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COMPARATIVE ANALYSIS OF TRADE LIBERALIZATION PROGRAMMES OF ECONOMIC INTEGRATION GROUPINGS

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The views expressed in this paper are those of the consultant and do not necessarily reflect the views of the UNCTAD secretariat.

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CONTENTS

MEMBERSHIP OF THE GROUPINGS STUDIED

ECOWAS: Economic Community of West African States

Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

PTA/COMESA: Preferential Trade Area for Eastern and Southern African States - Common Market for Eastern and Southern Africa 1/

Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Tanzania, Uganda, Zaire, Zambia, Zimbabwe.

LAIA: Latin American Integration Association

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

ASEAN: Association of South-East Asian Nations (1967)

Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore, Thailand.

1/ Djibouti, Seychelles and Somalia, which were members of PTA, did not sign the treaty establishing COMESA.

INTRODUCTION

1. After 30 years of striving for subregional, regional and interregional economic integration and cooperation, there is general agreement that most groupings have encountered a series of difficulties that have prevented them from implementing the trade liberalization programmes they had adopted in pursuit of their declared objectives of expanding trade between their member countries. In fact, the level of trade between such countries has, with few exceptions, remained relatively low by comparison with their global trade.

2. The present study seeks to identify the key problems arising from the trade liberalization programmes adopted by economic integration groupings of developing countries, with a view to (i) recommending ways and means of resolving the major difficulties and (ii) improving and strengthening the existing arrangements or proposing new ones.

3. The study covers four regional groupings of developing countries: ECOWAS and PTA in Africa, LAIA in Latin America and ASEAN in Asia. It is based on a comparative analysis of trade liberalization programmes within those groupings, entities supposed to play a central role in economic integration among developing countries. It seeks to identify the reasons for the successes achieved, as well as for the failures, such as loss of tax revenue, absence of compensation, overly restrictive rules of origin, shortages of production and export capacity, and inadequacy of physical and financial infrastructure. It concludes with measures to overcome those difficulties.

4. The groupings were chosen for their size, economic potential, and age and for the variety of their experience of trade liberalization. In addition, the choice covers three geographical regions: Africa, Asia and Latin America.

5. The analysis is based on studies, documentation and statistics issued by the groupings themselves, work done by international agencies (principally UNCTAD, United Nations Development Programme, World Trade Organization, Organization for Economic Cooperation and Development, International Trade Centre, International Monetary Fund and World Bank) and the findings of missions by experts from the UNCTAD Division for Economic Cooperation among Developing Countries to Senegal and Mali (members of ECOWAS), Zambia and Zimbabwe (members of PTA), Malaysia (a member of ASEAN) and Venezuela (a member of LAIA).

6. The groupings’ trade liberalization processes have been compared from two points of view: objectives and programmes, and trade performance. No account has been taken in the analysis of the non-economic objectives of regional commercial integration or of the other aspects of economic cooperation among developing countries.

7. The setting out of the overall conclusions drawn from the content and implementation of the trade liberalization programmes is to consolidate the programmes’ strong points and to remove the constraints to further liberalization within the groupings.

I. THE GROUPINGS' PROGRAMMES

1. ECOWAS

8. ECOWAS was set up in 1975 with a view to creating a customs union in 15 years by:

Abolishing all customs duties and taxes of equivalent effect on trade between the member countries;

Removing all quantitative and administrative restrictions on trade and eliminating all other obstacles to the free movement of goods, services and capital.

9. More specifically, the trade liberalization programme adopted when ECOWAS was set up and some subsequent decisions for its implementation envisage the following:

Consolidation, over a period of two years, of all entry duties and taxes and non-tariff barriers for goods produced and sold within the grouping; banning of increases in existing customs duties or introduction of new duties on products made by, and traded between ECOWAS members; banning of the strengthening of existing non-tariff barriers such as administrative and quantitative restrictions and exchange control on transaction payments between ECOWAS members (8 May 1979);

Free movement of traditional handicraft and non-processed goods, with no quantitative restriction and complete exemption from entry duties and taxes (8 November 1979 and 1 May 1981);

Gradual liberalization of trade in industrial products; adoption of a plan for gradual reduction of tariffs on such products by the year 2000 over a period of 6, 8 or 10 years depending on the countries' classification into three groups by level of industrialization, the criterion of origin of the products being the local capital share, set at 25 per cent (instead of the previous scale of between 20 and 51 per cent). This plan was initiated in 1981, revised in 1983 and put into force on 1 January 1990 with a list of 25 products that was to be gradually expanded; after further revision, a new version was adopted in 1992;

Harmonization of customs procedures and establishment of a system for computerized processing of customs data (ASYCUDA) at Lomé (1990);

Commencement, in 1993, of a survey for the setting of a common external tariff;

Holding from 24 May to 4 June 1995 of a trade fair to promote ECOWAS products;

Willingness to restore the West African Clearing House (WACH) set up in 1975 to a sound footing (measures to clear the arrears accumulated by

WACH, introduction of new means of payment, introduction of credit guarantee mechanisms, conversion of WACH into a specialized agency of ECOWAS).

10. Progress by ECOWAS towards integration has not, however, been according to schedule. The constraints responsible for this fact may be summed up as follows:

Tendency to resort to non-tariff barriers (import licences and exchange controls) to regulate imports;

Raising of import duties to increase tax revenue, in contravention of provisions concerning the maintenance of the status quo;

Liquidity crisis;

Deterrent effect of rules of origin, much industrial production being based on foreign capital;

Restrictiveness and complexity of the machinery to compensate for loss of customs revenue occasioned by trade liberalization.

11. The economic environment of the trade liberalization programme in the spheres of production, finance and infrastructures is also a hindrance to the growth of trade flows between the member countries. The priority formerly given to market integration highlights the need in present-day conditions to support the strengthening of economic infrastructure, particularly road, rail, sea and air links, and of production capacity at the regional level.

12. The West African Clearing House is experiencing operating difficulties that are hampering the process of trade liberalization. Among the main such constraints are:

The small volume of cleared intra-trade transactions;

The asymmetry of trade within the grouping, which has contributed to the persistence of debit and credit balances;

Restrictive foreign-exchange and trade regulations;

The multiplicity of non-convertible currencies of varying strengths.

These operating constraints have compounded the Clearing House’s problems. It has, for example, been impossible to reduce the use of convertible currencies in settling intraregional trade transactions. Most of the transactions handled through WACH have been settled in foreign currency. Furthermore, there has been no substantial increase in the volume of transactions cleared through WACH.

13. The similarities in production structures and lack of a strong industrial sector in ECOWAS countries have limited the growth of intra-ECOWAS trade. Most of the ECOWAS countries are exporters of just a few commodities.

Consequently, any significant increase in intra-ECOWAS trade in the long term will entail the diversification of production. The problem therefore comes back to the development of industrial capacity in West African countries.

14. There are also problems as regards institutions and the coordination of economic policy. The multiplicity of, and overlaps between institutions for the implementation of trade liberalization programmes are a source of budget inflation and duplication of effort. This makes financing the institutions difficult and hinders the coordination of policies, programmes and projects at the national and regional levels.

15. Harmonization of economic policies for regional integration has yet to be assured. This is particularly the case with regard to industrial programming, joint ventures, common rules for direct foreign investment and for the participation of business circles (enterprises, trading companies, chambers of commerce) in the liberalization programme. The same is true of structural adjustment programmes, which should be designed and implemented in coordination with the grouping in order to avoid the development of short-term thinking at the expense of the long-term goal of integration.

16. These difficulties notwithstanding, the ECOWAS countries have committed themselves to continuing the trade liberalization programme. In July 1993 they revised the founding treaty and adopted a new timetable for the elimination of tariff and non-tariff barriers. They also expanded their objectives to include: the establishment of a customs union by the year 2000 and of an economic and monetary union by 2005; the revival of the West African Clearing House; and the rationalization of subregional institutions. The new programme comprises two phases:

An initial period of 10 years from January 1990 during which the ECOWAS countries will gradually establish a customs union by abolishing customs duties, doing away with non-tariff barriers and creating a common external tariff;

Following the creation of a customs union by the year 2000, the member countries will, within five years, establish an economic and monetary union. That objective is to be achieved through the adoption of appropriate economic, monetary, financial and fiscal policies and the building of a monetary union, including the establishment of a regional central bank and the creation of a single West African currency.

17. Given the constraints mentioned above, it is not surprising that trade within ECOWAS should have been so low. Statistics covering two decades show that intra-trade is only equivalent to 10 per cent of the ECOWAS countries’ total exports. On the other hand, it accounts for over 70 per cent of these countries’ trade with Africa, showing that, for ECOWAS members, the main export markets in the continent are in West Africa.

	Value of grouping's exports (millions of dollars)			Percentage share of intra-trade	
	1 - to ECOWAS	2 - to Africa**	3 - Total exports	1/2	1/3
1970	86.5	106.4	2 947.8	81.30	2.93
1980	693.4	920.1	6 846.3	75.36	10.10
1985	1 025.6	1 182.8	19 598.9	86.71	5.23
1990	1 470.3	2 005.3	17 611.9	79.32	8.35
1991	1 424.7	1 972.4	15 656.2	72.23	9.10
1992*	1 567.3	2 158.4	19 988.5	72.61	7.84

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1993.

* Provisional figures.

** Including intra-ECOWAS trade.

2. PTA-COMESA

18. The PTA was founded in December 1981 for the purpose of establishing a preferential trade area for the member countries through the gradual reduction of tariffs on a number of products in a "common list". The process was to begin in 1984 and culminate in 1992 with the complete elimination of customs duties. A clearing house was set up with a unit of account, the UAPTA, equivalent to the SDR, to settle the debit and credit accounts for trade transactions between the member countries every other month, with the balance being payable in United States dollars.

19. While the trade liberalization programme did indeed begin on 1 July 1984, it had to be revised several times because of difficulties in applying it. The programme for the reduction of tariff barriers was greatly hampered by overly-restrictive rules of origin, which limited preferential treatment to goods produced by companies managed by persons who were nationals of member countries and held more than 51 per cent of the companies' capital. Since most producers in member countries were foreign-owned, few products on the common list met that criterion and most output therefore failed to qualify for the programme, which consequently lost much of its point. For that reason, and because the common list had proved difficult and time-consuming to apply, PTA abolished it: with effect from 1 October 1993, all products have been eligible for PTA concessional tariffs providing they meet the grouping's new rules of origin. The latter comprise a sliding scale of tariff reductions for application after a five-year grace period: tariffs are respectively 60 per cent lower for businesses that are 40-50 per cent owned by nationals and 30 per cent lower for businesses that are 30-40 per cent owned by nationals. Notwithstanding, the rules still seem too strict to promote intra-trade.

20. PTA has gone some way towards dismantling non-tariff barriers by abolishing import and export licences for all but a few products. It has also done away with advance deposits and foreign exchange taxes. Other stimuli to trade liberalization include:

The simplification and harmonization of customs documents;

The simplification and harmonization of transit documents;

Customs guarantees;

The installation of a harmonized data processing system.

In practice, these measures have yet to be fully assimilated at the operator level.

21. These measures have given less than the expected benefits because of the lack of complementarity between, and the insufficient diversification of PTA members' economies. The shortage of marketable output and the state of transport and communications infrastructures are serious handicaps in the process of integration within the grouping.

22. Furthermore, in order to be able to repay their debts, several PTA countries are pursuing structural adjustment programmes that are tending to divert trade outside the region. Most suppliers, even in the PTA countries, insist that goods and services be paid for in convertible currency. The clearing system is not fully used, for the following reasons:

Lack of information and understanding concerning its operation;

Low availability of goods to trade in each member country;

Monetary authorities' requirements concerning hard-currency payment for certain goods and other transactions;

Exchange control regulations in some countries that prevent use being made of the clearing house.

23. A new treaty signed in November 1993 envisages the creation of a "common market for eastern and southern Africa" and the establishment of a customs union by the year 2000. The trade liberalization programme set out in the 1981 treaty establishing PTA sought the establishment of a preferential trade area for eastern and southern Africa, an objective that, after having been postponed in 1987, was to be achieved by the year 2000. The new plan adopted in 1993 provides for a uniform rate of tariff reduction of 60 per cent, to be applied as follows: 60 per cent on 1 October 1993, 70 per cent on 1 October 1994, 80 per cent on 1 October 1996, 90 per cent on 1 October 1988 and 100 per cent on 1 October 2000. PTA has committed itself to the building of a common market in southern Africa.

24. Simultaneously with the programme for the establishment of a common market, PTA adopted a new four-stage plan for the achievement of a monetary union by 2020:

During the first phase (1992-1996), strengthening of the machinery for monetary cooperation between member countries through the Clearing House in Harare;

During the second phase (1997-2000), establishment of limited currency convertibility; assumption by the Clearing House of responsibility for the issue of UAPTA; operation by the PTA Bank, based in Burundi;

During the third phase (2000-2020), introduction by the Clearing House of a unified exchange-rate system to be regulated by a monetary authority to be established.

The programme provides, inter alia, for the setting of exchange rates, full convertibility for intra-PTA transactions, coordination of fiscal and monetary policies, and full introduction of a single currency issued by a common central bank in 2020.

25. Trade performance declined markedly in the early 1980s as a result of the world economic crisis and debt problems. Intra-PTA trade as a share of total exports fell from 12 per cent in 1980 to around 6 per cent in 1985. Between 1985 and 1990 intra-PTA trade grew at an annual rate of the order of 8 per cent and it has continued to expand since 1990.

26. On the other hand, the share of intra-trade in PTA's total exports has remained stagnant at around 6 per cent since 1985. PTA members' main export markets in Africa are within the grouping itself. The proportion which intra-PTA trade represents of regional trade has stabilized at around 68 per cent.

	Value of grouping's exports (millions of dollars)			Percentage share of intra-trade	
	1 - to PTA	2 - to Africa***	3 - Total exports	1/2	1/3
1970	306.4	384.5	3 207.2	76.69	9.55
1980	693.1	906.8	5 748.8	76.43	12.06
1985	408.1	591.6	7 338.3	68.98	5.56
1990	662.4	977.4	10 018.9	67.77	6.61
1991	642.2	937.5	9 873.1	68.50	6.50
1992**	707.3	1 032.5	10 565.2	68.50	6.69

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1993.

* Figures for Namibia and Swaziland not available.

** Provisional figures.

*** Including intra-PTA trade.

3. LAIA

27. LAIA, which replaced LAFTA, came into being in 1981, with the entry into force of the Treaty of Montevideo signed the previous year. Its aim is to carry out a less ambitious, more flexible trade liberalization programme than that of its predecessor organization. Priority is therefore given to the bilateral approach, with the possibility of extending it to the grouping; policy is outward-looking, without entailing reduction of preferences within the grouping. LAIA therefore aims at long-term regional integration, but without seeking the establishment of a common external tariff. To that end, it has developed a number of basic tools for continuing the process of market integration:

A system of regional tariff preferences applicable to all members of the grouping that includes the mutual concessions already approved within the framework of LAFTA;

A system of partial tariff preferences that binds only some of the member countries and therefore opens the way to bilateral or subregional agreements.

28. The Treaty establishing LAIA placed the member countries in three groups:

The least developed countries: Bolivia, Ecuador, Paraguay;

The intermediate countries: Chile, Colombia, Peru, Uruguay, Venezuela;

The developed countries: Argentina, Brazil, Mexico.

29. The Treaty admits of two methods of trade liberalization:

Regional agreements applicable to all the members of LAIA and granting regional tariff preferences with access privileges for the least-developed countries;

Agreements between two or more of the members that would be binding only on the signatories. Such agreements are permissible in a variety of fields, including trade preferences, trade promotion and economic cooperation.

Provision is also made for "new-generation" agreements: these can be negotiated bilaterally and cover all customs duties, or other matters such as investment, transport, trade promotion or the granting of visas.

30. The LAIA treaty also provides for the reduction of non-tariff barriers to trade within the grouping. In addition, LAIA does not prohibit, but rather encourages subregional agreements such as the Andean Pact signed in 1969 by Bolivia, Chile (which left the group in 1973), Colombia, Ecuador and Peru and, in 1976, by Venezuela; the Common Market of the Southern Cone (MERCOSUR) (1991), of which the members are Argentina, Brazil, Paraguay and Uruguay; and the Group of Three (1993) comprising: Colombia, Mexico and Venezuela. The effect of such agreements is both to strengthen the integration process and, at the same time, to create complex systems of trade preferences between members of the grouping and third countries. In fact, LAIA has left its

members free to pursue bilateral and subregional initiatives for, because of their number, their differing levels of development and their balance-of-payments problems, its members cannot all advance towards trade liberalization at the same pace. The progress made within the framework of the Andean Group, MERCOSUR and the Group of Three, as well as the bilateral agreements, testify to LAIA members' desire to eliminate the constraints felt within the grouping and to promote regional integration from the bottom up, through deliberate approaches to their immediate neighbours.

31. Since LAIA was established, tariff preferences in national schedules have covered more than 10,000 products. The percentage of products covered by regional tariff preferences on the other hand, is still below 20 per cent. It is only 2 per cent for products traded between the least-developed countries in the grouping.

32. Progress at the bilateral level and the level of subgroupings has, however, been considerable:

Establishment of a free-trade zone within the Andean Group: introduction of a common external tariff, with duties in four groups ranging from 5 to 20 per cent depending on the product, the mean duty being 10 per cent. The customs union set up by Colombia and Venezuela accounts for more than a third of the trade within the region covered by the Andean Group;

Creation, in January 1995, of a common market between the MERCOSUR countries;

Creation, in 1994, of a free-trade zone by the Group of Three countries (Colombia, Mexico and Venezuela);

Establishment of economic areas through "new-generation" agreements (Chile/Venezuela, Chile/Mexico, Chile/Colombia).

33. Various difficulties have delayed the trade liberalization programme. They include:

The rigidity of the statutory clauses of the initial treaty, which did not allow a bilateral approach or separate arrangements within the grouping;

The absence of a mechanism for the fair apportionment of the costs and benefits of integration;

The debt crisis and balance-of-payments problems;

The differences in level of development and their consequences for the pace of trade liberalization;

Macroeconomic instability (inflation and currency fluctuation).

34. The development of trade has also been hampered by lack of diversification of member countries' output, the often uncompetitive quality-price ratios of their products and the persistence of non-tariff

barriers. The hardest problems to overcome in the short term in order to accelerate intra-trade growth are those of the weakness of regional infrastructures and regional economies' heavy dependence on the United States of America.

35. Since 1980, when the new Treaty of Montevideo changing LAFTA into LAIA and giving the member countries more room for manoeuvre in their mutual tariff concessions was signed, trade within the grouping has grown strongly: from 2 billion United States dollars in 1970, it had risen to nearly 20 billion dollars by 1992. The latter amount, however, still represents less than 20 per cent of the member countries' total exports. Moreover, intra-trade accounted for some three quarters of LAIA members' total regional trade. For the future, regional integration and trade within the grouping will be helped by the impetus created by the subgroupings (Andean Group, MERCOSUR, Group of Three).

	Value of grouping's exports (millions of dollars)			Percentage share of intra-trade	
	1 - to LAIA	2 - to region**	3 - Total exports	1/2	1/3
1970	1 263	1 645	12 786	76.8	9.9
1980	10 981	17 998	80 410	61.0	13.7
1985	7 139	10 294	85 497	69.3	8.3
1990	12 336	17 375	101 630	71.0	12.1
1991	15 079	18 950	111 945	79.6	13.5
1992*	18 588	22 519	111 344	82.5	16.7

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1993.

* Provisional figures.

** Including intra-LAIA trade.

4. ASEAN

36. ASEAN, which was founded in 1967, concluded a basic agreement on preferential trading in February 1977 and broadened it by adding a new protocol in December 1987. The 1977 agreement provides for a number of measures to stimulate and develop trade within ASEAN, including:

Extension of tariff preferences;

Liberalization of non-tariff measures;

Long-term contracts concerning tradeable quantities;

Financial assistance, with preferential rates of interest;

Preferences for tenders from member countries;

Various jointly agreed measures.

37. Trade concessions negotiated under preferential trading arrangements focused on tariff preferences. The approach combined two methods of negotiation:

Bilateral negotiation product by product, followed by voluntary offers from one country to another considered a potential partner, with the possibility of extending the arrangement to all the members of the grouping; and

Global, but restricted negotiation to establish a rate below the most-favoured-nation tariff for imports up to a certain value limit, with tariff reduction and the raising of import ceilings to continue thereafter.

38. The programme was improved and the system of trade preferences in the basic agreement extended by a supplementary agreement concluded between the member countries on 15 December 1987. This binds the contracting parties to expand the coverage of the basic agreement by reducing the number of articles on their "exclusion lists". The reduction must be such that five years from its inception the lists do not exceed (i) 10 per cent of the number of articles traded by each country or (ii) 50 per cent of the value of inter-ASEAN trade. It was also agreed that articles in the exclusion list that were reintroduced into the basic agreement should have a minimum margin of preference of 25 per cent, whereas the margin for articles already covered by the basic agreement would be increased to 50 per cent. To this end, the programme provides for:

Annual across-the-board preference increases of 5 per cent;

A "products" programme with a preference-introduction schedule designed for attainment of the 50 per cent margin within five years for Malaysia, Singapore and Thailand and seven years for Indonesia and the Philippines;

Relaxation of the rules of origin, with a reduction from 50 to 30 per cent of ASEAN products’ share of total trade, the process being applicable on a case-by-case basis over a period of five years and Indonesia being accorded additional preferential treatment with respect to the application of rules of origin.

39. Because of lengthy and complex "product-by-product" negotiations, it took ASEAN a long time to agree on reciprocal trade concessions. The Association was created in 1967, but it will be 2008 before there is a free trade area. There are still non-tariff barriers. Thanks to their adoption of arrangements that allow for both fast-track and normal negotiations, the ASEAN countries can now advance towards trade liberalization at faster, but distinct speeds. Similarly, the fact that there is a ASEAN secretariat in each country makes for better follow-up.

40. The constraint of rules of origin, which entails a relatively high level of product integration, reduces the scope of the liberalization programme. For the ASEAN countries, United States, Japanese and European markets and goods and services are so important and technological and trade dependency so great that intra-ASEAN trade suffers somewhat. The ASEAN countries' participation in a wider grouping, the Asia-Pacific Economic Cooperation forum, gives them the benefits of a large market, but at the same time risks orienting each individual country's trade towards the United States, Japan or China, to the detriment of the subregional market.

41. In January 1992, the ASEAN countries decided to establish a free-trade area with effect from January 1993. The principal means of achieving that objective is the implementation of a common preferential tariff. The plan calls for tariffs to be reduced to between 0 and 5 per cent over a period of 15 years.

42. Implementation of the programme of tariff cuts will follow two tracks:

A fast track covering 15 groups of products for which preferences are to be granted in less than 15 years: the ASEAN countries have agreed that, irrespective of when the process begins, they will reduce their entry duties to between 0 and 5 per cent before 2002;

A normal track concerning a list of products for which the cuts will be made as follows:

(a) For existing tariffs in excess of 20 per cent, in two phases: reduction to 20 per cent within five years, followed by reduction to between 0 and 5 per cent in from five to eight years;

(b) For existing tariffs of 20 per cent or less, reduction to between 0 and 5 per cent by 1 January 2003.

43. The common preferential tariff scheme has grown and now covers between 74 and 98 per cent of the member countries' tariff lines. While the scheme does not include agricultural products, some ASEAN members have unilaterally offered to include them in a fast-track or normal reduction programme. In addition, the scheme is now applicable to industrial joint ventures within the framework of ASEAN.

44. ASEAN's trade position has changed substantially since the 1970s. Total exports were around 6 billion dollars in 1970, but nearly 160 billion dollars in 1992. Intra-ASEAN trade amounted to 1.2 billion dollars in 1970, 12 billion dollars in 1980 and 30 billion dollars in 1992. As a percentage of total exports, intra-trade has grown only moderately: 21 per cent in 1970, 16.9 per cent in 1980 and around 19 per cent from 1990 onwards. In comparison, intra-trade accounts for around two thirds of the ASEAN countries' total regional trade.

	Value of grouping's exports (millions of dollars)			Percentage share of intra-trade	
	1 - to ASEAN	2 - to region**	3 - Total exports	1/2	1/3
(1960)	(839)		(4 210)		(21.7)
1970	1 285	1 700	6 101	75.6	21.1
1980	12 016	19 495	71 124	61.6	16.9
1985	13 130	22 421	71 488	58.6	18.4
1990	26 288	45 345	141 360	58.0	18.6
1991	31 387	53 976	162 917	58.2	19.3
1992*	30 858	54 477	158 971	56.6	19.4

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1993.

* Provisional figures.

** Including intra-LAIA trade.

II. COMPARATIVE ANALYSIS OF PROGRAMMES

A. The main elements of comparison

45. It has been seen that each grouping has made substantial progress in formulating its trade liberalization programme, but that there are also considerable differences between the declared objectives and actual results. The aim of this study is to determine, by comparing the experience of the four groupings (ECOWAS, PTA, LAIA and ASEAN), what have been respectively the problems common to all groupings and those specific to individual groupings.

46. Groupings' trade liberalization programmes are necessarily affected by the national, regional or international economic environment:

(a) At the national level, the factors of influence are, in particular, policies for macroeconomic stabilization, measures to diversify production and foreign-trade support services such as customs, banks, transport and ports. This explains the increasing tendency on the part of the countries in the groupings to accompany their efforts to liberalize trade by measures in the spheres of exchange-rate policy, development of production and national infrastructures, improvement of market mechanisms and openness to the exterior;

(b) At the regional level, it is monetary and financial cooperation, the functioning of compensation boards, the integration of production and the development of regional infrastructure that remain decisive for the consolidation of trade liberalization within the groupings;

(c) At the international level, the influences are the treatment of the debt of countries belonging to groupings by creditor States and the Paris and London Clubs, the conditions for the granting of IMF and World Bank structural adjustment facilities, and the modalities of access to developed countries' technology and capital markets. They affect the financial capacity of the members of groupings and thus their production and trading capacities, which are vital factors of intra-trade.

47. The trade liberalization programmes of the groupings to which this study relates have stopped half way, inasmuch as they have been restricted to tariff cuts. There have been no preferential concessions regarding the major aspects of non-tariff barriers. In most cases, implementation has been partial and the initial liberalization has been followed by slippage and sometimes questioning of the initial targets. The result has been the erosion of previously granted preferences as trade and foreign-exchange restrictions have been introduced in response to balance-of-payments problems.

48. Because of the incompatibility of inward-looking development strategies with the requirements of intra-grouping liberalization, the programmes have been amended in two main spheres:

Removal of the non-tariff barriers to intra-trade, an important objective of all the trade agreements;

Establishment of a common external tariff.

In some cases the initial time-limits for the removing of barriers to intra-trade have been repeatedly extended. Normally, there should have been substantial down-scaling of quantitative restrictions and import tariffs. That is a matter for the political will of the States in question.

49. The process of liberalization within the groupings has been hampered by the absence of arrangements for the automatic implementation of change. For example, reciprocal tariff cuts are subject to periodic negotiation and the rule of consensus, and action is taken either on a "product-by-product" basis or following the initiation by a member country of the "request and offer" procedure. Moreover, reductions in trade barriers are not made in one go through a single, across-the-board cut in tariff and non-tariff barriers, but through a "positive list" system that leaves member States free to exclude sensitive products from the series of articles subject to reciprocal concessions at the risk of weighting the final selection in favour of products with a limited intra-trade potential. Both ASEAN and LAIA have applied the lesson to be drawn from this situation in their new treaties, with the hope that application will be better in the future.

50. For the groupings that have aimed at creating a permanent free trade area - a preliminary to a customs union, the expansion of intra-grouping liberalization has been limited by very strict rules of origin on the basis of the national value-added criterion and, in cases such as that of ECOWAS and PTA, on the basis of the local capital ownership criterion. This diminishes the range of products eligible for trade preferences. The planned easing of such requirements should facilitate intra-trade.

51. In those cases where establishment of a customs union was an operational objective - and not a mere declaration of intent - the initially planned schedule has not been adhered to. Generally speaking, institution of the non-trade arrangements with a view to the distribution of new manufacturing industry among member countries and the support of market integration has failed to result in the implementation of the originally planned projects. As regards factor mobility, which is vital to the building of a common market, compliance with commitments, particularly commitments concerning labour, has been slow in coming.

52. On the whole, the trade liberalization programmes have not led to any considerable or sustained increase in intra-trade. The statistics that are available for the period 1970-1992, while not always clear, do show a few general trends for the four groupings in question:

Intra-grouping trade represents approximately 1 per cent of world trade;

For the African groupings (ECOWAS and PTA), intra-trade represents between 5 and 10 per cent of total exports;

For LAIA the proportion varies between 10 and 15 per cent;

For ASEAN, the proportion is between 15 and 20 per cent.

53. In the groupings' early years, creation of trade through the replacement of national production by imports from member States was more frequent than was diversion of trade through the replacement of imports from third countries by imports from within the grouping. Since then, diversion of trade has accounted for most of the growth of intra-trade. In the African groupings (ECOWAS and PTA), trade creation has been relatively modest. Furthermore, extra-regional imports have more often been replaced by national production than by imports from within the grouping.

54. Evaluating trade liberalization programmes is not merely a matter of analysing intra-trade performance. The drafting and implementation of the groupings' programmes have enabled numerous officials from the member countries to familiarize themselves with the management of regional economic relations and with the real potential of, and the obstacles to, such relations. Substantial progress has been made in developing trade infrastructures and creating financial support institutions. In addition, the growth in agreements, whether bilateral or, through subgroupings, multilateral, between members of the same grouping has helped to strengthen the process of trade liberalization and augurs for better results in the future.

55. Trends in intra-trade performance between 1970 and 1992 can be seen from the table below, which shows intra-grouping exports as a percentage of total exports. For each of the groupings, that percentage is relatively low and has grown little over the 20-year time span. The variable performance, at below the 10 per cent level, by ECOWAS and PTA is a reflection of the combined effect of delays in the liberalization of intra-trade and fluctuations in commodity prices on the international market.

GROUPING	DATE(S) OF AGREEMENT	OBJECTIVE	1970	1980	1985	1990	1991	1992
ECOWAS	1975	Economic Community	2.93	10.10	5.23	8.35	9.10	7.84
TPA	1981	Common Market	9.55	12.06	5.56	6.61	6.50	6.69
LAFTA/ LAIA	1960/1980	Preferential trade area	9.9	13.7	8.3	12.1	13.5	16.7
ASEAN	1967	Free trade area	21.1	16.9	18.4	18.6	19.3	19.4

Source: UNCTAD, Handbook of International Trade and Development Statistics, 1993.

56. While, in the case of LAIA and ASEAN, performance has been better, with intra-trade accounting for between 10 and 20 per cent of total exports, neither grouping has achieved any striking year-on-year leap indicative of a determined regional integration policy. The reasons for the growth since 1990 are:

In the case of LAIA, the momentum created by member countries within subgroupings and the conclusion of bilateral trade agreements;

In the case of ASEAN, the introduction of new, more flexible and more rapid tariff reduction arrangements, both as regards negotiations (across the board) and as regards the speed of concessions (normal or fast-track).

B. The factors underlying the partial realization of programmes

(a) Structural factors

57. Of the structural factors that have limited the impact of trade liberalization programmes, two have been particularly harmful:

The first constraint lies in the starting-point for the regional trade agreements concluded by the groupings' members, strong and widespread protection having been a feature of most of those countries' trade regimes;

The second fundamental constraint lies in the fact that the countries belonging to the groupings have the same factor endowments and thus limited potential for "trade creation" on the principle of comparative advantage. Such a situation calls for commodity processing and the diversification of activities and is a reminder that industrialization programmes are essential to the promotion of intra-trade.

58. In addition, the countries' narrow markets and low per capita incomes have hindered the development of any significant amounts of trade based on economies of scale and product diversification. In fact, the low level of

integration at the outset typical of certain groupings suggests that some of their members have little to trade. In other words, the groupings' trading interests are mainly outside the region, and the reduction of trade barriers, when it occurs, is not a sufficient incentive to alter the traditional trade flows.

59. To tell the truth, since the production structures - generally for the primary processing of commodities - and the mainly primary resources are similar, there is no boost to intra-regional trade even in the event of liberalization. The supply models being more competitive than complementary, the level of development very low and the difficulties of financing investment programmes what they are, there is no great scope in the short term for building complementarity-oriented sectoral structures.

(b) Institutional capacity

60. The more or less considerable delays in the implementation of trade liberalization programmes and the impact of those delays on the development of intra-trade are due not only to structural considerations, but also to the low degree of execution by the member countries of the undertakings entered into. State institutions have revealed themselves ill-prepared to take responsibility for integration programmes in general, and trade liberalization programmes in particular. Instability of institutions, differences in development strategies, border disputes and political quarrels, when they arise, are not conducive to market integration.

61. In this context, the following factors can be said to have played a large part in slowing programme implementation:

The absence of the institutional machinery needed to realize the objectives of intra-grouping trade liberalization, and inconsistencies between national legislation and the pledges made with a view to integration;

The absence of effective machinery for the settlement of trade disputes between member countries;

The absence of meaningful "sanctions" against countries failing to discharge their undertakings regarding the timely implementation of trade liberalization programmes.

62. Nor is programme implementation facilitated when countries belong to several groupings: often, the groupings' objectives and priorities differ and the resulting programmes are complex and diverse. Such a situation requires a degree of rationalization of the groupings and the harmonization of their programmes.

63. Fear of a loss of sovereignty - even if the loss would be more apparent than real - is not conducive to faster integration either. It may partly explain the lack of enthusiasm for joining or implementing trade liberalization programmes. The inability of some countries in groupings to put regional objectives before national goals would seem to indicate that not all States are yet willing to make sacrifices and to give up some of their sovereignty for the sake of economic development.

(c) The persistence of protectionism

64. An inward-looking economic strategy tends to create efficient, strong protection in the form of tariff structures with high rates on numerous products and complex systems of non-tariff barriers. More often than not, businesses set up behind such high screens have considerable influence. As a result, most of the countries joining groupings have seen regional integration as an extension of industrialization by import substitution and a means of expanding the market for their protected enterprises.

65. Rather than total commitment to a policy of openness to the outside, with the risk of offending protected sectors, the tendency in the groupings studied has been to opt for a gradual approach based on negotiation and consensus, often on a case-by-case - or, in other words, a "product-by-product" - basis. The resulting trade agreements confer limited, highly selective concessions. The practice of negotiating article by article in order to avoid concessions that may jeopardize local producers makes the liberalization process a complex and lengthy one.

66. The lists of products eligible for the trade preferences system in a grouping are relatively easy to draw up if the articles are already being traded in the region prior to the agreement or are not produced in the region. On the other hand, strong resistance, and even blockage of the negotiations, will occur whenever each country’s hard core of protected firms is likely to be affected. Powerful interests in protected sectors threatened by liberalization programmes can be found both in public and private enterprise and in government authorities.

67. There is protectionism around groupings too. It has the following two-fold disadvantage:

Protected regional groupings can be too small in economic terms for efficient specialization on the basis of the regional market;

Protected regional groupings soon come up against their limits, and the high costs associated with protected regional production then become an obstacle to exporting outside the region.

(d) The macroeconomic environment

68. In most cases, the trade liberalization programmes have been initiated in an environment of internal and external macroeconomic disequilibrium - generally a reflection of inappropriate monetary and fiscal policies, the currency being overvalued, and of a reluctance to undertake substantial devaluations and reduce trade barriers. Such reluctance is evidence of countries’ wish not to reduce the tax revenue they derive from entry duties.

69. The refusal to adjust exchange rates is consistent with the strategy of import substitution, which entails the importing of intermediates and equipment at prices that are kept artificially low. The result is doubly negative:

A policy of this kind hampers trade liberalization programmes and leads to structural rigidities in macroeconomic management;

A situation of this nature is only tenable if commodity export prices remain high and there are no constraints on access to foreign capital. What has actually happened, however, is that the steady falls in commodity prices over the past two decades - including the worsening of terms of trade and the upwards movement of interest rates - and the difficulty of access to credit have, inter alia, reduced the scope of the trade liberalization programmes.

70. The resultant macroeconomic imbalances and hard-currency shortages have prompted the reintroduction, and in some cases the strengthening, of restrictive trade barriers and foreign exchange restrictions. Recourse to unilateral restrictive trade measures has occurred each time the trade liberalization programmes have required internal adjustments. The least developed of the countries in the groupings find themselves unable to overcome the loss of revenue caused by the abolition of customs duties and are therefore unable to cut their intraregional tariffs.

(e) Foreign exchange constraints

71. Many members of the groupings studied here, especially the African groupings, have had to cope with a combination of severe shortages of funds, particularly foreign currency, and growth in their external indebtedness and debt service commitments. These sometimes extreme financial difficulties lie at the origin of the stagnation, when it has not been the reduction of imports from within the groupings. Depending on each country’s specific situation, the reactions have included:

Emergence of new barriers to trade;

Non-application of decisions concerning measures to promote intra-trade;

Suspension of previously granted concessions;

Breach of payment and clearing agreements.

72. The erratic development of intra-trade shows clearly the nature of regional flows, with their sensitivity to national and international economic conditions, and the difficulty of forecasting growth by simple linear extrapolation from past trends. The problems are compounded by the fact that foreign exchange constraints are tighter now than they used to be. The debt service burden has been added to the structural balance-of-payments problems. The consequence is that the need to cut out non-essential imports becomes vital and a further deterrent to the expansion of intra-trade.

73. The reform of national trade policies is of decisive importance for the success of intra-trade liberalization programmes. Unfortunately, because of the extreme difficulty of coordinating structural adjustment plans at the grouping level, member countries’ unilateral efforts are sometimes detrimental to regional trade. That is the case when countries reduce their imports with a view to saving foreign currency and make no distinction between their sources of supply. Where there is no coordination of macroeconomic policy, countries do not always think of taking steps to avoid penalizing imports from other members of their grouping. On the supply side, countries have sometimes

been led by other constraints to give higher priority to solvent markets with convertible currencies than to regional clients belonging to their grouping that have balance-of-payments problems.

(f) The apportionment of the costs and benefits of liberalization

74. Differences between levels of income and industrial development lead to considerable imbalances in the distribution of trade benefits. The question of fair sharing of the costs and benefits of trade liberalization programmes is important because, if the least developed countries in a grouping feel themselves inadequately indemnified by the grouping's compensation fund for loss of tax income and the transitional costs of economic restructuring, they tend to resist the rapid reduction of intra-grouping tariffs and non-tariff barriers.

75. This question concerns the short term and affects transitional unemployment, capacity underutilization and loss of tax revenue, but also the medium term, which seems favourable to the development of groupings' most developed countries. As regards the least advantaged countries, the trade agreements make allowance for these costs in various ways:

More flexible, less demanding schedule for the implementation of liberalization programmes;

Access to regional credit facilities;

"Balanced growth" criteria for the siting of new industries; and

Compensation funds.

76. The compensation funds, however, remain limited in size because of design problems and budgetary constraints. Furthermore, the least developed countries view the other mechanisms as unsuited to their needs. The result is increased resistance to the intensification and expansion of intra-trade liberalization programmes.

(g) Dependence on trade networks

77. When their interests are at stake, the transnational enterprises operating through subsidiaries and controlling a substantial share of groupings' exports impose restrictions on intra-grouping exports. When production is carried on under licence from multinationals, the right to export is regulated and often limited.

78. Furthermore, since communication and transfer networks are naturally oriented towards the former colonial Powers, trade tends to be structured in that direction, especially when the most-favoured-nation clause or the generalized system of preferences confer advantages of the same magnitude as regional tariff concessions.

79. Another not inconsiderable reason for the maintenance, and in some cases the increase of South-North trade to the detriment of intra-trade is the conditionality of certain trade credits, which make it obligatory to buy products from creditor third countries. Debt servicing too engenders special

trade links between creditor and debtor countries. The result is that countries belonging to groupings have had to increase their exports to developed countries and limit their imports from within the groupings.

80. Trade has also been badly handicapped by the weakness of regional infrastructures, particularly transport, telecommunications and port facilities. In some countries, the banking and customs systems are not yet well enough equipped or organized to provide intra-trade operators with rapid service or proper support. Despite efforts to simplify and harmonize them, customs procedures are still cumbersome.

(h) Regional cultures

81. In both groupings and their members there are impediments to market integration that have to do with the behaviour of economic agents. Examples include:

The idea that regional products are not as good as products from more developed countries or as national products;

Cultural differences which, when present, tend to reinforce national leanings against intraregional trade;

Decision-makers’ lack of enthusiasm for regional strategies when means of pursuing national economic objectives are available.

82. In the final analysis, there is a need for countries constantly to promote and propagate the regional spirit among their populations - through, for example, educational curricula, the media, cultural events and exhibitions - so that it permeates the behaviour of every economic agent at the level both of the grouping and of the individual country. That is the key to the rapid overcoming of the residual obstacles to intra-trade - protectionist barriers to entry; differing regulatory and tax environments, restrictions on intraregional movement of factors - and to the ultimately better distribution of resources within countries and groupings.

III. CONCLUSIONS AND RECOMMENDATIONS

83. The strategy of liberalizing intra-trade behind high external barriers must be revised because of its additional cost. Some groupings do not offer a sufficiently large market to be able to take advantage of economies of scale. In such conditions, strong protection tends to engender over-capacity and monopolistic, inefficient markets where rents are not a net revenue gain for society but mainly a transfer of income from consumers to enterprises, and a clear loss of well-being by comparison with free trade. Liberalizing intra-trade behind high external barriers is only justified as a temporary measure for learning purposes - as a means of enabling enterprises to gain experience and consolidate their economies of scale - before the grouping is exposed to competition from imports and the task of selling its own exports on extra-regional markets.

84. Even when economies of scale are possible within groupings, strong protection of regional markets prompts the establishment of numerous new businesses attracted by the monopolistic rents of a protected environment.

The consequence in the long term is mean production below the efficiency threshold. Generally speaking, the extra profits achievable in such cases will be absorbed by the extra costs. In the final analysis, to achieve economies of scale, external protection should be dispensed with as soon as possible.

85. Complementarities exist, but need to be sought out and utilized. The countries belonging to groupings differ in their per capita incomes - low though these may be - and in their productive structure. This demonstrates the existence of complementarities and of a potential for a degree of inter-, or even, in the case of the larger groupings, intra-industrial specialization. Concerning sub-Saharan Africa, and more particularly the members of ECOWAS and PTA, where per capita incomes are among the lowest in the developing countries, the World Bank estimated as long ago as 1989 that some 4-5 billion dollars worth of the region’s imports could, if trade barriers were reduced to an appropriate level, be supplied from within its groupings by countries which were exporting the products in question to other parts of the world.

86. The groupings studied here comprise countries with narrow markets, low per capita incomes and similar factor endowments, features that lead to identical production structures. When such a situation cannot serve as a basis for the expansion of trade through inter-industrial specialization and product diversification, trading gains can still be made by seizing the short-term comparative advantages that arise because of countries’ differing processes of development. Such a strategy can usefully be pursued in a context of unilateral or multilateral liberalization.

87. Each stage of the process requires meticulous preparation. Trade liberalization programmes should first promote the creation of a free trade area, as is the case with the groupings studied here, before going on to the more advanced stages of the integration process included in their short-, medium-, and long-term objectives: customs union, common market, economic and monetary union. Each phase requires meticulous preparation as regards regulations, procedures and human and material resources at both the national and the regional levels, but above all time to mature, for haste is not conducive to successful application.

88. At the beginning of the process of trade liberalization, free trade areas offer a number of advantages by comparison with customs unions:

With free trade areas, there is no relinquishment of national sovereignty to supranational structures for joint decision-making;

With free trade areas, importing countries belonging to groupings can avoid the cost increases associated with diversion of trade flows by continuing to procure supplies from the least expensive external sources while unilaterally applying reduced tariffs;

Grouping members that already have a liberal trade regime or wish to liberalize their trade policy will not be hindered by a free trade zone, whereas in the case of a customs union protectionist pressure could ultimately force the most liberal of them to adopt higher levels of external protection against non-member countries. On the other hand, within the framework of free trade agreements the most liberal members can unilaterally undertake the non-discriminatory removal of trade barriers, action which will have the added advantage of encouraging, but not forcing, the other members to consider greater liberalization of external trade.

89. The failures by LAFTA and ECOWAS to meet their target dates for the establishment of free trade areas are attributable not to the system but to the member States' will to achieve their goals.

90. There are advantages to reducing trade barriers all at one go. The history of trade liberalization programmes reveals a tendency (i) to selectivity in the making of trade concessions, and (ii) to the avoidance of rigid schedules for the application of measures. The result is that intra-trade liberalization proceeds much more slowly than would otherwise be the case. There is also a tendency to give priority to trade concessions on products not made in the region - which increases trade diversion costs, particularly when external tariffs are high - or on products already sold in the region - which does little to promote new trade. Reducing trade barriers "all in one go" would avoid the diversion and ensure that the process of liberalization was non-discriminatory. Should problems of implementation arise, there would remain the option of encouraging the most advanced members of groupings to reduce protection unilaterally.

91. Together with the process of trade liberalization there must be complementary measures in the spheres of production, investment and infrastructure. Experience shows that, when fully applied, reductions in tariff and non-tariff barriers do indeed increase trade flows in the short term. It is essential, however, that the process should be accompanied thereafter by sectoral measures in the domain of investment in industry, agriculture, transport and other infrastructure. Such measures should help to promote trade growth, diversification of the production base and complementarities in trade flows, as well as to reduce the disparities in the apportionment of the benefits and costs of integration. The renegotiation and revision of the ECOWAS, PTA, LAIA and ASEAN treaties are evidence of such a trend in economic cooperation with the aim of supporting trade liberalization efforts. The trend must be rapidly materialized and made irreversible by joint projects on the ground.

92. Monetary and financial cooperation must be consistent with the needs of trade liberalization, and it remains to develop a trade information system. Tariff and non-tariff measures are not the only factors influencing intra-trade. Trade will also be hampered by unsuitable financial or monetary agreements. The institution of export credits and other trade financing tools and of appropriate payment and compensation machinery, as well as the general relaxation of exchange controls, deserve particular attention. It also remains to develop a trade information system (data on regional markets, trade regulations in the countries belonging to the grouping, procedures in force in each country, etc.), a tool of great importance in promoting intra-trade.

93. Trade liberalization programmes must resolutely attack non-tariff barriers. The potential stimulatory effect of integrating regional markets being acknowledged, the preferential reduction of tariffs as part of intra-trade liberalization programmes should succeed in overcoming any

remaining resistance occasioned by fear of losing tax income or harming national producers. Trade liberalization programmes must also make a firm attack on non-tariff barriers and go beyond the stage of the grouping so that the latter can play a more active part in world trade.

94. A good mechanism for regional integration should be compatible with the multilateral trade system. For countries belonging to groupings, export projects outside their home region depend to a large degree on the openness of the regional integration systems. Given such "open regionalism", expansion of intraregional trade could proceed without detriment to trade with third countries and with savings on diversion costs. Conversely, because of the self-centredness of regional trade arrangements, there is a risk that trade diversion effects will predominate, with consequent harm to the trading opportunities of third countries. The need, in fact, is to stimulate intraregional trade, but also to take advantage of economic growth to promote trade with third States. That would give members new export opportunities both inside and outside the grouping. In any event, regional integration schemes will not be viable in the long term if they continue to pursue a strategy of third-country import substitution: that strategy has its limits and could usefully be replaced by strategies promoting exports of manufactures to the developed countries.

95. For groupings that are economically and geographically small, market integration should not merely be a matter of strengthening links between the member countries. It is in those countries' interests to turn outwards as soon as possible. This raises the problem of access to the still protected markets of developed countries and justifies the elaboration of export promotion projects jointly with such countries.

96. The costs and benefits of the liberalization programme must be fairly shared. In implementing trade liberalization programmes within groupings, disputes concerning the apportionment in the short term of the programmes' net benefits have sometimes prevailed over considerations of the medium- and long-term advantages of economic integration. When countries are at different stages of development, there is a tendency for income disparities to increase to the advantage of the most developed members of the group. One negative consequence of this is the persistence of debtor and creditor situations in intraregional trade; this can lead to inefficient functioning of the clearing and payments machinery and hinder trade within the grouping.

(a) Structural changes are essential to the lasting resolution of the problem of trade imbalance

97. The need for the future is not mainly for systems to compensate for loss of tax revenue, but also for technical and financial measures to encourage production and expand the exporting capacity of the least developed members of groupings, whose regional trade is in cumulative deficit.

(i) The countries with a surplus intra-trade balance should be encouraged to increase their imports from the deficit countries, to grant them long-term credits and to invest in production there so as to enable them to export in their turn and give them the hope of moving into surplus. That would encourage them to become more actively involved in, and would be beneficial to the process of market integration;

(ii) Where funds are short within the region, outside financial support should be sought for intra-grouping clearing and payment machinery;

(iii) Putting clearing accounts on a sound footing and revitalizing clearing agreements are necessary in all cases; the issue by PTA of travellers' cheques that are cleared through the clearing house is exemplary.

(b) <u>The least developed countries should be allowed flexibility as regards the timetable for implementation and tariff concessions</u>

98. The trade liberalization process should preferably be a multi-speed one. It is noteworthy in this respect that, within the framework of MERCOSUR, a subgrouping of LAIA, Paraguay and Uruguay were allowed a longer adjustment period than Brazil and Argentina and that, in the case of tariff reductions within ECOWAS and ASEAN, account was taken of the member countries' levels of development.

(c) <u>There should be compensation for the loss of tax revenue occasioned by tariff cuts under trade liberalization programmes</u>

99. International financial institutions (IMF, World Bank, etc.) should take the loss of tax revenue caused by trade liberalization programmes into account in balance-of-payments support credits and debt restructuring plans. Failing ideal coordination of macroeconomic policies, adjustment programmes should prevent additional restrictions against regional partners.

100. <u>Regional trade integration is not a remedy for the absence of an effective national trade policy</u>. The countries that have benefited most from regional integration are those which have designed and applied a national policy that supports and stimulates production and exports. The national environment must develop firmly in the direction of a market economy, an outward-looking trade policy, factor mobility to ensure fairer distribution of the costs and advantages of integration, the removal of tariff and non-tariff barriers, and recognition of the interdependence of national, intraregional and multilateral trade through the stimulation of trade with third countries.

101. As a reflection of their political will to accelerate market integration, which naturally implies peace and stability in the region, States should establish effective national institutions for the timely application and follow-up of the trade liberalization measures they adopt in common within their groupings.

102. <u>Trade liberalization programmes require the harmonization of macroeconomic and sectoral policies</u>. Structural adjustment and stabilization that do not take into consideration in each country the trade liberalization programmes within groupings can contribute to worsening of the terms of trade and harmful competition between the countries. Some structural adjustment

programmes completely ignore the objectives of development and regional integration and contain contradictory, divergent measures. The countries belonging to groupings should therefore seek to:

Harmonize macroeconomic and sectoral policies within their particular grouping so as to attenuate the adverse transboundary effects;

Ensure the preservation within their structural adjustment programmes of selected regional trade preferences for trade in goods, services and factors of production.

103. The institutions in charge of programmes must be rationalized. In view of the proliferation of institutions and programmes, it would be beneficial to rationalize the institutional framework and the mechanisms for trade liberalization at the national and regional levels and to adapt them to the size and complexity of the programmes adopted. Without seeking uniformity or a model, and bearing in mind the diversity of countries' situations, institutions should be flexible enough to adapt to a constantly changing national and external environment. In this context, groupings such as LAIA and ECOWAS would be well advised to review the way they are organized and operate because they include, on the one hand, small subregional groupings and, on the other, a wide variety of member States and that makes integration more difficult in practice.

104. The successful strategies have been those which have drawn on the financial, technological and management capacity of the private sector. The process of liberalizing intra-trade must be seen as a set of convergent, specific initiatives involving both a variety of levels - the national, bilateral, regional and multilateral levels - and, at each of those levels, the public and the private sectors. In this regard, national economic agents would benefit from being encouraged to participate in the measures relating to trade and trade liberalization: firms would then be able to learn about and to take advantage of the production and trade incentives available within the groupings, especially if they were involved in the whole of the liberalization process. ECOWAS and TPA could, for example, benefit from the experience of LAIA and ASEAN concerning the participation of regional business circles in trade development:

LAIA has requested professional groupings in various sectors to examine and propose industrial products as candidates for preferential treatment; ASEAN, in order to associate businesses with economic and trade development, has invited them to participate in the dialogue with its main partners.

105. Account should be taken of the essentials in drawing up new intra-trade liberalization programmes. This means, in particular: coverage of all goods and services without exception; removal of all tariff and non-tariff barriers to regional trade; more restrained use of protectionist safeguard clauses; the possibility of enlarging the grouping to include new members wishing to liberalize and capable of providing new trade and investment opportunities.

106. To sum up, judging from the experience of the groupings studied here, a consensual approach conducive to market integration would comprise at least the following:

Development, gradually if necessary, of trade liberalization programmes by removing non-tariff barriers and increasing the number of preference-receiving products and the preferential margins;

Improving the performance of existing payment and clearing machinery;

Intensifying national follow-up of grouping-level decisions;

Strengthening common infrastructure;

Involving the private sector in the design and implementation of the programmes.

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