, work on agriculture and services is under way. Work in other areas is proceeding at varying degrees of intensity, some of which is at the technical level, such as on competition, investment and trade facilitation. We have also spent considerable time, thanks to the Chairman from Norway, in studying how we can improve our efficiency and our work plan internally, and there will be a move to study what we can do externally. I believe that gets to the core of how we manage ourselves. And bluntly, I think we have made progress this year because we are managing ourselves in a different way; we are having full and open informal meetings to begin with.

I can also report to you that I have just come from a special seminar with LDC officials, and there will soon be a major conference in Africa. More assistance will go to officials during that week than probably for the previous 10 years. So all these matters are designed at attacking the basic problem we have - which is not resolved and may never be resolved - that is, weak consensus, and that is the most difficult part of our operation. I believe we are tackling it methodically. From the contact I have had with developing and least developed countries, and in particular with their non-resident representatives, they appreciate, that we have been able to reshape our modest resources for the more effective benefit of those who find it so difficult to participate in our work. The implementation areas that were so important, before and after Seattle, are being worked out. No one pretends that that work will itself achieve the climate to get the new coalition we need for next year, but there it is.

To the least developed countries that are here, I say there has been movement on market access this year for you. Though lopsided, let us show some appreciation for the leadership that has been demonstrated, such as by the United States with the Africa Caribbean Bill. Multilaterally there have been solid steps with 27 countries planning to make market access offers. Here it should be pointed out that we are working in cooperation with UNCTAD for the UNLDC III Conference to be held in Brussels next year. We see that as a fundamentally important conference to audit what we are doing and to try and create an integrated framework for our partners to work on market access.

CHAIRMAN

The two issues raised by the Indian delegate are quite important -

first, the weak terminology used in Article XXIV which leaves room for interpretation. Whether regional arrangements will follow the multilateral framework or not is indeed a very crucial issue, because if you have weak regulations, you can never carry out any checks to see whether they are really becoming building blocks or just trading blocks. And the second issue is whether intraregional trade that has been created by the regional arrangements would develop at the cost of international trade, particularly between developed and least developed countries. Perhaps Mr. Trojan would like to respond to that question.

MR. CARLO TROJAN
European Commission

On the second question of interregional trade, our experience - though I acknowledge it is an experience of developed countries - is a win-win situation. There is no doubt that the single market which has been created in the European Union has enhanced enormously the imports in Western Europe, because every country uses the same standards - if you import in one country, you import in the whole group. I think that the experience between developed countries is equally true for LDCs. So when you create a free trade area, and, as a consequence, you start talking about same standards, etc., it can have the effect not only of increasing the trade between each member country, but also of increasing imports in that area. Because of the fact that you have so many regional trade arrangements, it is a win-win situation because it also have the effect of increasing exports.

REPRESENTATIVE OF BELARUS

It is clear that the regionalization and globalization of world trade flows is a conflicting, and at the same, complementary trend in contemporary world development. In this sense, we have found virtual consensus on the issue that risks related to globalization should be overcome through agreed policies at the global level with the participation of all interested parties - national Governments and international, economic and financial organizations. The strengthening of regional cooperation and the development of regional approaches to manage global processes opens up possibilities to develop a balanced approach to all current global problems.

On the one hand, regionalization is called upon to reduce the effects of instability in the global market, and on the other hand, to compensate for the shortcomings of the multilateral trade and economic system formed within the framework of WTO.

Multilevel integration will, in our view, help in the formation of risk management connected with globalization through the principle of sustainable development of countries and regions of the world. The success of UNCTAD X was possible thanks to a balanced approach to the interests of various groups of countries reflected in the final document of the Conference. The same approach should apply to the negotiations on all topical problems.

The reform of the world financial and trade system should be aimed at preventing marginalization and greater balance between rich and poor countries, as well as the prevention of crises. The basic principles of reform should be based on the unique economic and historical development experiences of developing countries and countries with economies in transition. There needs to be a balanced approach to similar interests and there should be collective responsibility of Governments and international organizations for these decisions.

The World Bank, the IMF and the WTO should recognize the principles of phased liberalization for the developing countries and countries with economies in transition. They should make these inalienable elements in future trade and financial negotiations, with each State entitled to the principle of reciprocity in targets and tasks within overall cooperation and development.

So far, developing countries and countries with economies in transition have been granting greater access to companies from industrialized developed countries, whereas the opposite is not always true. We believe that, to solve these problems, it is essential to have the participation of national Governments, United Nations organizations, Bretton Woods institutions, and other institutions. With regard to the lack of consensus and respect for the long-term consequences of globalization, we believe it is increasingly important to coordinate multilevel economic integration on the basis of the concepts of economic security and sovereignty, bearing in mind the principles of transparency and democracy. Given the consensus achieved in Bangkok, UNCTAD is the most appropriate international forum to develop such a policy. The undisputed success of UNCTAD X proves that all member States of UNCTAD consider the organization as a forum within which we should be able to formulate a new paradigm of sustainable economic and social development aiming at a fair distribution of the advantages of globalization. I should like to stress that Belarus has been consistently supporting, and will continue to support, the activities of UNCTAD X.

REPRESENTATIVE OF THE PHILIPPINES

As you know, I come from the APEC and ASEAN region, and I am the Chairman of the Committee on Regional Trading Agreements (CRTA) of the WTO. I would like to try and capture some of the "sound bites" on the key issues that have come up in the discussions on regionalism and multilateralism. From what I have heard so far, it would seem that there is no option but to set WTO on another round of trade negotiations to extend and deepen the rules. Then there is the perception of my distinguished friend, Vice-Minister Yongtu, that voluntarism and flexibility in regional cooperation is in fact a better substitute and that we should focus on assisting developing countries. We have the presentation of Ambassador Trojan dwelling on the experience of the European Community in development, and the deep integration that its members have achieved. Your grouping's approach is partly rules-based, partly gradual liberalization and with a development perspectives. Minister Simba pointed out that we cannot integrate immediately into the WTO or the multilateral trade system without improving our supply-side capability. This means that we should have products and investments to be able to produce the goods that will bring us to the external market and therefore provide growth and development to our economies. What is the synthesis from all this? Perhaps, it is a hybrid of an ASEAN and an APEC. An ASEM - the relationship between the Asian countries and Europe - which we are now developing, is probably the better alternative, rather than immediate premature liberalization.

According to the records of the WTO, 50 per cent of the 240 agreements that have been identified are now being carried on actively by the European Community and this is a significant factor as far as regionalism is concerned. Ambassador Trojan says that the EC considers it possible to support regionalism as complementary to the multilateral trading system. And I think the EC has found the recipe for this in the new ACP agreement, which is a development agreement. However, the market-access aspect that is being worked out now, which is a MFN deviation, is being debated in the WTO without any suitable conclusions.

So, in the end, where will the WTO be? I believe that the tensions coming out of the negotiations on rules are very vivid, and the fact that we have developing countries and developed countries partially agreed to the Uruguay Round, with all its imbalances, is precisely a mirror image of these difficulties.

But if you go into negotiations now and put in more rules and ask for liberalization from developing countries and LDCs without improving their capability to produce or even to understand the rules, then WTO is in a difficult situation. Therefore you might see a point where WTO will be substituted with regional trading agreements.

Now, let me look at the experience in ASEAN, and you, Mr. Chairman, are a leader in ASEAN. Recently you were flexible enough to allow for a certain ASEAN country to be able to re-pace its integration of a very important sector, the automotive sector. And to my recollection, even though renegotiation is not in the ASEAN rules, the ASEAN ministers, in their wisdom, were able to formulate a side agreement that would allow a renegotiation of the situation because of its impact on the financial development and trade needs of that particular ASEAN country. So, this is flexibility in action, and I think flexibility is what you have in ASEAN and what you see in APEC. What you will have in ASEM will be voluntarism, but of the committed type, which is really a good and satisfactory way of achieving our common objectives.

Coming to the issue of internal trade and external trade, 1998 statistics show that intra-ASEAN trade was only 20 per cent compared with its external trade of 80 per cent. On the other hand, intra-EC trade was 60 per cent compared to 40 per cent of its external trade. NAFTA had almost 50-50 per cent and MERCOSUR is coming to be more externally oriented in its trade. If these are indications of market diversion, then we would probably say that the EC has diverted most of our market, but the EC is also opening up markets in developing countries. Under the APEC programme, we are supposed to open up to everybody on a differentiated process of 2010 for developed countries and 2020 for developing countries. This represents flexibility and accommodation for the difficulties encountered by the developing countries.

Unfortunately, WTO might have forgotten that its purpose is really for development, because if you go to the negotiating table and negotiate among yourselves, they say you are equal. But if I go to the negotiating table with a very powerful country, there is inequality. So the first impression that I got, that there is no option but the WTO, and that we have to go into endless negotiations, should be tempered by considerations of this nature.

Lastly, on the CRTA programme, it is true that the examination of consistency of WTO agreements has not been successful in the last four years. This is simply because of the ambiguity of the provisions. The Singapore Ministerial Declaration in 1996 raised this, and in the lead-up to Seattle there were concrete proposals to address the need to provide clarity in Article V of the GATS, Article XXIV of GATT and the enabling clause. But, as there are no concrete proposals, we now have to carry on with the examination process. Another task of the CRTA is to resolve systemic issues, and the Committee has already agreed initially to deal with some issues on liberalization including rules of origin, the denial of benefits, scope and exclusions, product coverage and so on.

REPRESENTATIVE OF SENEGAL

In dealing with the question of whether regional integration has contributed to the advancement of the world economy, the African Group has prepared a document to be circulated, but I would like also to make some points. First and foremost, it is clear that there are theoretical studies on the influence of regional arrangements on the world economy, and for Africa, certain indicators lead us to believe that there is indeed such an influence. The whole population of Africa is living in extreme poverty and the share of African trade in world trade is very low. Africa benefits less and less from investment, whether portfolio investment or private direct investment. This shows clearly where regional integration should lead Africa and the contribution that the world economy needs to make to help Africa overcome these problems. In this connection, I would like to make three comments.

First, with regard to capacity building, we would like to refer to the implementation of WTO agreements. We are sure, in this regard, that globalization is not an option - it is a reality, and it is quite clear that the African countries which have signed the Marrakech Agreement and those which are acceding to it believe firmly in the success of the multilateral system. But at the same time, we note that there are asymmetries and imbalances that have hampered us in achieving what we need to achieve, and not only in the context of the implementation of WTO agreements. We need to address the issue of access to markets for our products and for products from all developing countries.

There is also the issue of development capacity and increasing trade between African countries. This is a structural weakness that we have to overcome. Another weakness is in terms of capacity building for domestic growth. For that, we need to have free and total guaranteed access for a certain quota of our products exported to other developing countries. And if we do not have sufficient access, on a technical and political level capacity building must be carried out in order to ensure that such regionalization is achieved and that it can produce benefits. In this context, we know that in WTO there is an environment that is entirely favourable to these interregional agreements.

The second point concerns the attitude of the developed countries towards regional integration. We know that there are a number of EU agreements and initiatives with our countries and that the United States has also launched an initiative. All these are steps forward in the context of enlarging the involvement of developing countries in world trade.

However, regional integration is ambivalent - whether at the bilateral or multilateral level - with regard to multilateral trade. By this we mean that, as developing countries increase their share of the market, there has been, at the same time, an increase in tariff and non-tariff barriers.

This represents a brake, not only for the access of developing countries to markets, but also in the context of the agreements we have already signed with the EU and with others in order to strengthen regional integration. So we would like to appeal to the developed countries to ensure that this ambivalence is transformed into a decisive commitment to help us realize our hopes for regional integration.

The third point concerns technical assistance. Since regional integration is a response to the deficiencies of individual countries, in the same way, agreements and programmes for technical assistance tend to meet those insufficiencies. We would like to avoid a situation where UNCTAD, WTO and other international institutions develop an approach of trying to address the structural deficiencies only at the individual level. There will always be a hiatus and this will break not only individual efforts but also efforts to regional integration.

I would like to make a comment about the systemic level and the relationship between trade and poverty. As I said earlier, in Africa we are living with absolute poverty - with less than one dollar a year. There are theories about the contribution that trade can make in poverty reduction, so we would like to see the theoretical approach translated into practice to ensure that this can be dealt with in the context of full development.

Our final remark is that, when we look at prospects for Africa we see some successes in terms of regional integration. I am thinking particularly of SADC in southern Africa and the West African Economic Community. So what is needed then, is to prepare Africa to construct other successful regional economic integration arrangements. We saw political will demonstrated at the recent Lomé Summit, and I think this is a very clear signal of the desire of Africa to move towards that objective. We would also like to recall the African Community Initiative, which has always come up against obstacles whether at the individual, bilateral or multilateral level. We need to build an African economic community around the different regional arrangements. There would be two options for this. One option would be to establish sub-regional blocs or groups around major economic powers, such as South Africa or Nigeria, and in that way the arrangements made for cooperation between developing countries and developed countries would enable us to fulfil our mandate for integration. The second would be a new regionalization. This would be a sort of specialization of the different capacities of each country, so that the agreements concluded on an international level should take into account the different comparative advantages of each African country for capacity building and investment promotion.

REPRESENTATIVE OF AUSTRIA

I would like to make a link between the views expressed by the Director-General of WTO and the Minister of Industry and Trade from the United Republic of Tanzania, Mr. Simba. I think it would be very important for us to see what common ground is possible or not in the field of productive capacity development, so eloquently pointed out by Mr. Simba. In brief, if I understood him correctly, he said that, before liberalization can take place, we have to have something to sell. This is of course very true for Africa, where 80 per cent of the exports are primary products. Regional arrangements are a stepping stone in that direction. Is this also a view that the WTO can subscribe to?

MR. CARLO TROJAN

I wanted to react on the interesting presentation of the distinguished delegate of the Philippines. He seemed to suggest that the different processes are at odds with each other. I disagree with that. I think there is a process of liberalization and globalization at the global level, which necessarily has also, as a consequence, a minimum degree of rule making. The same is true for every form of regionalization. There also, you have a process of liberalization - and globalization, which accompanies this, is the other side of the coin - along with the progressive introduction of a minimum degree of rule making. Those two processes are not at odds; rather, they reinforce each other. Obviously, it is true that both liberalization and rule making present different challenges when there are countries with different degrees of development. That is also the reason why we have the principle of special and differentiated treatment for developing countries, and more particularly, for LDCs. But that is not enough. As the panellists have said, there is also a need for capacity building, especially in the LDCs. Support in the context of development cooperation includes financial and technical assistance, and that is very much at the heart of the development cooperation policies of countries or groupings of countries in the developed world. At least, it is at the heart of EU development policy.

Therefore, it is not only a question of multilateralism and regionalism, but also, in the whole debate, you have to include how far development cooperation can play its role as a tool. The example I gave, and which the distinguished delegate of Senegal alluded to, was the new ACP Convention, in which we very much focus on regional integration as part of development cooperation policy. So that is part of the process, as is market access. In my view, all these are parallel processes that need to reinforce each other, and if they do not do so sufficiently, then we have to draw lessons.

I think we are already drawing a number of lessons, for example, when we talk of implementation of the existing multilateral agreements, and the Director-General of the WTO alluded to discussions we are having this week, and which are at quite a crucial phase. In order to make progress with all these processes in a very complex world, we need to take account of developing countries, LDCs and also of the developed world, so that each constituency can profit, because that is the objective of the WTO, as of any other organization.

CHAIRMAN

Mr. Trojan, there is one point that the Ambassador of the Philippines raised concerning the multiple trading arrangements that the EU is engaged in with so many parts of the world. He wondered whether this would be a sort of diversion from the MFN because it leads to so many different types of arrangements.

MR. CARLO TROJAN

I do not think so. We just try to be helpful to global governance.

MINISTER IDDI SIMBA

Let me react by saying the following. We are in a dilemma - and when I say we, I am really talking first of all about Tanzania which I know best - but I know that there are quite a number of African countries that have the same kinds of problems. We liberalized many years ago as a result of international pressure, but we also liberalized simply as a result of common sense. We thought that we should allow other countries to trade with us and so we opened our borders. Now this is what happened after we did that. We were a country that was producing sufficient textile products for our own needs, we also have a large tyre factory, again for our needs, and we had fairly good units which were producing edible oil, sugar, sisal bags and batteries. However, when we liberalized, we had all these items coming into our market in such large quantities - some good, but most of them bad, some were smuggled and others were dumped - that we found our factories progressively producing either at very low capacity or being forced to close down. Who are the culprits? We received sub-standard goods from a number of middle-income countries and subsidized sugar from Europe as well as America, with the result that we cannot even implement our investment programmes in this particular sector. So, is liberalization in this particular sense good or bad for us? In theory it is good, but in practice it is bad because we are having to close our factories or they are producing at very low capacity.

Can we expect the international community and international institutions, such as the World Bank and other financial institutions or commercial banks to give us the kind of assistance we require? Are the rules that apply to us in matters of international finance good enough for us? Can we borrow commercially and use our productive capacity to produce in order to play our role as a partner in the global trading system? We are bordering eight countries - members of the East African Community or SADC - with which we trade naturally, whether we are at war or at peace. Their problems are similar to ours. Should we individually face the international market or should we get together and try to develop our own intraregional trade first? And, more importantly, should we pool our natural resources, of which we have plenty? In Tanzania, for example, we are rich in minerals, we have plenty of good agricultural land with potential to develop livestock and fisheries, we have the potential to produce a world class tourism industry and to modernize our transit trade. Can we approach the world system as it is today - individually as Tanzania - and mobilize the necessary technological, technical, managerial and financial resources to exploit these? Or do we have to go into partnership with countries in our neighbourhood?

Many years ago, we were told by the international community to go regional, because going individual meant nobody would be interested in you. So we went regional as a result of international pressure. Now, there seems to be a tendency for us to be told to soft pedal a little bit, because regionalism is now coming into some kind of conflict with multilateralism. Who is setting the rules? Therefore, we have this particular problem.

We are told that if you want to be a responsible member of the international community, follow the rules. But first of all, we are not part of the system that set up the rules. Secondly, when they were set up, we did not even have the capacity to understand them. And thirdly,

applying those rules is hurting us. Finally, the world is not organized in a way that can respond to the demands of our communities right now.

So there is some confusion right now. And when we look into our own national problems, please do listen to us, sympathize with us and let us do business together.

REPRESENTATIVE OF THE UNITED STATES OF AMERICA

The United States experience has shown us that countries that are open to trade and investment with the world as a whole, and with their regional neighbours in particular, have generally been able to create growth, competition, and broadly based prosperity in their home countries. The United States sees regional trade groups as contributing positively to the process of trade liberalization and growth, to the extent they adhere to WTO rules and commitments. Notable examples in Europe, South-East Asia, and Latin America, some of which have been discussed today, have shown how regional integration can potentially raise living standards and strengthen peaceful relations among regional partners. In the United States view, the North American Free Trade Agreement, since its implementation in 1994, has overall been a win-win-win arrangement, stimulating higher economic growth in all of the member countries.

Because of its generally favourable view of regional integration, the United States Government is also assisting developing countries in a number of regions to enhance their trade cooperation. As part of its support for trade liberalization in the Caribbean Community (CARICOM) for instance, the United States helped to establish the Trade Information Network, that is a “virtual secretariat”. This information and communications system links CARICOM’s regional trade institutions with the trade ministries of member countries and through the network, these officials and ministries are able to share a wide range of information relating to interregional trade liberalization and WTO matters.

In May of this year, the second SADC-US Forum was held in

Mozambique. Among other topics, the Forum discussed the multilateral trading system, the Africa Growth and Opportunity Act, the negotiation of a US-SADC Trade and Investment Framework Agreement, and the role of the private sector, much of which Minister Iddi Simba has reviewed for us. The Forum reaffirmed the important role regional integration can play in attracting new investment and improving economic development.

As a follow-up to the Forum, the United States Department of State sponsored a programme in the United States in July this year on the North American Free Trade Agreement for representatives of the 11 SADC signatories and three other non-signatory African countries. Topics included rules or origin, textiles, agriculture, customs facilitation, dispute-resolution mechanisms, and handling of sensitive products. The programme also included a one-day consultation in Mexico to get another view of the NAFTA process and results.

The United States Agency for International Development (USAID) has developed a multi-year programme, which begins in 2001, for assisting West African countries in their efforts to develop closer regional ties. In the area of economic integration, the United States will be helping West African countries reduce intraregional barriers to trade, enhance regional compatibility on monetary and fiscal priorities and promote discussion and resolution of trade and investment policy differences. USAID is also supporting regional trade development in eastern and southern Africa through its Regional Trade Analytic Agenda. This programme began in 1994 and carries out trade policy analysis in directions of interest to African stakeholders, most recently, and in particular, in COMESA.

Our delegation welcomes today’s discussion of this important topic. Greater regional integration, effectively implemented, offers the possibility for faster trade and investment growth within the rules and commitments of the multilateral trading system. This is a highly desirable outcome for industrialized and developing countries alike.

Within the discussions, there has been considerable mention, by Minister Simba and by some of the comments from the floor, of the need for increases in productive capacity, particularly by African countries. May I ask for a few comments, perhaps from the distinguished representative of the Andean Community, or other interested panellists, on this topic? I noted with interest the Andean Community representative's comment on the dramatic difference in the composition of trade between the Community's trade globally and regionally. Does the delegate of the Andean Community feel that it was, in some sense, regional integration or the regional cooperation initiative itself that helped to produce greater diversity in the composition of trade, and perhaps, enhance the capacity for trade? And are these experiences potentially applicable to the experiences or the expectations of newer trading groups that we have discussed today?

REPRESENTATIVE OF VENEZUELA

It would be very interesting to hear some reactions to what Minister Simba from Tanzania has said concerning the consequences of multilateralism on market access and their effects on many developing countries. I think comments of that kind contribute to this important event which UNCTAD has organized. From Venezuela's perspective, I would like to focus on the initial question, whether regionalism has contributed to global economic activity. We would like to raise a number of points about how we view this whole process of open regionalism and its connection with the multilateral trading system.

We see no contradiction between countries pursuing regional economic trade and contributing to regional market activity. In the case of Venezuela, we have seen the benefits of participating in preferential schemes such as those between the Andean Community and the Group of Three (Venezuela, Colombia and Mexico) and with CARICOM. Negotiations are now under way to create a free trade area between the Andean community and MERCOSUR, and a Free

Trade Area of the Americas already referred to by some participants. We view these as a first step towards the consolidation of our full participation in the multilateral trading system. Thus we see no contradiction in the strengthening of the multilateral system through consolidation of the regional system.

Thirdly, we see the regional system as a fundamental vehicle to strengthen us on the world stage. Open regionalism is a means to future integration into the multilateral system and it can help secure a fairer trading system, particularly for developing countries. We view regional agreements and integration not as an end, but rather, as a means for the development of our economies.

Also, we agree with some of the points made by Mr. Trojan in his presentation of the EU that regionalism has to be a plus mechanism in relation to the multilateral trade system. The pace of multilateral mechanisms will always be slower than our own individual machinery.

We view the free trade system as the pursuit, not of liberalization as such, but as a guarantee to ensure that the result is a more equitable trading system.

We would like to hear from some of the panellists as to whether they see the proliferation of dispute settlement systems within regional arrangements as strengthening or weakening the dispute settlement mechanism within the WTO. We understand that they could risk weakening the WTO mechanism.

REPRESENTATIVE OF JAMAICA

As Dr. Abugáttas mentioned, the past decade was one of extraordinary dynamism in regional initiatives in Latin America and the Caribbean as well as in other regions. Today, we were told of some important elements that appear to be quite common to these agreements. One element seems to be a greater willingness in RTAs to take into account different levels of development. Jamaica wonders whether this might not be an important reason for the attractiveness of regional and sub-regional agreements and whether there is not a very important lesson therein for the multilateral trading system itself.

Another issue I would like to touch on concerns Article XXIV as an exception to the multilateral rules - not so much with regard to the systemic issues as to the structural aspects. When Article XXIV was conceived 50 years ago, the structure of the global economy was fundamentally different. It is possible - and I do not wish to be provocative - that Article XXIV might not have been conceived as an exception had it been conceived in an era of globalization.

Thirdly, on the issue of intraregional and extraregional trade, if one looks, for example, at trade data on a regional level for Latin America and the Caribbean, you will find that intraregional trade has been growing much faster than extraregional trade. Exports within the region grew in the past decade by over 16 per cent on average each year, which is faster than the region's global trade that grew by 11 per cent. Also, intraregional trade as a proportion of overall trade has been rising steadily. The conclusion is that the countries of the region are becoming increasingly important to each other as trading partners both in absolute and relative terms. I think that this strengthening of economic relations amongst the countries of the region will certainly contribute to building competitiveness and to enhancing economic performance, and thus, in our judgement, should contribute to growth in trade, not only regionally but globally as well.

A point has been raised by the representative of the United States regarding the composition of trade. I think some studies of the Organization of American States have found that the commodity composition of exports within the integration schemes in Latin America and the Caribbean tend to differ from the composition of their exports to the rest of the world. One conclusion they have suggested is that integration schemes are contributing to export diversification in these countries, and in particular, to a move away from exports of primary commodities in the exports of Latin American and Caribbean countries. I think these are important developments in respect of the role and functioning of these important regional arrangements.

REPRESENTATIVE OF THE ISLAMIC REPUBLIC OF IRAN

The remarks made by distinguished panellists and the document prepared by the secretariat aptly addressed different aspects of regionalism vis-à-vis the global economy. The question whether regionalism has contributed to the globalized economy is an important one. The UNCTAD document says that the failures at the multilateral level to solve issues that require international cooperation are one reason for identifying regional responses that take better account of the needs of developing countries. This means that the deficiencies of globalization could result in more regional arrangements between developing countries to address the problems that the international community fails to solve. It is expected that regional arrangements will contribute to the globalized economy, and of course they could do, but what is the contribution of the globalized economy to regionalism?

Regionalism should not be considered as the ownership of the problems at the regional level so as to deny the responsibility of the international community in addressing the challenges which globalization presents to developing countries.

The Islamic Republic of Iran is a member of some regional arrangements such as the Economic Cooperation Organization (ECO), the Organization of the Islamic Countries and the Framework Agreement on Trade Preferential System of the Organization of the Islamic Conference (OIC). The trade activities of some of these regional arrangements have reached the expected level.

I think that the weaker performance of some regional arrangements in developing countries - including those in our region - can be ascribed to such factors as political issues, lack of efficient mechanisms for their functioning, uncertainty and lack of confidence among members as to the possible benefits and advantages for all partners, similarity of needs and products in terms of comparative advantage, lack of complementaries and a predominance of bilateral trading and economic ties with developed and industrial countries outside the regional arrangements.

As already mentioned, these regional arrangements should not be considered as a substitute to the multilateral mechanisms. Here, I have a question directly addressed to Mr. Moore, and in his absence, I hope that one of his colleagues could answer it. How can countries experience successful regional trade arrangements if they are not members of the multilateral trading system? My country's bid for accession to the WTO, which has been politically blocked for almost four-and-a-half years, is affecting adversely our efforts in regional arrangements.

It was emphasized here that the global economy and regional integration arrangements should be mutually reinforcing. The main question is how can they effectively reinforce each other? How is it possible for regional integration agreements to serve as the channel through which the benefits of globalization could be directed to the disadvantaged countries, if those who have already benefited from globalization do not participate in these arrangements in a cooperative sense, and do not assist the regions in areas of market access, transfer of technology, know-how and foreign direct investment? The role and responsibility of the developed world cannot be withheld.

We believe that a globalized economy can contribute to regional integration arrangements through securing a share for their countries in the multilateral trading system. In this context, accession of all countries to the WTO should be facilitated.

Finally, another question that comes to mind is, to what extent can the regional arrangements promote economic development among themselves if their membership consists only of developing and less developed countries?

REPRESENTATIVE OF BENIN

I note with satisfaction that there has been a convergence of views among us concerning regionalization and development, particularly through partnerships and regional integration arrangements. The importance of sub-regional arrangements among developing countries and the need to strengthen regional productive capacity and enhance their competitiveness in international trade. We also know that for the integration of such countries at the regional level, certain countries are going to need resources to finance their productive capacity. One of the sources of financing for productive capacity is foreign direct investment (FDI) and in this respect, we would like to share our concern. Through such FDI, would not the multinationals set themselves up using developing countries as a means of competing with other developing countries and frustrating the development of the developing countries in which they have set up operations? We would like to hear the responses of the panellists with regard to this. We clearly need FDI, but if such investments come from certain sources, particularly multinationals, some of which consider developing countries as arenas for competition with other multinationals, then development in such countries is by no means assured.

REPRESENTATIVE OF THE RUSSIAN FEDERATION

I would like to say a few words about our perception of the integration processes occurring in the world and the course of development of international production. There is an intensification of trade and related areas of cooperation among countries as well as active multilateral cooperation. integration processes are increasingly relegating the other processes to second place. All this is generated through export policies within the context of economic globalization, and of course, these need to be coordinated. As we know, many negotiations on multilateral rules in a number of these areas do not achieve the targets set, or else the results do not fully satisfy these countries, or they drag on. In these conditions, many developing countries, especially the most dynamically developing among them - economically speaking - not wishing to take second place, set up regional integration processes.

I should like to point out that my country, Russia, has virtually become an integral part of the world economic system. This is proven, for example, by the successful implementation of agreements on partnership and cooperation with the EU, and the latest decision of the Government of Russia to step up the negotiating process on our country's accession to the WTO, which, we believe, will result in the complete integration of Russia into the world economic community. As you know, in the post-Soviet space, there are various forms of integration associations - there are bilateral economic agreements and multilateral agreements with limited scope, such as customs unions.

In addition, we have a trade agreement with countries of the Commonwealth of Independent States (CIS), and just recently, an agreement or treaty was signed in Kazakhstan on the creation of a Eurasian economic community. The logic of moving the five States to fulfil the treaties they have signed - the completion of the formation of a customs union and the creation of a single economic space - all require new mechanisms. In the field of trade, a regime of free trade is envisaged with a single customs tariff, a single system of customs tariff regulations and an agreed system of preferences. To this end, the interaction of our countries in trade and economic development has reached a stage where we have eliminated all tariffs in our mutual trade. We have formed a common trade regime and begun the creation of a single customs territory. At the same time, the five member countries of this customs union perceive the need to have greater harmonization of their national legislation and measures designed to increase their overall economic potential as well as an agreed restructuring of their economies. We also expect to develop an agreed position among State members of this community in respect of the WTO and other economic organizations, and a unified system of currency regulations and controls, ensuring economic safety, fighting contraband and customs violations and so on.

These are just some of the measures contemplated by these treaties, and obviously, when the treaties enter into legal force after ratification by Parliament, they will, doubtless, be submitted to the appropriate international organizations, including WTO and UNCTAD, for closer study. But I would like to stress that the creation and signature of this treaty shows very interesting integration processes in the post-Soviet space that are leading to further deepening of economic cooperation between our countries. However, they will in no way hinder our countries from joining the WTO individually and independently; we will agree on our activities upon joining and then cooperate within the context of the organization. Secondly, in no way are these going to hinder our countries from further integration into the world economic community.

In conclusion, I should like to point out that this treaty is designed not only for trade and economic cooperation, but also for harmonizing and bringing closer national legislation as well as synchronizing the activities of the member States. Examples include the resolving of humanitarian problems, the harmonization of national education systems, the development of science and culture, the harmonization of national systems to ensure minimum social standards and granting to the citizens of each member State of the community equal rights in education and medical care throughout the whole territory. Thus, to an extent we are redressing the situation that was created in the post-Soviet space, of a certain fragmentation in the cultural, humanitarian and social spheres among the former members of the Soviet Union.

Panellists' responses to questions raised during the debate

MINISTER LONG YONGTU

Through all our years of negotiations with WTO, we know that WTO is a rules-based organization, and we support this, because we believe that in the global economy we should have only one set of rules. If we create too many sets of rules through different regional groups, then there will be no rules in this world. That is why we are so persistent in our accession negotiations. But we find that the rules set by WTO are not complete and most of the rules, to some extent, benefit the developed world. It is time that some of the rules served also to benefit the developing world. China has stood firmly for developing countries to accede to the WTO, but we find little preferential treatment for the developing world and so their membership provides only a symbolic status.

Of course, we do not want to see different sets of rules, even those set in different regional groups. But at least there should be one set of global rules for providing preferential treatment in trade and investment for the developing world. I think this is lacking and needs to be developed.

It is time the WTO set up rules and provided real preferential treatment in trade and investment to the developing world, and I think this should be one of the priorities of the next round of negotiations in order to correct this imbalance in the set of rules. We respect the rules, but I think it is very important that the rules be complete and fair.

DR. LUIS ABUGÁTTAS MAJLUF

Briefly, I would like to reply to a direct question addressed to me by the representative of the United States. In the Andean Community, opening up at the regional level resulted in an industrial dynamic that was totally unexpected, both by the public and the private sector.

There was a process of industrial conversion through capital flows and the formation of joint ventures. It had a considerable positive impact but also a negative impact. I would like to stress the undesired consequences with regard to foreign investment. In some countries the decision was taken to switch - to abandon - some markets and to cover the whole region from one productive apparatus. The result was a race to provide incentives for investment and this needs to be addressed at the regional level. In the Andean region, Peru has been the most effective, along with Venezuela and Colombia, for servicing the Peruvian market. So, there are pros and cons, but in the future they need to be addressed together.

MR. CARLO TROJAN

Quite a number of issues that have been raised will be of particular interest also to the forthcoming LDC Conference next year, particularly those concerning the enhancing of the productive capacity of our foreign direct investment. I think, as a matter of principle, FDI is beneficial to the developing countries, and it should not matter if it is one multinational or another, as long as they invest and bring their capital and managerial skills which can be of benefit to other industries or clusters in the receiving countries.

MINISTER IDDI SIMBA

Regarding the question on FDI raised by the distinguished delegate from Benin, we in sub-Saharan Africa are in competition with Eastern European and Asian countries, Egypt in North Africa and South Africa in the south. The criteria that the world community seems to be applying in determining whether or not FDI should go to these countries are as follows. We are supposed to establish a legal and regulatory framework which will be attractive to those who want to invest, democratize our system and become more and more democratic and establish good governance, privatization and liberalization. I was told we must even back programmes to control

HIV/AIDS, protect the environment, and even engage in some anti-terrorist activities. These are the sort of criteria that we have to apply for attracting foreign direct investment. Yet the people who are going to invest in our countries are people that do not know Africa. And we will depend perhaps on the good offices of Governments with which we have bilateral relations. But, as I said, sub-Saharan Africa has got to work much harder to apply these criteria in order to attract FDI, and this can only come from the private sector, because the Governments with which we have bilateral relations do not know how to deal with the private sector.

Part 2

Regional monetary issues

CHAIRMAN

In this segment, we shall address regional monetary issues in the context of regional integration and the global economy. The greater frequency of international currency and financial market crises, including in those countries with a record of good governance and macroeconomic discipline, suggests that financial instability is systemic in nature and global in reach, as mentioned earlier by the Secretary-General, Mr. Ricupero.

Given the slow pace, the modest goals and the absence of decisive action on multilateral reforms of the international financial system, it is increasingly important for Governments to work towards regional arrangements, to protect themselves from future speculative attacks and financial crises.

The European Union provides the most significant contemporary example of such an arrangement, but there are several other arrangements involving developing countries, designed to facilitate mutual international payments and to provide mutual support in external financing. Although some view such arrangements as conflicting with the pursuit of multilateral reforms, others see them as an essential complement to the process of creating a more integrated and balanced global economic system.

A number of concerns identified in the wider debate on reform of the international financial architecture seem to lend themselves to regional arrangements. These include information gathering, standard setting and surveillance of national policies where greater familiarity with and sensitivity to local conditions could be expected from regional institutions. Where regional arrangements are able to pool significant national reserves, they could assure the timely provision of international liquidity to preempt large currency swings. They could also act as effective crisis lenders in the absence of any global arrangement, and they could ensure the management of exchange rates, particularly where close regional trading ties are an integral part of the growth dynamics.

In all these various respects, the strength of regional institutional arrangements, their phasing and the scope of membership require careful examination. However, since even the most successful experiences with regional integration of trade, production and financial flows have had both positive and negative effects on financial stability and growth, prospects for the success of any new arrangements in this area are likely to be enhanced by a careful examination of existing ones to see how their best features may be adapted to other regions.

I am pleased to give the floor to our distinguished panellists - Mr. Heiner Flassbeck who is a former Deputy Minister of Finance from Germany, Professor Charles Wyplosz, Professor of Economics from the Graduate Institute of International Studies in Geneva, and Dr. Luis Abugáttas Majluf from the Andean Community.

MR. HEINER FLASSBECK

Former Deputy Minister of Finance, Germany

I would like to talk a bit about the European experience with regional monetary integration. I could make a very easy task of my presentation if I re-read Mike Moore's statement of this morning and just replace his reference to free trade by the words, stable monetary relationships. It would then state that a global economy calls for global monetary arrangements. And I think the critical question is, can we have a globalized economy without monetary arrangements, at least at a certain regional level, if not at a global level? I think the one experience we had in the past with a global monetary arrangement, the Bretton Woods system during the first two decades after the Second World War, has been very important in many respects, but I do not want to go into details. I just want to mention that, outside Europe, the last 30 years, which were, in one way or the other, characterized by more or less flexible exchange rates, have shown that this is not the solution for a globalized economy.

Economic theory still maintains that we have to choose between two corner solutions - one solution is an absolutely fixed rate and the other is an absolutely flexible rate. I think the European experience quite clearly shows that there can be something in between, at least during the transitional phase of development.

I think it is crucial for many countries, which are in a transitional phase during the process of catching up with the industrialized world, that we should have concepts for this transitional phase.

Why have flexible exchange rates proved not to be a solution? After the Asian crisis, many observers went back to the position that every problem would be solved by just keeping the exchange rate flexible. I do not think this is right, because what do flexible exchange rates offer to countries?

Flexible exchange rates offer a certain kind of freedom as long as there are no big shocks or disturbances in the world. However, we have seen in the Asian crisis and elsewhere that, whenever disturbances occur, flexible exchange rates can overreact and they can make things worse.

The first big argument against flexible exchange rates for smaller countries is a very simple one, in my opinion, namely that small countries are too small for huge global capital flows. Small countries cannot cope with the capital flows that come from all over the world, particularly from the industrialized countries, which have all the power to speculate with their currencies. So at least you need some kind of critical mass of countries, a degree of regional cooperation, to bring about a counterweight to these huge capital flows from all over the world.

The second experience that has proved to be disastrous is the huge swings in the real exchange rate, that is to say, in the competitiveness of countries. We have seen that skewed flexible exchange rates tend to overshoot, and they can overshoot in both directions, resulting in huge disturbances and distortions in the competitive position of countries. In my opinion, they adversely affect the efficient allocation of resources and so directly contradict what is sought to be achieved by liberalization of trade and by the opening up of borders for goods.

The free flow of goods can be undermined by huge swings in the real exchange rate which affect the competitive position of countries.

We have experiences of that in Europe, in South America, in Asia, and, at this very moment in time, we have the big experience with the Euro. I think there is now broad agreement all over the world that the Euro is undervalued and that the dollar is overvalued, and we will see in the next one or two years, that the resulting huge imbalances will lead to short-term negative repercussions for the world as a whole. So, as the Euro example clearly shows, even really large and rather closed economies like those in the European Union are not autonomous. Many people believe that a flexible exchange rate gives you autonomy, but the example of Europe again shows that there is no autonomy - the European Central Bank has to react to the fall of the Euro, it intervenes, and it raises interest rates. What is needed even between the big three blocs is cooperation in keeping the exchange rate at least in a reasonable band.

A very simple solution would be to say that, if we have these problems, why not move to a world monetary union? However, we all know things are not so simple - world monetary union may be a target for the distant future but it is not achievable in the short term. I believe there is something in between, and that is regional collaboration on monetary affairs. This is the only way out.

Regional collaboration in monetary affairs would help small countries avoid huge swings on the capital account that have huge repercussions on the exchange rate and competitiveness. It would also help to achieve what we all think is necessary for sound and sustainable economic development, namely, to keep the external value of money as stable as possible.

We have learned over the last 20 to 30 years, that unexpected changes in the internal value of money - that is to say, inflation - can be dangerous as they can distort the allocation of resources. If this is so, then one should acknowledge that sharp fluctuations in the exchange rate are equally dangerous, particularly for small open economies. One of the participants said earlier that quantitative relations in trade are extremely important, and that if you have regional collaboration, you need a huge amount of trade with your neighbours with which you collaborate. In monetary affairs, I do not think this is so important; what is important initially is to avoid huge swings in the exchange rate. The other question concerning relations with the rest of the world should be dealt with, but only in the second phase.

Thus regional collaboration might take place in the first phase, and only later, in the second or third phases, will we perhaps consider efforts towards something like a world monetary order, but we are not there yet. Taking the example of Europe, at the beginning, the liberalization of trade flows was extremely important, but on the other hand, everybody in Europe, nearly all the time - even after the collapse of the Bretton Woods system - clearly recognized that it was unfeasible to have fluctuating exchange rates. From the beginning, we always had a small group of countries that collaborated, or countries which pegged their exchange rates to the German currency. So despite the liberalization of trade flows and the opening up of the market on the capital account, Europe never adhered to a system of flexible exchange rates. Yet, we managed to achieve a very high degree of import and export penetration of one another, as well as rather high growth rates. This shows that it was quite a reasonable system.

On the other hand, Europe has shown that the first prerequisite of such a system, namely the need to stabilize the system over time, is very difficult to achieve, so there is need for a certain monetary convergence. That has finally been achieved in Europe, but it took about 30 years to converge in nominal terms - we started the process at the beginning of the 1970s, after the collapse of the Bretton Woods system, and ended up with monetary union only at the end of the century. Nevertheless, in the medium term - in the transitional phase to monetary union - many countries had fairly reasonable exchange rate relations. Of course, we know that there are exceptions, namely Italy and the United Kingdom. In the early 1990s they could not keep their exchange rates stable because their labour market regimes did not work in the same way as in the anchor country, Germany. Their unit labour costs were too high and they lost competitiveness with a fixed rate, so they had to devalue their currencies in order to adjust their level of competitiveness. But, in the case of Italy, it eventually brought about convergence - including convergence in the labour market regime - and it is now a full member of the Monetary Union.

To conclude, in my opinion, there is no conflict between regionalization and real globalization. One may say, as Mike Moore said this morning, that stable monetary conditions in certain regions are second best to stable monetary conditions all over the world. That is absolutely true, but we all know that stable monetary conditions worldwide cannot be achieved quickly. So what we need are intermediate solutions for the next two or three decades. And I can only recommend to everybody who thinks about these things that they get started as soon as possible to find a corner solution of a monetary union or a system of a rather fixed exchange rate.

I think, on the agenda of UNCTAD and other international organizations should be the question of how to coordinate efforts to increase trade flows with efforts to bring about more stable conditions on the monetary side. In my opinion, you cannot get one without the other.

So, if you need both, you should get together in working out approaches for achieving stable conditions on the monetary side as well on the trade side, as demonstrated by the European experience which has proved to be successful.

DR. LUIS ABUGÁTTAS MAJLUF
Andean Community

I would like to deal with monetary issues from the point of view of the Andean Community. To begin, I would like to give you a piece of news - you are probably not aware that the Andean Community has a single currency, the Andean or Anda peso, which was approved at the beginning of the 1970s as part of our efforts towards integration in the Andean region. This was during the romantic period of integration. Today it is only a commemorative currency. But this does prove that the Andean region was concerned about the impact of monetary issues on regional integration.

From the very beginning, the Cartagena Agreement, in its original version, already contained a safeguard clause to correct the effects of devaluations on Andean commerce. In other words, in the Andean region, if a country considered that it was affected by devaluation carried out by another Andean country, it was authorized to take safeguard steps. It could set tariffs to compensate for losses in competitivity or the other country s gains in competitivity. However, although there have been devaluations, this clause has never been applied. Nevertheless, it is a right which members have.

One important development at the Andean level, has been the establishment of regional financial institutions. The Andean Community has an Andafund, a reserve fund, which has now been converted into the Latin American Reserve Fund. The purpose of this Fund is to intervene to lend resources to countries that are confronted with balance of payment problems. In other words it is a regional mechanism to help countries that face problems in their external accounts. In addition, the Andean Corporation has been created with the objective of providing development loans for both public- and private-sector projects. Thus, to a certain extent at the regional level, attempts have been made to reproduce the functions of the International Monetary Fund and the World Bank through regional institutions. The operation of those two entities has, perhaps, been one of the greatest successes at the Andean level.

In the crisis of the 1980s, the Fund supported the Andean countries at levels higher than what was provided by the international financial institutions. For example, in the case of Peru, the only support came from the Andean Reserve Fund, which enabled it to recover from its difficulties. Support from that Fund enabled the country to stay afloat until it could reach an agreement with the international institutions. In addition, the volume of loans for development in the Andean countries has been increasing constantly, with an advantage that there are no particular conditions attached to the loans. Of course, I could talk at greater lengths about these examples, but I think that they are useful as successful examples at the regional level.

With regard to monetary and trade policies, studies have shown that intraregional commerce depends more on changes in the exchange rates, than on the real competitivity of the various economies.

In dealing with this question, initially, it was decided to talk about harmonization of policies. A consultative council, comprising finance ministers and several banks, was established with the clear mandate to deal with macroeconomic stability. The idea was to maintain stability by establishing a system for the exchange of information among the relevant agencies in each country.

Consultations are held when a country considers that its interests are likely to be undermined by policy changes of another country.

This attempt at harmonization is very recent. When the effects of the devaluation of the Venezuelan currency started to be felt, the council held four meetings with the objective of trying to set certain parameters based on the European experience, such as indicating that the trade deficit should not exceed a certain amount, for example. However, we are not yet thinking about a single currency.

In conclusion, I would like to talk about another interesting development concerning Ecuador's decision two weeks ago to abandon its national currency and use the dollar instead. Today, in the in the Andean community, we are considering how this sovereign decision of Ecuador, which is a totally different policy from that of the other four countries, will affect the future of integration in the Andean region. As this is quite a recent development, studies are being conducted and projects are being planned or are under way, but I think it is still premature to evaluate the meaning of this decision for Andean integration. There has already been some experience of the pressure felt by MERCOSUR as a result of the convertibility plan of Argentina.

PROFESSOR CHARLES WYPLOSZ

Professor of Economics, Graduate Institute of International Studies, Geneva

I would like to try to draw lessons from the recent waves of currency and financial crises that we have seen over the last decade or five years, focusing particularly on their link to regionalism. Let me draw four main lessons from the crises, which have an implication for regionalism. The first lesson we have learned is that countries which look healthy can face speculative attack, and then there is a lot of wisdom after the fact which will show why they were unhealthy. After all, the truth is that countries that do reasonably well on most criteria are susceptible to attacks. And this brings me to my second observation, namely, that we have seen the phenomenon of contagion in full swing, and it is through this contagion that countries considered so far as being healthy have been facing extremely strong speculative and financial crises.

What drives these contagion processes is not fully resolved yet, but certainly, there are two aspects that matter for regionalism. First, when one country, for whatever reason, is under speculative attack and is forced to let its exchange rate depreciate or devaluate deeply, it affects trading partners through competitiveness. This immediately leads to the question as to what will happen to the trading partners. So trade links, which are otherwise desirable, can become a channel for weakness at the time of currency turmoil. Second, and linked with that, there is increasing evidence to show that contagion spreads because countries are deemed to have particular characteristics, which are often regional similarities in the eyes of international investors.

Trade links are seen as a channel, and regional links - the idea that particular regions share a number of economic features - immediately trigger attention to countries which would otherwise not necessarily attract attention. The Asian crisis made that very clear.

The third lesson that can be drawn, is that IMF interventions over the last few years have been tainted by political considerations more openly than ever before. It has raised criticism in many circles, with implications at the regional level.

Finally, what has been said several times has been confirmed, namely that, as capital movements are liberalized, fixed exchange rate arrangements come under threat. This has led to a new consensus that I would like to call the "Jackson Hole consensus". It says that, for exchange rate regimes, only extremes work - countries either have to float their currencies freely, or they have to go to more extreme arrangements like currency boards, monetary unions or dollarization, and possible "eurolization" in some cases too. All these lessons carry a number of serious implications for regionalism. First, regarding IMF intervention and advice, we have seen the IMF rely increasingly on regional funding in its large-scale operations, so there is already a regional or friendly-network connection there. Second, there is something that some call the "Washington bias", which is a particular view of the roots of the crisis and of its solutions that does not necessarily match the understanding of people in the area of the crisis. This has been voiced particularly well by the Japanese authorities following the Asian crisis, leading them, for example, to propose the creation of an Asian monetary fund. However, this has been put on the back-burner. I believe that regional monetary funds are problematic institutions to set up and require an extremely careful appraisal before we go in this direction, but they are suggestive of a growing trend towards paying more attention to regional characteristics.

The second implication is the link between exchange rate regimes and trade integration. Multilateralism, of course, has always been the objective of the international community, but it is a complicated operation, and in many senses, regionalism can be thought of as the first step towards multilateralism. Let me mention a few reasons for that. First, GATT/WTO trade negotiations tend to be dominated by developed country issues, and some of the concerns of developing countries, probably of less world importance, tend to be overlooked. Second, we know very well that distance strongly affects trade, so trade tends to be regional in the first place and worldwide in the second place. Thus there is a natural tendency to build up trade links at the regional level. Third, trade agreements always lead to contentious negotiations, and there are reasons to believe that it is often easier to solve these negotiations at the regional level.

If we agree that trade has a tendency to develop more at the regional level - and there are many examples of that, the prime example being the European Common Market, but there were also discussions about MERCOSUR and other regional arrangements - then one has to start thinking about the proper exchange rate arrangements that match these trade arrangements. I would like to draw attention to what I think has been the successful experience of Europe, which started to build trade links through its Common Market, then moved to exchange rate arrangements through the European Monetary System, and has finally reached the stage of currency union, which indeed meets the “Jackson Hole Consensus”. However, the road has been a long and careful one, and not without flaws. But many of the features, which are now considered necessary worldwide, have actually happened at the European level. One can indeed view the European Monetary System, going from no arrangements at all to full monetary union, as providing many of the features that the IMF procures. The European Monetary System allows for mutual surveillance of its members - that is partly supplementing the IMF. It also allows for short-term financial assistance among its members - that partly fulfills one of the functions of the IMF. So one does not have to develop a local regional monetary fund. Instead, regional institutions of cooperation can be developed that have some of the key features we wish to incorporate.

If we go in this direction, we should realize that there is a choice on the way to integration or globalization and that road may take the form of regional development. If, indeed, it is assumed that full capital liberalization should be done quickly, then we are in a situation where intermediate fixed exchange rate regimes are in danger and should be removed as quickly as possible by going to the extreme. But if the extreme means full exchange rate flexibility, this can raise exchange rate tensions within regional arrangements or at least at the level of regions. And what I heard about the Andean Pact is an example of the difficulties in dealing with exchange rate arrangements when they are not coordinated.

There is another logic, which is to favour trade arrangements at the regional level, to associate exchange rate agreements to these trade arrangements on the way to full integration, and to delay capital liberalization until enough integration and enough cooperation has been set up at the regional level.

In conclusion, I have tried to argue that much of the current thinking in the international monetary system is based on the implicit view that full multilateralism is the way to go. In my view, while there is no doubt that multilateralism should be the overriding aim, it is probably realistic to think that it is not going to set in for many years to come. Therefore, we have to think about the way to get there, and the choice is not an all-or-nothing choice. There are different approaches, and regionalism is a very interesting route to take.

My reading of the European experience is that a successful way of going towards full integration is by stopping first to develop local institutions and local arrangements.

GENERAL DISCUSSION

REPRESENTATIVE OF ITALY

Italy fully endorses the statement made by the French delegate, speaking on behalf of the European Union. The importance of assistance programmes in regional integration has been underlined in many of the interventions during the debate, so I would like to speak about a certain number of Italian initiatives that have been taken within the framework of our cooperation for development. We feel they are important elements for the promotion of regional integration since they contribute to creating a stable economic and financial environment, successful governance and attractive conditions for both regional and overseas investors, particularly through the use of new technologies. We also believe that regional integration can represent, in many instances, a useful instrument to expedite the integration of developing countries into the global economy.

The promotion of regional integration needs, as mentioned earlier, stable financial flows and stable financial markets. One of the ways this can be done is by stepping up efforts to encourage private direct financial flows.

We believe that fostering the participation of the private sector through direct foreign investments represents a fundamental element for the development of an emerging economy and a necessary step for integration at a regional level and within the global system.

Italy devotes considerable attention to assisting developing countries in adopting the appropriate institutional and legal framework - which can be useful in all kinds of regional integration arrangements, whether financial, commercial or others - to encourage the setting-up of new businesses, with special reference to small and medium-sized enterprises.

The first example of our commitment to regional integration is our participation, with other donors, in a programme currently carried out by UNCTAD in the SADC area, for the establishment of a free trade area. The results of the programme have been so positive and encouraging that the interested countries are more than ever committed in their endeavours to reach this target.

Another concrete example of our cooperation activities is a recent initiative started with UNCTAD a little more than a year ago called “Mediterranean 2000". This programme, in our opinion, is a good example because of its features as a pilot programme focusing on two regions - the Mediterranean Basin and the Horn of Africa - and because of the interest it has raised in the 10 beneficiary countries. The programme aims to contribute to the economic and social development of these countries by spurring growth and competitiveness of small and medium-sized enterprises.

Concerning the financial implications of the process of integration, we believe that the LDCs involved in regional integration initiatives, in particular, need adequate financial resources to combat poverty and to improve their social and economic conditions so as to be better prepared to participate actively in the integration process. For that purpose, the enhanced Heavily Indebted Poor Countries (HIPC) Initiative is an important instrument. In this context, we would like to point out that, besides the Italian contribution of US$70 million to the HIPC Trust Fund, the Italian Parliament has recently approved legislation allowing the cancellation of outstanding credits vis-à-vis IDA-eligible countries for up to $6 billion over the next three years. We feel that these kinds of programmes will allow the LDCs, in particular, to have additional resources to direct towards their regional integration efforts.

As we stated earlier, regional integration should also benefit from the great opportunities and revolutionary qualities of the new technologies. There is an enormous potential to help reduce poverty, foster sustainable development, empower people, build capacities and skills, facilitate new and transparent government mechanisms and reinforce popular participation and informed decision-making at all levels. We believe all these are essential elements for countries to participate effectively in different kinds of regional integration processes.

In the field of new technologies and governance, Italy is organizing the third Conference of the Global Forum on Reinventing Governments on 15-17 March 2001 in Naples. The subject of this important event will be focused on the actual and future role of e-government in fostering democracy and development, and on its formidable potential for rethinking and transforming the way public administrations perform and deliver in favour of economic and social growth. Training sessions for high-ranking officials from developing countries will also be held during the Conference.

REPRESENTATIVE OF INDONESIA

Indonesia, for one, considers the issues being discussed here as critically important for its sustained economic recovery. The Asian financial crisis has sparked worldwide interest on the need to review the international financial architecture. From the devastating effects of the crisis, we have learned that, for most developing countries, the existing international financial system does not seem to serve the objectives as they were originally intended.

We note that, at the global level, efforts of reforming the financial architecture have been initiated in several areas, including the development of internationally accepted standards, regulations and supervision, transparency in the decision-making process, management of capital accounts, and surveillance of national policies.

With the support of the IMF, some countries in the region that were affected by the crisis have recovered even faster than expected. While highly appreciative of the important role played by the IMF in this regard, we are, to some extent, concerned that these developments could slow down efforts towards reforming the international financial architecture. Their recovery, should not deter the IMF from continuing its work on reforming the international financial architecture so as to create a sound financial system that is more responsive to the challenges facing developing countries. In this context, we would like to see that any reforms undertaken respond to the new demands arising from the Asian crisis.

There is a growing awareness in the international community on the need for pursuing regional cooperation in money and finance.

We share the view of those who believe in the importance of regional cooperation as a complementary effort to the reform of the international financial architecture. In this context, the proposal to establish a regional financial architecture deserves further consideration. This should be geared towards developing a mechanism that could help prevent a recurrence of the economic turmoil that gripped our economies and that could function as the lender of last resort. These endeavours should go hand in hand with the development of effective regulation of international money markets to make them more open and transparent. One might also consider establishing a mechanism to monitor and carry out surveillance of capital markets and international financial operations that will help mitigate the unpredictability and dire effects of globalization.

In this context, it is hoped that the capacity of international financial institutions to prevent, manage and resolve crises in a timely and effective manner will be improved. In addition, there should be concrete efforts to create early warning capacities and modalities to prevent financial crises, and take timely action to address the threat of such crises.

We believe that, apart from the initiatives taken in the public sphere, measures with regard to the private sector are also important, and that the involvement of the private sector in the prevention and resolution of financial crises should be enhanced. In this context, an equitable distribution of the costs of adjustment between the public and private sectors and among debtors, creditors and investors deserves serious consideration.

Finally, I would like to comment on the involvement of the private sector in all the ongoing efforts to reform the international financial system.

We may wish to consider whether this is workable during the current discussions on the issue and I would, therefore, like to hear comments from the panellists in this regard.

REPRESENTATIVE OF THE INTERNATIONAL MONETARY FUND

I am very happy to speak after the previous speaker because he raised a number of issues that I would like to discuss, which are very important in this debate.

I think sometimes the discussion on what is called reform of the international financial architecture - or the strengthening of the architecture, in our own terminology - is perceived as being a bit slow and not comprehensive. The way our membership perceives it is best expressed in the communiqué of the discussions at the recent annual meeting of the International Monetary and Financial Committee (IMFC) in Prague. The emphasis there was that we have taken a number of concrete steps to strengthen the international financial system, but that, obviously, more needs to be done. I think the perception of our membership is that a lot of concrete work has been done, not so much in terms of a comprehensive reinventing or redrafting of the international monetary system, but in looking at the different building blocks. Work has been done on looking at the different elements of the system in light of the lessons drawn from the Asian crisis, in order to achieve one thing, which is paramount, and that is, to make the participants in the system, and the system itself, more resilient to crises.

Many of the ingredients considered particularly important in light of the Asian experience were singled out by the Interim Committee at its last meeting. We are emphasizing particularly the strengthening of the financial sector and the banking sector through the adoption of standards, through best practices in these areas and through monitoring. I think it is important to make the domestic financial sector more resilient. However, I wish to emphasize that the IMFC communiqué also mentioned that surveillance should include a regional dimension. So I think the difference that has sometimes been drawn between multilateral and regional should not be seen as opposing or controversial, but rather as complementary. I think that the efforts within the EU to come up with a common currency and to build a monetary union, and the way the EU is cooperating within the multilateral system under the Bretton Woods system, are good examples of how regional and multilateral efforts can work hand in hand and be supporting and complementary. There are other examples given by some of the panellists from other areas of the world where this has worked well.

The main emphasis after the crisis, and the discussion on strengthening the architecture, has really been on preventive measures that would allow us and our members to avoid crises. These measures are mainly in the area of surveillance.

Consistent advice is needed not only in the area of surveillance, where it is very important, but also in the area of financing, where obviously, support from others in financing particular countries in crisis situations or in preventing crisis is very important. Therefore, the IMFC Interim Committee has put particular emphasis on this aspect, including the development of codes and standards, and all this is well advanced, but we trying to beef up the work in this area. The issue is really one of monitoring and implementation, but it also includes other issues already mentioned, such as debt and reserve management practices, which are important in light of experiences from the crisis. The areas of detection, vulnerability indicators, which some referred to as early warning systems, also deserve further analysis, and a lot of progress has been made. These are very difficult technical issues and they need a lot of practical work, but I can assure you that work is going on. There will be further analysis, in particular, in the area of exchange rate regimes, and some of aspects mentioned by previous speakers will be taken up. We will also be looking at the proper sequencing of capital account liberalization, and in particular, its relationship to the strengthening of the financial sector in individual countries.

It is important to understand that exchange rate regimes will have to be responsive to the particular situation of particular member countries. It would be important to draw an analysis of the pros and cons of the adoption of a particular regime with respect to the particular circumstances of a member, be it trade flows, openness of

markets, exposure to capital flows, regional integration, and so on.

I would like also to mention that we will do further work on monitoring and analysis of capital markets and other aspects mentioned by the previous speaker. Important progress has been made on the involvement of the private sector with a general attempt to strike a balance between the need for clear guidance regarding the circumstances under which the private sector should be involved and the need for a flexible approach to its involvement in individual cases. The main emphasis is on voluntary participation, recognizing, however, that there might be cases where a more structured involvement of the private sector would be needed. I just wanted to emphasize that, depending on where
you are and how you look at the issues, our feeling is that more progress has been made on all these aspects than is sometimes attributed to the work of the IMF.

CHAIRMAN

Some questions have been put to me concerning the IMF's thinking on the question of financial liberalization, because it seems to some of us that one of the basic causes of the financial crisis in Asia was the rapid financial liberalization process. Because of the crisis in Asia, many countries have become somewhat disenchanted with opportunities to liberalize their financial sector. Another question is the emergence of a possible Asian Monetary Fund - not to compete with the International Monetary Fund - but it has been objected to in the past. What is the view of the IMF now with regard to this renewed effort in Asia to create another fund?

REPRESENTATIVE OF THE INTERNATIONAL MONETARY FUND

I think there was a long discussion about this issue in the IMF after the crisis. I would just like to reiterate the crucial need for stability of the domestic financial sector in the countries concerned, and the recognition that there needs to be proper sequencing - the capital account should be liberalized only when the domestic financial sector is resilient enough.

I do not want to comment specifically on the issue of an Asian monetary fund because I am not really aware of the details of the discussions that may be going on in other forums. However, I think for us, one of the main aspects in all of these issues, as I said before, is really the need for complementarity and consistency of advice and financing in the context of the multilateral system.

MR. FLASSBECK

First of all I would like to underline what Charles Wyplosz has said about Asian Monetary Fund. I agree that there are intermediate solutions. You do not need to fully replace the International Monetary Fund, but there can, nevertheless, be systems of assistance through a certain monetary currency arrangement, and I think these are much more efficient in assisting countries which are under attack, even if they are fundamentally healthy. Here again, the European experience is crucial. In 1992, France was under heavy attack as much as the United Kingdom, but the mechanisms of the European Monetary System were able to differentiate between France and the United Kingdom. We now know that was a right decision. For example, the United Kingdom's rate was not sustainable, but France's rate was, because France was in a competitive position. So you have to think hard about it whether this kind of approach can really be taken by the IMF, as it cannot assist and stand by these countries from day to day. This, in my opinion, can only be done by a regional system, but not by the IMF which is responsible for over 100 countries.

Regionalism is important, because all that we have been talking about under the heading of financial architecture can be realized much better in these systems. Early warning systems and assistance in critical cases of shocks can all be realized much better by a small and

transparent system than by the IMF, which is rather anonymous.

PROFESSOR WYPLOSZ

Discussions about early warning systems, seem to suggest it is suddenly a good idea to improve our warning systems and try to do a better job. But I think that we have to be realistic - they will not make much difference. There will always be unexpected crises, and the more we look at crises, the more we find that each wave has something different in it that was not foreseen. This means that we will not know what will trigger the next wave. So one should not believe that early warning systems are the solution - they will only help.

On the question of private-sector involvement, in my reading of what is going on, there is fairly widespread agreement that something can be done. In 1996 or 1997, there was a very extensive report by the G-10 which went into many details and many things have been worked out since concerning private sector involvement, what it should be and how it could work. However, the process is stalling, and this is largely because of widespread misunderstanding, mainly in the private sector, of the problems associated with its involvement. The private sector is concerned that the measures that would allow for the orderly negotiations of debt would lead to a rise in the price of this debt. Recent evidence shows that, in most cases, it is quite the contrary. In fact, the easier it is to deal with debt once the crisis has erupted, the cheaper is the debt before the crisis when it is issued, with the exception of the poorer or less reliable countries, which indeed, might find it is more costly. And this is where international financial institutions should come in.

With regard to capital liberalization, which has been addressed repeatedly, I fully concur with the IMF statement that one has to proceed with caution and make a very careful assessment of the state of development of the domestic financial sector before liberalizing capital fully. But I think there is another step to be taken - there should be a very clear link made between financial liberalization and the choice of an exchange rate regime.

Once countries move to full capital liberalization, they more or less close the option of a fixed exchange rate. They are pushed to the extreme, and this is not necessarily in the interest of every country, especially small open countries, which are quite seriously integrated economically in their region.

Such countries either float their currency, and this can be dangerous for trade agreements, or they go to extreme solutions as in the case of Ecuador - going its own way, is raising questions in the region and may make further steps more difficult. The same concern was raised when Argentina considered dollarization. So there is a link between exchange rate regimes and capital mobility regimes and there should be one single decision.

Finally, concerning a regional monetary fund, such funds are good in the sense that they may provide competition in terms of policy solutions. Policy solutions in the face of a crisis are very often arrived at after considering many options, and sometimes by a very narrow margin, with different groups of people aiming at different conclusions. The fact that there is one monetary fund means the debate is inside the fund. So, having other funds would create healthy competition. The downside, which makes me sceptical, is that competition in providing funds may be dangerous because it could lead to deterioration in the standard or quality. Therefore, I am of two minds as to whether it is a good or a bad idea.

CHAIRMAN

One related question, Professor Wyplosz, we have been taught by theories that, when a country adopts a flexible exchange rate regime, that country is not supposed to accumulate a substantial level of international reserves, because the moment you float your currency, there should be no need for accumulating reserves. However, at the moment countries in Asia have been floating their currencies and at the same time accumulating reserves. How do you explain this phenomenon?

PROFESSOR WYPLOSZ

I think the explanation is what an economist has called a fear of floating. That is, many countries claim that their exchange rate is floating, but in fact, they do not want to leave it floating freely. So what you see is, indeed, that countries that are officially letting their currencies float, accumulate reserves because they do not want to completely give up this option. I believe it is one of the many symptoms of the fact that extreme solutions are not going to work for many developing countries. Therefore, we have to rethink the whole emerging consensus, that the extremes are the solution, and go to the next step, which is the capital mobility regime.

MR. FLASSBECK

I disagree with Charles Wyplosz - I think we have seen, in many countries, that there is an inflow of capital at a certain time because those countries are offering very high interest rates as they still have a rather high inflation rate. Italy in the late 1980s is an example, but we have also seen this in transition countries like Ukraine, Russia and Kazkhstan as well as in some Asian countries. There, the market did not anticipate the necessary depreciation which followed two or three years later.

The market does not demand the risk premium that a rational market would demand today for the depreciation of tomorrow or the day after tomorrow. This is one aspect that shows the market does not function too well; it shows no foresight and not sufficient anticipation for a solution that would give countries freedom to set their interest rates as they like.

Countries would have to lower the interest rate to stop the inflow of capital, but for domestic reasons, the lower rate might be too low, given the inflation rate. So this is a contradiction that cannot be solved through the market in the short term, it would need 10 or 20 years but then it is too late.

DR. ABUGATTAS MAJLUF

I think that one aspect that is interesting to analyse is the opening of the capital account. The recommendation that you should be careful is a new one - some years ago, the recommendation of the multilateral financing agencies was for complete opening right away. Now because of the problems that have arisen, the tune has changed. It is now seen as important to analyse capital opening at the same time as monetary liberalization. This has led to problems, because developing countries have found that if they open up the service sector, foreign banks come in with no reservations and they work with credit lines from their base, whereas a national bank has to work with any money it can raise in the market. In the specific case of Peru, for example, this is leading to the virtual disappearance of national banks, since there is no way they can compete in such conditions.

Regarding the impact of the international financial crisis on efforts to liberalize services at the regional level, in the case of the Andean region, intraregional liberalization of financial services froze as a result of the international financial crisis. The third element, which I think is pretty important, is that we have to assess the role of risk assessment firms. They are not answerable to anyone, and yet, if they lower a country's rating, this can have a considerable impact on its economy. This happened in Peru when it was slightly late with the debt payment because of legal problems that were being sorted out. These firms lowered Peru's debt rating that immediately pushed up the cost of the money interest rate, thereby affecting the economy. If something should be regulated, it is the way these risk-assessment firms operate. They are not accountable and can cause considerable short-term damage.

CHAIRMAN

I would like to thank all our Panellists and those who have made interventions. Before we move on to the next segment, which is our last segment today, we need a short break to make the videolink with the Harvard Business School in Boston.

Part 3

Investment provisions and regional integration: a new feature in regional integration agreements

CHAIRMAN

This session will focus on issues relating to provisions on international investment within regional integration agreements. There have been various approaches to investment issues in such agreements - some have included specific binding investment provisions, such as national treatment, while others have set up non-binding investment principles, and yet others exclude investment completely. Another approach is to have regionally concerted attempts at investment facilitation. The Asian Investment Area is perhaps the newest and best recent example of this approach. It was established to facilitate foreign direct investment within the area and to make the area as a whole more attractive to investment from third countries. I would be interested to hear about similar experiences in other regions, and most interested to hear what our academic experts and business people have to say on this subject.

Today, we have the benefit of the participation of representatives from the business community, policy makers and academics to address these and other questions. A particular question for the business community concerns the influence of regionalization on its investment decision. Also, does the nature of the membership in such groupings, that is, whether members are only developing countries or also include developed countries, influence the decision to invest? In other words, how does the composition of the regional grouping influence the decision to invest? The answers to these questions will help policy makers to see the impact of their policy frameworks on the investment environment as perceived by investors, because we need a clear view of what factors investors take into consideration. The session today will provide us with a very good opportunity for such interaction.

It will also be interesting to listen to the perception of policy makers of host countries in regional groupings. Did South-South integration agreements have beneficial effects on the host economies of these groupings? In their view, which investment provisions in the regional integration agreements have facilitated FDI flows within the region or FDI from investors outside the region? Are special clauses or transition periods needed to improve intraregional FDI?

Finally, we also seek the wisdom of academics, as neutral observers, to tell us what policy conclusions can be drawn from the comparative experiences over time in various RIAs, including investment-driven versus policy-driven arrangements. Did their performance differ in terms of export competitiveness, the quantity and quality of foreign investment attracted by the region, and the impact of such investment on the economies of the host countries? Another important question is related to the distinction between trade-based versus trade-and-investment-based RIAs. I hope that, by the end of this session, we will be able to obtain some clarifications about our concerns.

I would now like to invite our panellists to make their presentations. First Professor Michael Porter, will be speaking to us from the Harvard Business School in Boston.

PROFESSOR MICHAEL PORTER
Harvard Business School, Boston

I am delighted that we are able to use the power of new technology at a truly global meeting on this subject, and how appropriate, in these times of globalization and increasing trade, to have an opportunity to work together across borders.

From my perspective, I would like to say that there is a growing interest in regional economic integration all around the world. I personally participated in a variety of efforts in Central America, in the Middle East and in the Baltic Rim area. There is an extraordinary perception that, in a world where multilateral progress is sometimes difficult to achieve quickly, the regional approach can supplement and accelerate the trade liberalization agenda. However, we tend to see regional economic integration quite narrowly, with the dominant focus of most regional economic initiatives being on trade - on exports, almost exclusively.

I believe that regional economic integration is one of the most powerful tools we have to actually boost competitiveness at the national level, and not just through trade alone. As the purpose of regional economic agreements is to create a process of economic exchange that has really profound effects on the ability of individual nations to compete, they should provide an inextricable menu of trade and investment - both inbound and outbound. So as we set about to create regional economic agreements, we must view them in this broader perspective.

Why do we care about trade? Why do we care about regional economic integration? The purpose of regional economic integration is not to create exports for their own sake, but to raise the level of prosperity in the countries involved. What creates prosperity? Prosperity in any nation is a function of productivity - the productivity with which a given economy can utilize its resources.

In the modern global economy, cheap labour, natural resources and capital are no longer a competitive advantage. Increasingly, it is not the access to inputs, but the ability to use inputs to produce valuable goods and services, and the ability to create firms that can produce high quality goods and services to trade with other nations that makes prosperity grow.

In this new economy then, nations are competing, in a sense, to be the most productive location for business. And if you can be a productive location for business, you can attract investment from outside and you can also be a place from where local firms can export. The distinction between foreign and domestic firms is diminishing - both foreign firms and domestic firms can export and both can boost prosperity of a nation if that nation creates a productive environment for business.

What causes productivity in a national economy? I think we are learning that the traditional focus on macroeconomic policy has, in a sense, started to reach a point where that is no longer the constraint.

Having a stable macroeconomic environment, a good political process and a good legal system - all those things are important to competitiveness and to prosperity. But increasingly, the driving force for prosperity is no longer macroeconomic policy, it is microeconomic policy; it has to do with the microeconomic foundation in the country that supports high level productivity in business.

The microeconomic foundation consists of two parts. One, the productivity in an economy is the function of the productivity of the firms in the economy. We cannot have a productive economy without productive firms that can produce high quality goods and services and export to other nations. However, the firms cannot do it themselves; to have a productive set of firms, a productive business environment is needed in which firms are competing. Such an environment has to do with rules and regulations and the assets available to firms as they go about competing.

Regional integration is important, perhaps, in dealing with the macroeconomic agenda, as mentioned by other speakers. But I would like to focus on the importance of regional economic integration for improving the microeconomic capacity of a country, and I find it is becoming a very powerful tool for this. Regional economic integration around the world offers four fundamental benefits, and those benefits are important to understand because they go way beyond the traditional view that the region is simply going to become a free trade zone.

The first important benefit of regional economic integration is that it provides a way for companies to accelerate the improvement of their competitive capabilities, and to broaden the export base in the country beyond the traditional exports. The second fundamental purpose of regional economic integration is to dramatically improve the quality of the business environment through taking advantage of externalities and spillovers and benefits of coordination that no individual country can pursue as effectively on its own. The third benefit of regional economic integration is to improve the process of economic policy formulation. We find that, when countries work together in a regional process, this has very important benefits nationally for the process by which policy is set, and it provides a very useful discipline and accelerator to the process. The final benefit of integration is in attracting more attention and investment from outside the region.

Concerning the benefits of regional economic integration for firms, it is very important to understand the role of investment in the process and to see that is not just trade. Traditionally in the developing economies, nearly all the trade has gone between developing economies and the advanced economies. The reason is that many developing economies were closed and there was really no opportunity in most regions to trade with their neighbours. That opportunity was precluded by economic policy. Where companies in a developing country are primarily trading with advanced economies, it creates a very important impediment or block to the development process, because basically they only have one choice, and that is to trade based on inherited natural advantages, namely, cheap labour and natural resources. What this means is that, traditionally, the export base in developing countries has been very narrow, focusing on a few commodities where the country had some inherited comparative advantages. This has meant that companies in developing countries have had very limited skill bases. They have only been involved in assembly or in natural resource extraction, and have therefore had very limited advantages in the value chain, and very limited capabilities.

This whole approach of trading with advanced countries based on inherited competitive advantages makes

developing countries very vulnerable to exchange rate fluctuations and very vulnerable to macroeconomic shocks, and we see this over and over again.

Having said that, broadly speaking, regional trade has an enormous positive benefit to the process by which firms develop more advanced competitive capabilities. No longer do they just trade in natural resources and cheap labour. When they are trading with their neighbours within the region, with other developing countries, there is a whole array of additional opportunities for firms to exchange in trade, in consumer goods and services that go way beyond the traditional export products. And it is this trade with neighbours in new kinds of goods that is a fundamental stepping stone in the process by which companies actually develop the capacity to internationalize more fully. This process is rapidly developing in those regions that have really taken the regional approach to heart. For example, historically in Latin America, the dominant trade, almost 80 per cent of all exports, was with the advanced nations. But what we now see happening, as regional trade has started opening up, is that the composition of the trade is changing. With advanced economies most of the trade is in primary products; there is a growing trade in manufactured goods but this involves almost exclusively cheap labour. The trade with developing economies has moved to more than 51 per cent manufactured goods, and these are not just cheap labour, because of course, other Latin American countries have cheap labour as well.

In Latin America, what is happening is a process by which the competitive capabilities of firms in the region are growing, because they are now able to trade a broader set of goods with their neighbours.

Thus Latin America is an example, where the real explosion in regional trade is actually trade with the neighbours - overall Latin American trade is going up, and trade within the region now represents about 25 per cent of all Latin American exports. Regional trade produces much more logical opportunities for exchanging goods and services based on unique product needs, and on efficient logistics and production. This expands dramatically the opportunities for trade and builds the competitive capability of the firms. This intraregional trade is not just exports. Companies are also starting to do foreign investments within their region, and this provides an important stepping stone for firms to develop their skills, their technology, their assets and their logistical systems so that they can support higher levels of productivity and higher levels of wealth.

Regarding the role of regional trade in the business environment, we have realized that many aspects of economic policy are not just affected by a country's own decisions. If countries can collaborate, they can actually accelerate the process of improving the efficiency of their business environment. A good example of what regional cooperation can do is that it can improve the overall logistics and transportation system. In the case of Central America, for instance, where there is quite an aggressive regional integration process going on, it makes much more sense to design a logistical system to move goods and services efficiently throughout the region, rather than to see it as a country-by-country phenomenon. Efforts are also under way to create an energy network to make energy use more efficient throughout the region, and to come up with common customs procedures, so that any time you cross a border within the region, it is the same process using the same documents. There are also efforts to link up the financial market.

So if regional coordination looks more broadly than just creating a free trade zone, there are many opportunities for countries to dramatically improve the quality of the business environment in which all the firms are competing, and therefore, support higher levels of productivity.

Thus, although regional economic integration is an important tool for boosting trade, it is much more important than that. It is a very powerful tool for raising

the competitiveness of the entire region and the countries within a region. A regional process provides a discipline and an acceleration mechanism for national economic policy improvement. It creates pressure to act and not to be left behind.

We must see regional economic integration not just as a trade expanding tool, but also as a tool for expanding outbound investment and for expanding competitiveness through trade and investment. What is the role of investment? We find that companies can now invest in other countries in their region. This is a very important part of regional economic integration. But we also find that, when the region becomes an economic unit, this attracts outside companies to invest in the region, because their investment in any one country becomes more valuable. Thus, by improving the business climate and the business prospects the regional process, tends to attract more companies and attract more attention. We have seen this in Latin America, for example. Once you get a regional initiative going, all of a sudden the region becomes a very exciting place to be if you are a foreign company, not just in the traditional export products, such as primary commodities, but in a broader set of goods, to take advantage of expanding integration across the countries.

PROFESSOR DANIEL CHUDNOVSKY
Director, Centro de Investigaciones para la Transformación (CENIT), Argentina

I would like to highlight some of the features and characteristics of foreign direct investment - not portfolio investment - in a rather successful regional agreement, MERCOSUR, which is an imperfect customs union. MERCOSUR has been very useful in attracting a lot of foreign investment flows to the region. In fact it would be safe to say that it is experiencing a foreign investment boom, which can benefit the development process of the MERCOSUR host countries.

The share of MERCOSUR member countries in world foreign investment flows is very impressive - it has increased from about 1 per cent in the late 1980s to 2.7 per cent in the first half of the 1990s and to nearly 6 per cent in the last three years. The share of MERCOSUR in world foreign investment is far higher than its share in international trade. This phenomenon began in Argentina in the first half of the 1990s, and was then taken up by Brazil in the second half of the 1990s. While foreign investment is playing a growing role both in Argentina and Brazil, it is also doing so in the smaller members of the MERCOSUR area - Uruguay and Paraguay. So it is truly a regional phenomenon. Nevertheless, there is a big difference - where in Argentina and Brazil, most foreign investment comes mostly from developed countries outside the region, in Paraguay and Uruguay recent FDI inflows are mostly intraregional. So far, intraregional FDI has been relatively unimportant in both Argentina and Brazil, though a number of multinational regional enterprises have emerged. In any case, at first glance, figures suggest that regional integration has become the key factor for attracting foreign investment.

An enlarged market not only induces the displacement of exports with foreign investment, but it also leads foreign investment to take advantage of economies of scale and specialization and generally growing intraregional trade.

However, membership in MERCOSUR is not the only advantage for these countries. Macroeconomic stability and the adoption of structural reforms have also been key factors in attracting FDI, and it is rather difficult to differentiate which are the most important factors. One key factor undoubtedly has been privatization, which is hardly linked to MERCOSUR as such. Privatization accounted for nearly half of all FDI into Argentina at the beginning of the decade, and for about a quarter of all FDI in Brazil in the late 1990s. So foreign investment in privatization is a very important factor, but it is not the main factor.

Our studies of the MERCOSUR countries show that the growth in internal demand has been the main inducement to recent foreign investment in both Argentina and Brazil, both in tradables and non-tradables. However, there is a very important difference with the past.

In contrast with FDI to these countries during the time of import substitution, which was mainly market-seeking, most of the recent FDI, in addition to market seeking, is also efficiency seeking. There is also market-seeking, but of a larger kind, in tradables.

Because companies have to operate in an open economy, competing with imports and with other companies, there are an impressive number of newcomers to Latin America from all over the world in addition to the old companies that have been operating in the region. Thus foreign investment is a different animal to what it was during the import substitution period. We still do not know exactly how it operates, but it looks more efficient than it used to be during import substitution industrialization.

What is the role of MERCOSUR? Foreign firms operating in tradables increasingly consider MERCOSUR as an enlarged domestic market. It has played a key role in the organization of the automobile and autoparts industries, and in attracting foreign investment into the food and chemicals sectors and in some energy-related sectors. In fact, MERCOSUR, besides attracting foreign investment, has been extremely important for existing old and new foreign firms, and affiliates of TNCs have taken far more advantage of the opportunities of regional integration than the domestic enterprises. The share of foreign firms in exports to MERCOSUR, both in Argentina and Brazil, and to a lesser extent in Uruguay, shows that the main beneficiaries of the enlarged market are the foreign affiliates.

Preliminary findings from the research we are doing at the moment show that foreign firms mostly export to the regional market and import largely from industrialized countries. There is a very interesting division of labour with imports coming mainly from the United States and Europe and exports going mainly to the regional market, except in resource-based investments, which are still quite important in the new economy in MERCOSUR. So foreign firms are exporting mainly to MERCOSUR and importing from the rest of the world. Another important finding is that the import coefficients of foreign firms are generally far greater than their export coefficients.

Higher imports are not only of capital goods for their investment needs, but also parts and components and final goods for resale.

Most of the foreign firms are importing far more than they are exporting, and this is a key issue in dealing with the contribution of foreign investment to the MERCOSUR countries in the 1990s.

Foreign investment is contributing to increasing the merchandise trade in both Argentina and Brazil. This situation may change in the future, but so far only those TNCs engaged in resource-based investment are clearly net exporters. In fact the main macroeconomic contribution of FDI has been the financing of the balance of payments current account deficit. This is a very important consideration if this is the main reason why our macroeconomic officials love foreign investment. It has made a tremendous contribution to the financing of the huge foreign exchange deficit that the structural transformation of these economies is causing. The other positive role of foreign investment is its lower volatility as compared with portfolio investment.

However, the growing trade deficit, with TNCs importing more than they export, and the growing trend of profit remittance, is creating considerable debate in the region about the sustainability of foreign investment in the form it has taken in the 1990s. In the long run, many foreign investment projects may end up making a negative contribution to the balance of payments.

The other issue regarding foreign investment in MERCOSUR, besides balance of payments and balance of trade, which is important to underline, and that was raised by Mr. Ricupero this morning, is the question of the denationalization of firms. The increasing share of foreign firms in both Argentina and Brazil, is a very important feature of foreign investment in the 1990s. Most of the leading firms are foreign owned and many domestic firms were sold to foreign investors. This was a completely voluntary situation - not forced at all by the Government - but basically because they could not compete with the financial and technological strength of the foreign firms. This calls for a serious review of policy, not for restricting foreign firms, but to upgrade the conditions to enable domestic firms to compete and to have a more level playing field vis-à-vis their international competitors.

It seems that the competition effect of FDI on indigenous firms may not lead to positive but to negative spillovers when foreign firms attract demand away from their domestic competitors. And this is a very important issue on which research is urgently required.

Furthermore, since trade liberalization allows for a higher import content of local production, affiliates of the TNCs appear to have destroyed, rather than created, linkages with domestic suppliers. Thus, a second consideration is, to what extent can we develop linkages with domestic suppliers and with networks in a globalized open economy?

Coming back to the policy issues that were raised in the questionnaire at the workshop to this seminar. MERCOSUR is an ideal case of deregulation - most restrictions to the operation of foreign firms have been eliminated in MERCOSUR member States. We have extremely liberal provisions, and intra-MERCOSUR FDI is also largely liberalized. But a very worrying development in MERCOSUR in the last couple of years is a sort of growing war of incentives of sub-national governments to attract FDI to a region that is already receiving a lot of FDI.

Despite a lot of foreign investment in the region, we are seeing something that has happened in a number of developed countries and in other regions, namely that sub-national governments in Brazil and Argentina are fighting to attract foreign investors, not just within MERCOSUR, but to specific locations in Brazil or Argentina.

For example, they are giving money to large automobile producers that still have a protected environment, because the MERCOSUR automobile regime is a special case of industrial policy. Even more worrying, at the beginning of this year, there were some bitter disputes within MERCOSUR and fears of investment diversion. No information is available on its magnitude, as there is no transparency at all. In fact one of the most serious problems is the way these municipal or regional incentives have been given to the companies in the face of opposition by the national Governments. This is a case of investment diversion, not from other regions, but within MERCOSUR itself.

There is no doubt that there is a need to establish investment-related disciplines at the regional level, to limit the harmful competition for investment and to redirect competition towards socially desirable objectives. There is no intention of eliminating incentives, but rather, to use incentives to create externalities instead of favouring internalities - not to favour private profit, but to enlarge the locational advantages.

The current incentive schemes - characterized by non-transparence lacking disciplines and disregarding any sort of competition policy - offered at the national level in MERCOSUR are nothing like the European Union regional competition policy. Thus we need to address the whole question of a regional policy with regard to incentives in MERCOSUR, as an urgent policy requirement, and to learn mainly from the EU experience.

The second important policy area is to take more advantage of foreign investment by improving the competitiveness of domestic firms. In this way we will create good suppliers and good competitors and create a more level playing field, and even create our own multinationals, which is extremely important for MERCOSUR. So far, MERCOSUR members have very few multinationals of their own because FDI liberalization has been too favourable to foreign firms. I believe we should keep a very open environment for foreign investment, but at the same time, enlarge the domestic and regional capabilities.

We need to take advantage of foreign investment for balance of payment reasons, to increase our managerial resources and to bring us the latest technologies, but we also need far more domestic entrepreneurs.

Most domestic entrepreneurs will come from the employees of foreign firms, and this spillover will be a very important source of people trained in the latest techniques, but this takes time. I think there is a complete imbalance in the complementary policies of trade liberalization and foreign investment liberalization. At the international level there are a lot of good practices, but we have to learn how to implement them. This requires public policy makers networking with the private sector. However, the situation may be somewhat different in those parts of the developing world where there is still a considerable lack of foreign investment.

MR KHAYA NGQULA
Chief Executive Officer, Industrial Development Corporation of South Africa Ltd.

It is, indeed, a pleasure for me to share with you some of our experiences as a development finance institution in southern Africa. The Industrial Development Cooperation (IDC) has been involved for the past 60 years in regional development.

I regard today's conference as an honest attempt by UNCTAD to bridge the gap between policy and practice, of what is happening on the ground, and also to build or bridge the gap between idealism and reality. I will talk to you about some of the projects which we have implemented in my region - projects that have forced some of our Governments to promulgate new legislation to create an investor-friendly environment. A look at the formation of any regional arrangement, whether it be MERCOSUR, NAFTA or the EU, reveals that there is a history behind it; there were compelling reasons why they were formed. In my region, SADC, when there was something called apartheid in South Africa, all the States around South Africa formed themselves into what we called frontline States, and when the South African problem was resolved these States formed themselves into what is called SADC today. So the progression was from a political to a trade bloc, to what has now become an investment destination for those who want to make profit and for those who want to assist us in developing our region.

I would like to touch upon two interrelated issues. First, the role of regional integration, and second, the role of policy measures in investment decisions. As far as possible, I will focus on political requirements rather than on my Organization's own policies. We all accept that economic integration is of critical importance to the SADC, as it not only carries the politically beneficial element of cooperation between neighbouring countries and allows them a voice in global forums, but it also has numerous potential benefits for the region's economies. Furthermore, we agree that regional integration expands well beyond the narrow confines of trade liberalization to include, among others, regional infrastructure development, the liberalization of capital and labour flows and the harmonization of investment regimes. In short, regional integration helps to break down barriers between countries in the region. However SADC regional integration is still in its infancy, with the current primary focus on kick-starting trade integration through the SADC Free Trade Area. Therefore the economic benefits we usually expect from integrated markets will probably remain constrained in SADC for the foreseeable future. You may rightly ask, why then, is there an attraction for investing in our region? For instance, we believe that the only way for achieving the future economic benefits of regional integration is through what we call productive investment. The region holds enormous talent, and a potential in agriculture, mining and primary manufacturing that can be exploited to attain this objective. The IDC is fully committed to regional integration efforts and acts as a primary catalyst for sustainable industrial development within southern Africa.

We have progressively increased our involvement in the region by establishing a special strategic unit to work through all the SADC countries, by identifying sound investment opportunities, and by providing consultancy services and inputs into regional policy formulation. The IDC is currently involved, or considering participation, in 31 projects throughout the SADC region worth US$5.5 billion, in partnership with all the Governments and with all the development finance institutions of the region. And this portfolio is as diverse as aluminium smelting, mining activities, agriculture, manufacturing and tourism. Amonth ago we opened one of the biggest aluminium smelters in the world in which 20 international banks are participating as well as some major multilateral and bilateral institutions, such as the International Finance Corporation (IFC), the German Development Corporation, Compagnie Française d'Assurance du Commerce d'Extérieur (COFACE) of France and the Ministry of International Trade and Industry (MITI) of Japan. What we are finding, that is crucial for regional integration in our region, is that some of the projects are able to attract multilateral institutions and big companies to come and invest in our countries.

Accepting that investments must contribute to the eventual success of economic integration requires investments to conform to certain criteria. Those criteria are financial viability, sustainability, international competitiveness and compliance with internationally acceptable standards.

I think that I could say up front that the projects we are involved in do not need subsidies; they can stand on their own and compete anywhere else in the world. Any investment is associated with a measure of risk and even more so when investing in our region. Apart from the criteria just listed, successful investment hinges on the ability of the investor to safeguard against various risks. This implies that government assistance and incentives must aim to minimize the risk of viable projects and not determine the initial viability of the investment. I would like to highlight some of the principal risk elements, together with appropriate measures necessary for Governments or investors to address this risk in the context of our regional investment.

First, when countries experience problems in meeting their obligations (that is a sovereign risk), it has a negative impact on the business operating environment. Typical impacts range from the unavailability of foreign exchange to nationalization of private efforts and political instability. Investor actions include assurance against such risk through institutions such as the Multilateral Investment Guarantee Agency (MIGA) and the involvement of strong multilateral and bilateral organizations, such as the World Bank, in projects to ensure political influence when required. Furthermore, investment protection agreements between Governments go a long way to protect against the threat of nationalization. Government support measures to address some of these risks include, as happened in Mozambique, guaranteeing the availability of foreign exchange for the repayment of interest and loan capital, allowing the holding of offshore accounts, especially for debt servicing, and guaranteeing the repatriation of investment proceeds.

The consistency of the legal framework and applying the rule of law is an element that significantly reduces risks of operating within a specific country. Furthermore, the alignment of business rules, such as companies' acts and tax laws, with acceptable international practices ensure an investor-friendly operating environment.

The second risk category I would like to highlight, is the risk of productive capacity being interrupted or even destroyed. In general, the only action available to investors is normal insurance of assets, which, in itself, is inefficient in addressing such risks. Therefore, government support plays a critical role to minimize such risks. The provision of effective domestic security services, that is, policing

services, are important to ensure the protection of physical assets, even more so during periods of labour unrest. Effective protection of intellectual property and patent rights are also important to ensure the long-term sustainability of operations. Labour policies should be flexible and allow for sufficient use of expatriate labour, especially where critical shortages of skills exist in the domestic economy. Although training of local labour must
be a requirement, labour laws should not place an unrealistic time frame on the phasing out of expatriate labour.

Policies to ensure that suitable infrastructure is provided and adequately maintained, also play an important role in minimizing operational risk. Interruption in power supplies, harbour facilities, or telecommunication services can even lead to the total closure of a production facility. The provision of adequate safety, health and environmental legislation is important to ensure that the operating environment is conducive and safe for all employees. We have to accept that, although these support measures might contribute to minimizing the operational risk, a risk premium is associated with any investment in Africa. Furthermore the typical primary activities do not present opportunities for super profits, and I think it is vital to say to a number of investors who come into developing countries that, if they want to invest, they obviously should not be looking for super profits.

Implementation and effective coordination of the support measures require strong institutional capacity in terms of competence to understand the issues, develop solutions and implement as speedily as possible. The development or strengthening of such institutional capacity, in conjunction with stakeholders, is therefore critical to assure a continued flow of investment funds.

Lastly, cross-border investment in our region requires the Government of the target country to be as committed to the success of the project as the investors and shareholders. Such commitment ensures policy consistency and surety for a consistent operating environment for the life of the project. Such consistency is possibly the single most important factor for investment success. Consistency goes hand-in-hand with predictability. People must be able to predict that your Government will be there for the next five to ten years and that policies are not changed at the whim or the decision of one or two people in government.

In conclusion, I would like to stress the fact that the regional integration process in southern Africa provides immense opportunities for investment. Although risky, cooperation between all stakeholders on the basis that development and profitability are not mutually exclusive will lessen the risk and provide the foundation for successful investment. In our region, I think we are all committed to ensuring that we can create wealth, jobs and opportunities for our peoples.

REPRESENTATIVE OF THE UNITED KINGDOM

The United Kingdom very much welcomes the focus of this year's high-level segment on the question of regional integration. The attention which this subject received in the Action Plan following UNCTAD X was a sign that the subject has truly come of age in the trade and development context. Professor Porter, in his most thought-provoking introduction to this session, rightly noted the importance of a productive business environment for investment. The United Kingdom would entirely agree. We see one of the principle attractions of regional integration, is that it creates increased competition through the integrated market with benefits for consumers and producers alike. It is, therefore, the issue of competition that we wish to address.

I should like briefly to share with delegates some of the conclusions of a round table on competition policy chaired by Claire Short, the UK Secretary of State and International Development, held in July this year. Participants in that round table included a large number of representatives from a range of developing countries. I shall highlight six points.

First, with regard to the role of competition policy, globalization highlights the importance of competition laws, particularly for small economies that are dependent upon international trade and investment.

Competition laws need to ensure that both private and public restrictive business practices, both in the domestic and in the international context, do not prevent the poor from gaining the full development benefits of globalization.

Liberalization alone cannot be relied upon to bring about competition, so competition policy is an end worth pursuing in itself. Without strong domestic institutions, economies are vulnerable to global uncompetitive practices. A sound domestic framework of competition rules and principles has a central role in a market economy because it increases equity and consumer welfare, and promotes transparency, thereby attracting sustained fixed investment whose benefits can be captured for development.

Secondly, with regard to the nature of competition policy, effective competition policy covers a range of restrictive business practices. Competition law strengthens and underpins the efficient working of the domestic market. But one size does not fit all; there is no universally applicable harmonized model. Competition law needs to be designed to suit the stage of economic development and the legal approach of each country. It is also essential to create a competitive regulatory framework before privatizing State monopolies, for example, in the utilities. Similarly, deregulation must have due regard to consumer interest, public health and safety. Generic competition law might be preferable to sectoral regulations which risk capture by existing operators.

Turning now to the regional dimension, regional competition laws and local agreements can be a solution for smaller States, both in terms of administrative cost and the economic circumstances.

Economies of scale mean that small economies may rely on external competition to ensure a competitive domestic industry. Regional bodies could ensure that such competition is fair. Regional integration can itself be a spur to competition, again, especially for small States.

It may be true that the markets of small economies can be viable for one domestic company only. This can trap consumers into high prices and low quality goods. An integrated regional market, as a number of speakers have already noted, in which barriers are lowered, means that consumers can reap the benefits of competition amongst companies, as well as providing bigger markets in which local companies can increase their competitiveness.

The fourth point concerns a competition culture. Although competition authorities must be independent of political influence, they can only be truly effective if the Government's economic and industrial policies are driven by the principles of competition. This is largely a matter of political will to diffuse competition advocacy, sustained through a national culture of competition. Consumers need to appreciate the role of competition in ensuring value for money. International and national consumer groups have a key role to play here. Business needs to recognize the benefits of competition, both to secure value-for-money inputs and to ensure a fair market for their products.

With regard to the international dimension, at the round table there was a general consensus that the WTO is the credible forum for negotiation of a multilateral framework agreement on competition principles, although there does need to be more discussion as to the core elements.

And finally, there are two key points on how competition policy and law can be taken forward. We see the importance of enhanced technical assistance to improve the capacity of developing countries to draft, revise and implement competition law, and I know experts who already put quite a lot of work into that aspect. A network of competition experts would be useful to coordinate technical assistance, and particularly, to disseminate and share experiences.

REPRESENTATIVE OF AUSTRIA

Mr. Porter's view is a plea against full-fledged worldwide multilateralism. My question for Mr. Porter in this context is how do you define meaningful regions? Is it just neighbouring countries, with a logistical corridor as found in the SADC region or in Central America, or is it the whole continent of Africa, for instance? Or is it, as Mr. Moore might say, the whole world? Or is the key for success not size, but a sufficient microeconomic foundation, which you mentioned in your statement?

PROFESSOR MICHAEL PORTER

I think what we heard in the presentations by Professor Chudnovsky and Mr. Ngqula is really a strong argument in favour of this broader view of regional integration than just trade agreements. Professor Chudnovsky showed us that regional economic integration, without sufficient progress in the domestic economic environments of the individual countries, can lead to unanticipated results. Foreign companies can come in and buy up all the local companies, foreign investment can begin to create a negative external balance of trade, and the linkage effects between the foreign companies and the local companies can be too limited.

Regional integration and national upgrading should happen together. If one goes too fast without the other, some of the important benefits of this are lost.

I think one of the problems in the MERCOSUR area is that, although there is very rapid progress on privatization and export opening, and so forth, progress in domestic microeconomic improvements has been, perhaps, too slow. The corporate sector has been very slow to develop its capabilities, which is not surprising, given the many years of protection. So we have to see regional integration and national improvement as really two things that go side by side.

We also see in Mr. Ngqula's presentation how the integration process in southern Africa has provided a stimulus to improvement in policies at the national level. And this is the kind of synergistic benefit of regional integration that, I believe, must be its most fundamental approach and strategy.

How can we encourage foreign investment to be a positive force in regional economic improvement? I would offer the notion of clusters as a critical concept. If we think of foreign investment as simply a set of investments by firms in disparate industries we have the risk that Professor Chudnovsky was illustrating in his presentation. On the other hand, if each national Government thinks about building clusters, where it has unique capability in a particular field, where it tries to develop a critical mass in automotive, agribusiness, or services, for example, then the foreign investment promotion strategy is focused around cluster development - not just on attracting companies. This way, we often can create much stronger linkages between the foreign companies and the local companies. We can improve very rapidly the business environment in particular fields in the economy. So, I think we can mitigate some of the concerns of foreign investment if we have a different strategy for developing our investment promotion process.

I agree with Professor Chudnovsky that we have to be careful about the investment incentives issue. We have to create agreements where investment incentives are not zero-sum incentives, where countries and regions are simply giving away money through tax breaks.

We have to make sure that investment incentives, which are legitimate, are invested in the competitive capability of the country. The subsidy should go for training, for infrastructure, for improving electric power availability or for improving the business environment in the location. It should not simply pass profitability on to the foreign companies.

In answer to the Austrian intervention of what constitutes a region, my view is that there are a lot of different definitions of regions, and that they should not be seen as mutually exclusive. There are some areas where I think coordination among neighbours is very powerful as a tool for enhancing competitiveness, as I have already illustrated. Having said that, that does not mean that you cannot, at the same time, pursue other kinds of integration with broader groups than just your immediate neighbours.

My view is that countries should be pursuing multiple forms of regional integration simultaneously. We should not be thinking of a one-size-fits-all approach - that you have to team up with one set of countries. We ought to see regional integration as a tool, which different groups of countries can use to advance the competitiveness agenda.

Therefore I believe that regional integration is a facilitating mechanism for multilateral opening, not a substitute. I think that is fundamentally the way we should look at it. We should not see integration as an end in itself, as independent of the national process of policy enhancement and improvement and capability enhancement in the private sector, that is so fundamental to improving prosperity. After all it is about improving prosperity; not just boosting trade. You can boost trade but not boost your prosperity if you have the wrong kind of model for integration.

PROFESSOR DANIEL CHUDNOVSKY

I fully agree with the way Professor Porter has complemented my intervention. It is absolutely true that there has been a tremendous asymmetry, but this asymmetry is very much related to the political economy of the trade and liberalization processes. When you deregulate and privatize, the results are short term. Building clusters and competitiveness policies requires long-term investment and the results are not very clear. They require a systematic approach. But it is a lesson for other countries that they should start with the process. As the representative from the United Kingdom was saying, you should not privatize without first having a regulatory authority. But few developing countries have done this. So in the end many of the bad results of privatization are not because of privatization, but because of the lack of the institutional capacity to be able to regulate the change in the properties of these companies.

The same applies to competition policy. Very few countries have competition policies that complement trade and foreign investment liberalization. In MERCOSUR, Brazil has had good experience with this, and a few months ago, Argentina set its first competition policy. In Argentina we really have very little experience in regulating the privatized companies. In some cases, with luck, things have gone well, but not in many cases. So I think that there is considerable asymmetry in deregulating. Privatization, although relatively easily done, brings short-term benefits, and our politicians like that, so you have a windfall at the beginning. But the difficult development task is to build new institutions. I fully agree that it is much better to put foreign investment into clusters that agglomerate the foreign investment. But very few investment promotion agencies in the world have such a progressive approach. The most successful is the Irish one. So this is an extremely important consideration from the development point of view. We have to learn to build institutions that will help the process. I think the more general policy is not competition policy - that is one area of regulation - but competitiveness policy whereby we can take more advantage of foreign investment with the kind of cluster approach that Mr. Porter has done so much to popularize.

MR. KHAYA NGQULA

I agree with Professor Porter that regionalism is definitely no substitute for multilateralism. However, I think it constitutes an attempt by the regions to make their own future, because they cannot only depend on the WTO, World Bank and all those institutions for this. They need to build their own capacity so that eventually they are able to deliver what their citizens expect them to deliver. I also support the statement that regional integration is not an end in itself, but the means to an end. From the perspective of institutions such as the WTO, I think it may be better to negotiate with 10 regions with a defined agenda, hoping to get a defined result, rather than to negotiate with 100 independent individual countries. So one could see regional integration as an attempt to facilitate discussions on such issues as anti-dumping, for example, which concern all of us. With the next WTO meeting maybe 18 months or two years from now, we need institutional arrangements which will carry on this debate and give us some answers.

REPRESENTATIVE OF THE PHILIPPINES

I agree with the suggested cluster approach, and that is consistent with the issue of avoiding competitive incentives that are given by developing countries. From our experience as a country that has been successful in exports as a result of investments, investment is a facilitation issue. But the role of regional groupings cannot be underestimated in terms of providing an image of stability and improving the overall competitiveness of countries.

Concerning investment regulations at the multilateral level, the first big attempt in WTO is the trade-related investment measures (TRIMs), which focus on the avoidance of such things as local content and export performance. There are at least seven countries that have notified the WTO for extension of the TRIMs, but till now, WTO has made no decision on how this process can be resolved. Under the TRIMs Agreement there is a call first, for a review of the whole Agreement, and secondly, for those who are asking for an extension, that this be viewed in terms of their financial, trade and development needs. That is not an easy task as far as the present review is concerned. All the countries, especially the ASEAN countries that have been hit by the financial crisis, believe that we have a justification for extending the TRIMs.

Secondly, in the services agreement, there is the possibility that it will support the principle of the right of establishment. The negotiation on this is imperative for both developing and developed countries. So the issue, which I would flag for UNCTAD, is to examine till what stage we should be able to maintain flexibility for the developing countries in the facilitation of investments, which we need for our development.

CHAIRMAN'S SUMMARY

If you consider the substance of our discussions from this morning, one could go on and on discussing the pros and cons of regional economic arrangements and how to further develop the framework so that the regional arrangement could be made complementary to the multilateral framework. For the sake of clarity and brevity, I have tried to summarize all the discussions into seven points which I will present.

The first point concerns several remarks that have been made about the possible negative and positive consequences of regional economic integration. Of course, the emphasis on the positive aspects seems to prevail over the negative aspects. There seem to be all kinds of reasons to have regional arrangements, particularly among developing countries, to help shore up their capacity and support each other, before they move to the multilateral arena. These countries need a certain period of time for adjustment and to build capacity, to prepare themselves for multilateral involvement. There have also been arguments in favour of regional arrangements in order to attract or mobilize intraregional investment and investment from outside the region. There has also been allusion to the political motive that sometimes, and in many cases, has been the prime motive in moving countries to get together, and subsequently evolving into a more or less economic integration unit. But clearly, under this present globalization framework, there seems to be room for the process of regional integration. If we look into the ongoing process, we would see the inevitability of the process. Since 1990, there have been 82 RIAs, while before that, it took four decades for 75 agreements to materialize. So, of course, we have to accept the reality that RIAs are here to stay, and will certainly proliferate in the future. Thus, we have to see to it that we make the RIAs compatible and complementary to the multilateral process.

The second point concerns the process of conducting the RIAs in a way that will serve the purpose of the multilateral trading system. Some remarks were made concerning the application of Article XXIV of GATT and Article V of GATS. It has been stated that Article XXIV might not be clearcut enough to serve as a guideline for RIAs. In this connection, considering the fact that Article XXIV was written quite long ago, and might be somewhat outdated, it might be a good idea, as has been suggested, to have a certain mechanism or certain rules by which we can gauge or assess the consequences of regional economic integration. They should also able to guide RIAs in a way that would serve the purpose of multilateral negotiations. So I would say that here lies an area where probably WTO and UNCTAD could jointly produce some analysis that would be a basis for the reconsideration of this Article in order to have certain multilateral guidelines for regional economic integration.

The third point is the question of how we can globalize regional arrangements, because only then can we make the RIAs work for the global economic regime. From the discussions, we have learned that there are ongoing efforts to link up various regional groupings. For example, there are efforts to link the EU and some of the Latin American groupings, such as MERCOSUR, and in Asia, ASEAN with China, Japan and Korea, and NAFTA probably with EU, for instance. So, if we could keep the dialogue going among different regional groupings, we might be able to succeed in globalizing regional economic integration efforts and make them work for the whole world. If we can join all the regional groupings together, then we have a global trading system in the making.

Fifthly, there was a remark that regional arrangements might become a bit confusing or costly because there will be multifaceted arrangements with different tariffs, different kinds of treatments, or even some discrimination in favour or against some groupings. So it might be a good idea to set to work to systematize the kind of preferential treatments that can be offered by RIAs so that they conform to the non-discriminatory standard of the WTO.

A sixth point concerns the area of financial liberalization. We touched upon regional arrangements and the need for restructuring of the international financial architecture. It seems to me that, in spite of the financial crisis in Asia, the opening up of the capital account - or financial deregulation and liberalization - is still a commendable measure. However, it must be well planned; the arrangement or sequencing of the financial liberalization process should be accompanied by a strengthening of the supervisory framework to make it work. The process we have been witnessing in the EU and the emergence of the Euro could be studied as a model. It probably could not be applied on a universal basis, but it might be looked at as a model for financial liberalization that would also serve the process of trade liberalization.

Lastly, I think we all agree that there is need for so-called deeper regional integration. Regional integration should not be concerned only with trade liberalization but should be extended to cover areas beyond the trade areas, and should cover at least investment. And, in order to cover investment, some complementary policies are needed at the microeconomic level. However, generally, we tend to look only at the macroeconomic framework in regional economic integration. There is a need for an explicit competition policy that would be conducive to creating a more competitive atmosphere among businesses, and to have a certain predictability that investment from outside the region could be also mobilized to enable the transfer of technology, and enhancement of domestic competitiveness.

As a final remark, I would also like to emphasize that, in order to make this exercise useful, we must never lose sight of the fact that, whether we have regionalism or not, there is a great need to support the integration of developing economies, and LDCs in particular, into the global framework. If regionalism is to serve that purpose - because we are seeing also that some regional groupings have as members only developing economies - we have to direct regional integration agreements in the direction of multilateralism. At the same time we should also make the effort to give support to regional groupings of developing countries or LDCs, so that, instead of going on a country-by-country basis to build up capacity, we could help to build capacity from region to region. And we may be able to save time, effort and cost if we can have region-wide matching of assistance so that the capacity-building process could be expedited in order to accelerate the process of integrating developing countries and LDCs into the global framework as much as possible.