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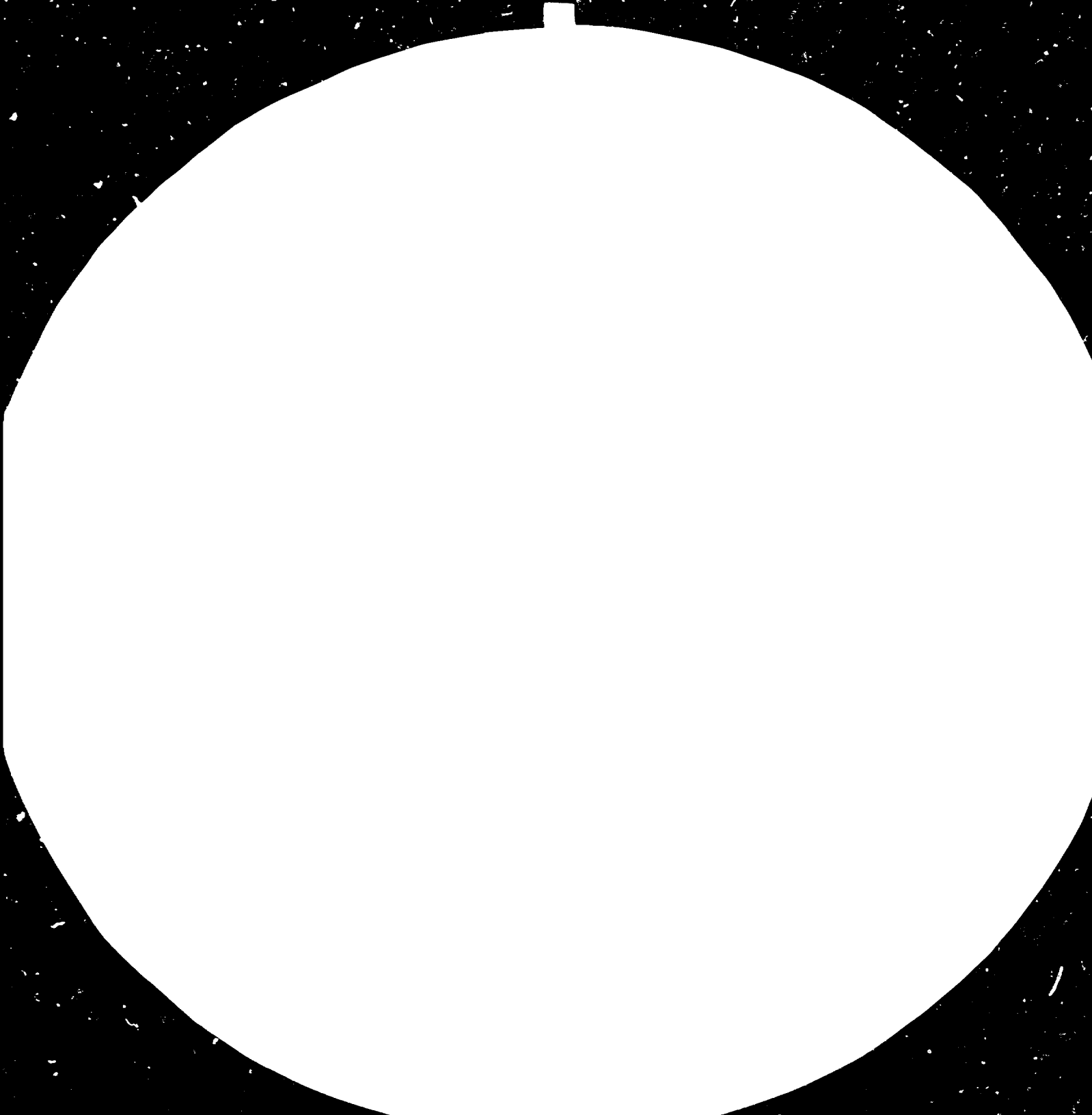




TABLE I. Resolution of the 1000-line test target, 1000-line resolution test target

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REGIONAL INTEGRATION AMONG DEVELOPING COUNTRIES *

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I. Introduction

Regional integration among developing countries has for a long time been regarded as "an important element of an international development strategy and an essential contribution toward the developing countries economic development" ^{1/} in the development literature. In the more recent discussions about the New International Economic Order, regional integration has been incorporated as one component of South-South co-operation which could lead to increased self-reliance in the South and reduced dependence from the North. In view of these aims, the present study tries to assess the achievements and failures of some of the existing regional integration schemes.

Throughout the paper, different types of regional associations with varying intensities of integration will be dealt with. They can be classified as free-trade areas, customs unions, common markets, economic unions and areas with complete economic integration. A free trade area implies an abolishment of tariffs between the member countries, while maintaining the individual external tariffs. In a customs union in addition to the abolishment of intra-regional tariffs, commodity movements are liberalized in the region and a common external tariff is adopted. In an economic union, factor mobility is also granted. An economic union, furthermore, aims at some degree of economic policy harmonization among its members. At the ultimate stage of complete economic integration a supra-national authority carries out common monetary, fiscal, social, and economic policies, with binding character for each member country.

The different types of existing regional associations have all been created with the purpose of providing a more viable basis for economic growth and development, particularly for industrialization, without the need to concede - often only recently acquired - national sovereignty. Economic considerations, therefore, seem to be the main motivation for regional integration among developing countries, as compared to integration among developed countries, where political motives have often been the driving force towards integration (see for example the EEC and CMEA). This is not to say

^{1/} UNCTAD, Report of the United Nations Conference on Trade and Development on its Second Session, TD, L.37, Annex I, p.65, New Delhi, 1968.

that political factors do not play an important role in regional integration schemes in the South - they are, on the contrary highly interdependent with economic factors. Economic integration affects the regional decision-making process, and thus the political structure, whereas the political structure determines to a large extent the pace of economic integration.

The economic rationale for regional integration more explicitly is that it allows the participating members to overcome the small size of their domestic markets, on one hand, and the protectionistic tendencies on the world markets, on the other. The enlarged regional market opens opportunities for the establishment of new industries, with the benefits of economies of scale and intra-industry specialization, while at the same time allowing a potentially more efficient utilization of existing capacities and resource endowments in each country. The increased scope for diversification reduces the member countries' economic dependence and their vulnerability to external shocks. Regional integration can also contribute to a stronger bargaining position of the members towards the buyers of their products, and to the creation of improved opportunities for the development of more appropriate technologies. All of the potential benefits above, accrue particularly to integration within a geographic region as compared to integration among extra-regional member countries, due to the historically close economic, political, and cultural affinity of countries within the same region. All in all, regional integration seems to be one way to overcome the high costs of an either inward-looking or outward-looking economic development strategy by means of South-South co-operation with a high potential for increased self-reliance and accelerated industrialization.

The economic evaluation of regional integration schemes is conceptually quite difficult, since it involves the comparison of the actual state of development in the region with the hypothetical state that would have been achieved in the absence of integration. A way to overcome this problem was given in Viner's classical treatment of customs unions in 1950 and since then has been the most frequent method of assessing the economic effects of integration schemes of this type. Viner suggests comparing the relative amounts of trade creation and trade diversion that will take place since the formation of the customs union. Trade creation occurs if production within the customs union is shifted from a less efficient member to a more efficient member. Trade diversion takes place if production is shifted from a more

efficient producer outside the customs union to a less efficient member of the region. According to these criteria, the formation of a customs union is economically beneficial, if the amount of trade creation exceeds the amount of trade diversion.

The classical approach to the evaluation of customs unions - largely simplified above - involves two major problems, the first being the difficulty of empirically measuring trade creation and trade diversion effects and the second being the comparative static nature of the Vinerian approach. The rather restrictive assumptions of Viner's analysis lead to its focus on static reallocation effects of factors of production, whereas, for the process of regional integration, dynamic effects are at least as important. The most commonly mentioned dynamic effects are the creation of economies of scale, increased competition and an improved bargaining position. Of high importance for regional associations among less developed countries are also dynamic changes in the structural conditions of production and technology, the process of inter-commodity and inter-activity substitution, the dynamics of resource diversification, the capacity for absorbing externalities, the distribution of cost and benefits and their impact on the evolution of the integration process, the influence of pressure groups on the structure of integration, etc. ^{2/} Since these dynamic effects are primarily concerned with the way in which integration increases the possibilities for economic growth and diversification through industrialization, they are of relatively more importance for regional associations among developing countries, than the above static effects; much more so than in the case of regional associations among developed countries, for which Viner's approach was mainly designed. To assess the full economic impact of the formation of integration schemes it is thus necessary to go beyond the static trade creation/trade diversion analysis of the classical model and to include the dynamic effects that accrue to the development process.

The analysis below will only refer to the Vinerian concept on occasions, which, despite its deficiencies for a long-run, dynamic evaluation, may, in the short-run, be useful to identify the direction of intra-regional redistribution effects, to which the majority of integration areas are

^{2/} Compare C. Vaitsos: Crisis in Regional Economic Cooperation (Integration) among Developing Countries, World Development, Vol.6, 1978, p.751.

TABLE 1

List of Selected Regional Groupings

<u>Groupings</u>	<u>Members</u>	<u>Date of Foundation</u>	<u>GNP 1977 (mill. US\$)</u>	<u>Population 1977 (in millions)</u>
1. <u>Latin America</u>				
ANDEAN PACT	Peru, Ecuador, Bolivia, Colombia, Venezuela, (Chile)	1969	74	67
CACM	Costa Rica, El Salvador, Guatemala, (Honduras), Nicaragua	1960	15	19
CARICOM	Jamaica, Trinidad and Tobago, Guayana, Barbados, Grenada, St. Vincent, St. Lucia Dominica, Antigua, St. Kitts-Nevis, Belize, Montserrat	1973	7	4
LAFTA (LAAI)	Argentina, Brazil, Chile, Mexico, Paraguay, Peru, Uruguay, Colombia, Ecuador, Venezuela, Bolivia	1960	382	289
2. <u>Asia</u>				
ASEAN	Indonesia, Malaysia, Philippines, Singapore Thailand	1967	104	247
3. <u>Africa</u>				
EAC	Kenya, Uganda, Tanzania	1967	11	43
UDEAC	Gabon, (Chad), Congo, CAR, Cameroon	1968	8	12
ECOWAS	Benin, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali Mauretania, Niger, Nigeria, Senegal, Sierra Leone, Upper Volta	1975	66	128
WAEC	Benin, Ivory Coast, Mali, Mauretania, Niger, Upper Volta, Senegal	1959	11	31

Source: UNCTAD, Handbook of International Trade and Development Statistics, Supplement 1980.

politically very sensitive. The evaluation of the selected integration schemes will mainly be oriented by their success in reaching the goals they have set themselves, with the prime emphasis on the development of intra-regional trade and industrial co-operation at the regional level. A brief overview of the transportation and communications sector then follows. The paper will end with an outline of some reasons for the poor performance and present stagnation of most regional integration schemes.

II. Overview of Existing Regional Integration Zones

An overview of presently existing integration schemes is given in Table 1. It shows regional groupings in Africa, Asia, and Latin America, their member countries, as well as the total GNP and population of each community. The list is not complete and leaves out some integration schemes which have either been established very recently - making an evaluation very difficult - or have shown very little success in their co-operation efforts - casting some doubts on the members' commitment to integration.

The following regional integration zones will be used as illustrations throughout the study:

1. Andean Pact; founded in 1969, members: Bolivia, Chile (until 1976), Ecuador, Colombia, Peru, Venezuela (since 1972).
2. Association of South-East Asian Nations (ASEAN); founded in 1967, members: Indonesia, Malaysia, Philippines, Singapore, Thailand.
3. Caribbean Common Market (CARICOM); founded in 1973, members: (a) relatively more developed countries (MDCs): Barbados, Guayana, Jamaica, Trinidad and Tobago; (b) relatively less developed countries (LDCs): Angitua, Belize, Dominica, Grenada, Montserrat, St.Kitts-Nevis, St.Lucia, St.Vincent, (predecessor: Caribbean Free Trade Association (CARIFTA), founded in 1968).
4. Central American Common Market (CACM); founded in 1960, members: Costa Rica, El Salvador, Guatemala, Honduras (until 1968). Nicaragua; practically inoperative since the revolution in Nicaragua and the civil wars in El Salvaor and Guatemala.

5. East African Community (EAC); founded in 1967, members: Kenya, Uganda, Tanzania; practically disbanded since 1977.

6. Economic Community of West African States (ECOWAS); founded in 1975 by Benin, Cape Verde (since 1977), Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauretania, Niger, Nigeria, Senegal, Sierra Leone, Togo, Upper Volta.

7. Latin American Free Trade Association (LAFTA); founded in 1960, members: Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela; dissolved since 1980 and transformed into the Latin American Association for Integration (LAAI).

On occasions the following regional groupings will also be mentioned: the Union douanière et économique de l'Afrique Centrale (UDEAC), founded in 1964 by Cameroon, Central African Republic, Chad (until 1968), Congo, Gabon; and the West African Economic Community (WAEC) founded in 1959 by Benin, Ivory Coast, Mali, Mauretania, Niger, Upper Volta, Senegal.

Of the above groupings only LAFTA was designed as a free trade area. All other groupings have made the attempt to establish a common external tariff, i.e., to form a customs union - although with only partial success. The formation of common markets by means of removing restrictions on factor mobility within the region has progressed very little, even though many groupings refer to themselves as common markets or economic communities.

III. Trade and Regional Integration

1. Magnitude and Pattern of Regional Trade

The trade structures of most developing countries prior to the formation of integration zones are characterized by a very strong orientation towards the markets of developed countries. Less developed countries have generally maintained stronger links to their former colonial powers (e.g., in the case of Africa) or have established closer trade relations to the regional economic power (e.g., to the US or to Japan), than amongst each other. Table 2 illustrates this point very clearly: prior to any integration movements, the trade links among the ECOWAS members were negligible in comparison with their links to the EEC, thus retaining the trade dependence on the former colonial

powers. In the case of CACM, a similar situation existed: in 1953, prior the formation of CACM, 71 per cent of the regions exports went to the USA. The potential to reduce this trade dependence through increased intra-regional trade is thus relatively high. But at the same time the difficulties that arise when trying to link formerly hardly related economies in a relatively short period of time should not be underestimated. Intra-regional trade shares should therefore only be expected to increase over time as the member countries of the regional association develop better economic linkages amongst each other. In the long-run, the volume of intra-regional trade will be a key determinant of the character of, and the future prospects for, co-operation within each region, on the way to reduced trade dependence from the North.

The high priority assigned to trade liberalization has had differing results on the levels of intra-regional trade in the individual regional groupings. Table 3 shows the development of intra-regional trade in each area between 1960 and 1978. With the exception of ASEAN and ECOWAS, all of the listed integration schemes started granting trade preferences to their member countries between 1960 and 1970. During this initial phase relatively high increases in intra-regional trade can be observed, both in terms of absolute value and in terms of shares of intra-regional trade in total trade.

The most outstanding example is probably CACM, where the value of intra-regional trade rose from \$33 million in 1960 to \$299 million in 1970. In terms of percentage this implies an increase of intra-regional exports relative to total exports from 7.5 per cent in 1960 to 26.8 per cent in 1970. This increase has enabled the member countries of CACM to reduce their trade dependence on the USA from 71 per cent in 1953 to 36 per cent in 1971 (compare Table 4) and move closer to the goal of regional independence. It has been suggested, though, that be of this high intra-regional trade share might partly a statistical phenomenon, caused by the heavy extra-regional import content of intra-regional trade. ^{3/} In most other groupings the increase in intra-regional trade has been less spectacular, but still noticeable: the LAFTA trade share increased from 7.7 per cent in 1960 to 10.2 per cent in 1970, the WAEC trade share went up from 2.0 per cent to 9.1 per cent, UDEAC from 1.6 per cent to 7.5 per cent, CARICOM from 4.7 per cent to 7.3 per cent and the Andean Pact from 0.7 per cent to 2.0 per cent. It should, however, be noted that despite the considerable increases the share of intra-regional trade in total trade never exceeded 10 per cent in any grouping except of CACM. The initial trade increase upon the establishment of the integration

TABLE 2

Intra-ECOWAS Trade Matrix 1972 (\$000)

From: \ To:	ECOWAS	World	EEC	ECOWAS %	EEC%
Benin	5810	93259	58989	6.2	63
Cape Verde	7	24106	2674	.0002	11
The Gambia	1624	25576	11283	6.3	44
Ghana	15826	292642	118899	5.4	40
Guinea	4139	76565	53328	5.4	69
Guinea-Bissau		31801	6666		20
Ivory Coast	22808	453832	312464	5.0	68
Liberia	2208	178680	60808	1.2	34
Mali	-	-	-	-	-
Mauritania	5002	71041	42495	7.0	59
Niger	9012	65788	42751	13.6	64
Nigeria	3445	1507172	916497	2.1	60
Senegal	20895	278619	182531	7.4	65
Sierra Leone	9300	121022	60290	7.6	49
Togo	4306	84775	57399	5.0	67
Upper Volta	11855	58677	33436	20.2	56.9

Source: J.P. Renninger, Multinational Cooperation for Development in West Africa, Pergamon Press, UNITAR 1979.

TABLE 3

Intra-Regional Trade of Selected Economic Groupings

Regional and Sub-regional Groupings	Value of intra-regional trade (million US\$)						Intra-regional trade as % of total exports of each grouping						Exports to Developed Countries as % of total group exports					
	1960	1970	1972	1974	1976	1978	1960	1970	1972	1974	1976	1978	1960	1970	1972	1974	1976	1978
LAFYA	564	1290	1760	3360	4434	7454	7.7	10.2	11.6	9.7	12.8	16.9	89.6	85.1	83.2	82.8	81.5	69.1 ^{2/}
out of which:																		
ANDEAN PACT	25	109	139	478	594	676	0.7	2.0	2.5	3.2	4.2	4.2	90.1	89.6	86.1	84.5	82.9	69.1 ^{2/}
CACM	33	299	307	525	653	828	7.5	26.8	22.7	24.8	21.6	19.2	90.0	70.4	73.1	66.4	60.8	67.3
CARICOM ^{1/}	27	73	125	229	212	200	4.7	7.3	11.1	7.9	6.7	6.2	87.8	83.4	81.4	80.5	82.4	82.9
ASEAN	839	860	1080	2818	3619	4701	21.7	14.7	14.7	14.5	13.9	13.2	67.2	68.3	68.5	68.8	69.7	68.0
ECOWAS	17	61	172	409	478	616	1.2	2.1	4.1	3.1	3.1	3.5	93.3	91.4	90.8	86.6	79.5	83.5
UDEAC	3	33	48	58	75	97	1.6	7.5	8.8	3.4	3.9	4.7	91.7	78.5	80.9	87.9	85.0	72.9
WAEC	6	73	82	169	177	235	2.0	9.1	8.3	8.1	6.7	6.8	85.2	84.9	83.8	82.9	86.4	87.8

Notes: ^{1/} LDCs of the Eastern Caribbean Common Market not included.

^{2/} Excludes exports of crude oil from Venezuela to Netherlands - Antilles and Trinidad and Tobago, although they are basically an entrepôt flow destined to customs bonded refineries for further re-export.

Source: Computed from UNCTAD, Handbook of International Trade and Development Statistics, various years.

scheme cannot be observed so clearly in the case of ASEAN and ECOWAS - which did not start granting trade preferences to their member countries until the second half of the 1970s - and the trade shares in these two regions seem to stagnate, if not to decline. (For more detail on ASEAN trade, compare Table 5) This development can, in part be attributed to the limited scope of trade liberalization agreed upon.

The relatively large increases in intra-regional trade during the initial period after the formation of the integration schemes do not continue in later periods. Between 1970 and 1978 the absolute value of intra-regional trade is still increasing throughout all groupings, although less rapidly as between 1960 and 1970. In terms of intra-regional trade shares, however, the situation differs considerably between the different groupings. Only the Andean Pact shows a steady increase in intra-regional trade from 2 per cent in 1970 to 4.2 per cent in 1978. LAFTA's trade share has increased (- though less steady -) from 10.2 per cent in 1970 to 12.8 per cent in 1978. In all other integration schemes intra-regional trade shares have declined, or, at best, stagnated. CACM trade shares declined from 26.8 per cent in 1970 to 19.2 per cent in 1978, though this is still the highest trade share of all groupings. WAEC and UDEAC trade shares steadily declined between 1970 and 1978. Intra-regional trade in CARICOM first increased but then proceeded to decline to below the 1970-level with 6.2 per cent in 1978. (For more detail, see also Table 6) ECOWAS experienced an increase of intra-regional trade between 1970 and 1972, but then stagnated at around 3 per cent between 1974 and 1978, the lowest level of all groupings (note, however, that intra-regional trade preferences were not yet effective in this area during the given time period).

The above examples illustrate that most regional integration schemes went through a period of notably increasing intra-regional trade - both in terms of absolute value and of trade shares - immediately after the establishment of trade preferences among their member countries. In consequent periods, however, although intra-regional trade still increased in absolute value, intra-regional trade shares in most cases started to stagnate, or even to decline. It should also be pointed out that - with the exception of CACM -

3/ See C.Vaitsos: Crisis in Regional Economic Cooperation (Integration) among Developing Countries, World Development, Vol.6, 1978, p.746.

TABLE 4
Direction of Central American External Trade

	<u>1953</u>	<u>1961</u>	<u>1968</u>	<u>1971</u>
<u>Imports (in %)</u>				
Share from Central America	3.3	7.8	24.2	23.4
Share from USA	63.7	46.5	38.5	34.3
<u>Exports (in %)</u>				
Share to Central America	2.7	8.1	26.3	23.7
Share to USA	71.3	48.8	32.9	36.1
<u>Intraregional trade (mill. US\$)</u>				
Imports (c.i.f.)	10.7	38.4	251.4	305.9
Exports (f.o.b.)	10.2	36.9	247.9	275.1

Source: J. Nugent, Economic Interaction in Central America, John Hopkins University Press, Baltimore 1974, p.10

TABLE 5

ASEAN Trade as a Percentage of Total Foreign Trade

	<u>Indonesia</u>	<u>Malaysia</u>	<u>Philippines</u>	<u>Singapore</u>	<u>Thailand</u>	<u>TOTAL ASEAN</u>
<u>Exports to ASEAN</u>						
as % of total exports						
1963-66	8.3	22.5	0.4	-	26.3	-
1970-74	14.8	25.2	1.9	27.2	17.7	-
1975	10.3	24.2	2.7	21.7	17.2	15.7
1976	8.9	21.5	3.1	19.0	17.1	14.4
1977	10.6	18.9	4.0	18.6	18.0	14.4
1978	8.6	18.6	6.0	18.6	16.7	14.0
<u>Imports from ASEAN</u>						
as % of total imports						
1963-66	0.2	22.3	4.0	-	5.7	-
1970-74	8.6	15.0	4.0	24.7	3.1	-
1975	8.7	15.2	4.8	14.0	2.7	10.1
1976	14.0	14.3	6.5	17.0	3.4	12.5
1977	14.3	14.6	6.4	16.5	4.3	12.4
1978	9.6	14.3	5.6	15.5	6.0	11.4

Sources: Data for 1963-66, 1970-74: Rolf Harnisch, *The Long Road to Economic Integration*, Intereconomics, No. 1/2, 1978, p.42.
 Data for 1975-78: UNIDO/IS.204, 1981: *Asean Co-operation in the field of industry - A Background-study on past and present activities*, p.31.

TABLE 6

Intra-CARIFTA Trade, 1967-74 (thousands of Eastern Caribbean dollars)

Category	1967		1972		1973		1974	
	Amount	%	Amount	%	Amount	%	Amount	%
Domestic exports (f.o.b.)								
MDCs								
Barbados	5,593	6.5	17,709	8.0	21,847	8.2	30,141	6.7
Guyana	19,903	23.0	34,722	15.6	39,128	14.7	60,509	13.5
Jamaica	10,598	12.3	41,179	18.6	47,241	17.7	64,002	14.2
Trinidad and Tobago	44,631	51.6	114,356	51.5	143,484	53.8	279,147	61.9
Subtotal	80,725	93.4	207,966	93.7	251,600	94.5	434,199	96.3
LDCs	5,755	6.6	14,022	6.3	14,691	5.5	16,608	3.7
Total	86,480	100.0	221,988	100.0	266,291	100.0	450,807	100.0
Imports (c.i.f.)								
MDCs								
Barbados	13,414	14.0	36,501	15.1	42,863	15.0	72,292	15.6
Guyana	25,741	26.9	47,337	19.6	75,987	26.5	138,013	29.7
Jamaica	8,895	9.3	63,864	26.4	68,943	24.1	145,861	31.4
Trinidad and Tobago	15,982	16.7	41,167	17.0	41,153	14.4	61,261	13.2
Subtotal	64,032	66.9	188,869	78.1	228,946	80.0	417,427	89.9
LDCs	31,652	33.1	52,953	21.9	57,457	20.0	46,863	10.1
Total	95,684	100.0	241,822	100.0	286,403	100.0	464,290	100.0

Source: World Bank Country Economic Report, The Commonwealth Caribbean, IBRD, Washington 1978, p.30.

the trade shares of most regional groupings are very low (5 per cent on average), with 70 to 80 per cent of each region's exports still flowing to developed countries. (Compare Table 3)

The initial increase and consequent levelling off of trade shares at comparatively low levels has been attributed to several causes. During the initial years trade liberalization in most integration schemes proceeded quite rapidly. The list of products for which trade preferences had to be agreed upon was still long and few controversies arose. This process however, was bound to slow down with time as the interests of the member countries started to conflict on more vital issues. Vaitzos ^{4/} also mentions that the lack of technological improvements in most concerned member countries means that the initial trade increase should be characterized as a type of "superficial" import-substitution. It was advanced in time through trade liberalization, but could probably have been carried out in the member countries individually after some time. A further explanation given by Vaitzos is the easy reversability of trade once changes in economic conditions occur (such as the intra-regional import substitution to be found in CACM and EAC) or once political conflicts arise (this will be dealt with in more detail in chapter VI).

Judging from the development of intra-regional trade shares, then, the present attempts to increase co-operation through regional trade should not be regarded as overly optimistic. The large potential for intra-regional trade has hardly been realized since the implementation of regional integration schemes. Only in very few, exceptional cases has the share of intra-regional exports in total exports exceeded 10 per cent. In terms of trade expansion, regional integration has, thus, not been able to contribute to increased self-reliance of the participating countries. This implies that, in general, regional trade in the South did not grow fast enough to reduce the trade dependence from the North by very substantial amounts.

4/ C. Vaitzos: Crisis in Regional Economic Co-operation (Integration) among Developing Countries: A Survey, World Development Vol.6, p.745, 1978

2. Composition of Intra-regional Trade

One of the main arguments for regional integration is that an enlarged regional market opens opportunities for accelerated industrialization. As the region develops closer industrial links, one should therefore expect the export structure of the member countries to change in favor of manufacturing goods. The formation of regional integration areas has, indeed, had a substantial influence on the export structure of the member countries. In most integration zones considerable increases in manufacturing exports can be observed, especially in intra-regional trade. They generally constitute a quite high, growing component of intra-regional trade.

In the Andean Pact industrial exports to the world increased their share in total exports from 3 per cent in 1970 to 8 per cent in 1979 at an average annual growth rate of 33 per cent which is considerably higher than the average annual growth rate of total exports of 18 per cent (compare Table 7.) Industrial exports to countries of the subregion increased from \$27.5 million in 1970 to \$832.5 million in 1979 at an average annual growth rate of 46 per cent, compared to a growth rate of 31 per cent for total intra-regional exports. Expressed as a percentage of intra-regional trade this implies an increase of the share of industrial exports in intra-regional trade from 25 per cent in 1970 to 65 per cent in 1979.

In the Caribbean the share of manufactures in total exports rose from 4 per cent in 1963 to 10 per cent in 1967 dropping slightly to 9 per cent in 1971. (See Table 8). The share in intra-regional trade is, however, considerably higher: 26 per cent in 1963, 34 per cent in 1967 and 44 per cent in 1971. The more detailed breakdown into commodity groups in Table 9 shows that in the more developed member countries the increase of manufacturing exports relative to intra-CARIFTA trade (36 per cent in 1967 and 48 per cent in 1973) is primarily attributable to an increase in clothing and footwear from 6.4 per cent to 16.8 per cent, whereas chemicals remained constant at roughly 15 per cent and wood, textile and metals at roughly 13 per cent. Note also that the manufacturing sector exports increased faster (26.8 per cent p.a.) than total exports (20.9 per cent) between 1967 and 1973, with the machinery and transportation equipment sub-sector being the most rapidly increasing sub-sector at 24.4 per cent p.a.

TABLE 7
Structure of Exports by Production Sectors in the Andean Pact
 1970-1979

	<u>1970</u>		<u>1979</u>	
	<u>mil US\$</u>	<u>%</u>	<u>mil US\$</u>	<u>%</u>
<u>Total Exports</u>				
Subregion	111	100	1,289	100
World	5,380	100	24,166	100
<u>Agriculture and</u> <u>Cattle raising</u>				
Subregion	37	33	157	12
World	1,293	24	3,847	16
<u>Mining</u>				
Subregion	14	12	53	4
World	917	71	2,880	12
<u>Petroleum and</u> <u>derived products</u>				
Subregion	33	30	217	19
World	3,015	56	15,446	64
<u>Industrial</u>				
Subregion	27	25	832	65
World	155	3	1,993	8

Source: Computed from UNIDO/IS.313, p.59

TABLE 8

Share of Manufactures (SITC 5-8) in Total Trade of CARIFTA, 1963-71

SITC Category	1963	1967	1971
Share of manufactures in total imports	50	54	55
Share of manufactures in imports from CARIFTA sources	25	33	46
Share of manufactures in total exports	4	10	9
Share of manufactures in exports to CARIFTA destinations	26	34	44

Source: World Bank Country Economic Report, The Commonwealth Caribbean, IBRD, Washington 1978, p.33.

TABLE 9

Composition of Intra-CARIFTA Exports of the MDCs by Commodity Group, 1967-73
(in per cent)

SITC	Commodity group	Year			1967-73 Average annual growth rate
		1967	1971	1973	
0	Food	30.8	25.4	22.9	15.0
1	Beverages and tobacco	2.8	2.9	3.4	25.4
	<u>Subtotal</u>	<u>33.6</u>	<u>28.3</u>	<u>26.3</u>	<u>16.0</u>
2	Crude materials	1.7	2.9	0.8	7.5
3	Fuels	28.2	23.1	24.7	18.2
4	<u>Oils and fats</u>	<u>0.4</u>	<u>0.2</u>	<u>0.2</u>	<u>11.0</u>
	<u>Subtotal</u>	<u>30.3</u>	<u>26.2</u>	<u>25.7</u>	<u>17.6</u>
5	Chemicals	17.2	14.7	15.3	18.5
6	Wood, textile, metals	12.1	13.5	13.1	22.5
7	Machinery and transportation equipment	0.3	1.2	2.7	74.4
8	Clothing, footwear, and similar items	<u>6.4</u>	<u>16.0</u>	<u>16.8</u>	<u>42.0</u>
	<u>Subtotal</u>	<u>36.0</u>	<u>45.4</u>	<u>47.9</u>	<u>26.8</u>
9	Miscellaneous	0.1	0.1	0.1	7.9
	<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>20.9</u>

Source: World Bank Country Economic Report. The Commonwealth
Caribbean, IBRD, Washington 1978, p.32.

ASEAN exports of manufacturing as per cent of total exports have also increased between 1970 and 1975 (see Table 10): in Indonesia from 6.2 per cent to 8 per cent in Malaysia from 29.5 per cent to 31.9 per cent, in the Philippines from 5.6 per cent to 17.8 per cent, in Singapore from 53.1 per cent to 74.9 per cent, and in Thailand from 19.1 per cent to 25.9 per cent. The share of the basic metals sub-sector has generally stagnated, if not dropped. The share of textiles and other manufactures has increased in some countries, but fallen in others. Only the share of the heavy manufactures is increasing in general, at relatively high rates, and thus constitutes the main component of the increase in manufactures exports. Relative to intra-ASEAN exports, manufacturing exports contributed 30.3 per cent in 1977. (Compare Table 11) The largest component was the machinery and transport equipment sub-sector with 14.7 per cent, followed by manufactured goods classified chiefly by material with 8 per cent, and chemicals with 4.5 per cent.

In the CACM the share of manufacturing exports in total exports also rose considerably from less than 1 per cent in 1963 to 21 per cent in 1969. 5/ About 80 per cent of these non-traditional manufacturing exports went to members of CACM. 6/ LAFTA followed a very similar pattern. 7/

In the case of CARICOM some statistical support exists for the view that the growth of intra-regional trade in manufactures involves more trade creation than diversion. 8/ Due to the lack of complementarity - amongst other reasons - hardly any new industries have been created nor any significant amounts of sectoral links. The benefits from integration thus accrue to the increased level of competition within the already existing industries, primarily consumer goods industries. In many integration areas, however, the amount of trade diversion in manufactures might exceed the amount of trade creation. This applies particularly to those regions where noticeable differences in the levels of development exist between the member countries, f.e., Ecuador and Bolivia in the Andean Pact, Honduras and Nicaragua in CACM, or Tanzania and Uganda in EAC. In these cases, the

5/ J. Nugent, Economic Integration in Central America, Johns Hopkins University Press, 1974, p.12

6/ Kahnert, Richards, Stoutjesdijk, Thomopoulos. Economic Integration among Developing Countries, The Development Centre of the OECD, Paris 1969, p.70

7/ C. Vaitos, Crisis in Regional Economic Co-operation (Integration among Developing Countries: A Survey, World Development, Vol.6, p.745, 1978.

8/ World Bank Country Economic Report, The Commonwealth Caribbean, IBRD, 1978, p.34.

TABLE 10

ASEAN Exports by industrial origin, 1970 and 1975 (per cent of total exports)

	Foodstuffs and raw materials (including pro- cessed) 1/		Basic Metals 2/		Other, heavy manufactures 3/		Textiles and other manu- factures	
	1970	1975	1970	1975	1970	1975	1970	1975
Indonesia	93.8	92.0	0.8	1.2	4.6	6.6	0.8	0.2
Malaysia	70.5	68.1	19.8	13.3	8.0	15.4	1.6	3.2
Philippines	94.4	82.2	1.2	1.7	3.2	5.3	1.2	10.7
Singapore	46.9	25.1	1.3	1.9	42.0	65.7	9.9	7.4
Thailand	80.9	74.1	11.8	5.1	1.8	12.0	5.4	8.7

Notes: 1/ Products of agriculture; mining; food, beverages and tobacco processing, forestry

2/ Mainly ingots of metal

3/ Paper, chemicals, metal manufactures, machinery, transport equipment

Source: H.W. Arndt and Ross Garnaut: ASEAN and the Industrialization of East Asia, in: Journal of Common Market Studies, Vol. XVII, No.3, March 1979.

TABLE 11

Intra-ASEAN Trade by Product Group, 1977

	<u>US\$ '000</u>	<u>%</u>
Food and live animals	854,775	16.8
Beverages and tobacco	21,478	0.4
Crude Materials, inedible except fuels	927,313	18.2
Mineral fuels, lubricants, and related materials	1,543,328	30.3
Animal and vegetable oils and fats	140,941	2.8
Chemicals and products of chemical industries	229,553	4.5
Manufactured goods, classified chiefly by material	406,257	8.0
Machinery and transport equipment	745,827	14.7
Miscellaneous manufactured articles	159,431	3.1
Commodities and transactions not classified according to kind	58,927	1.2
Total Intra-regional Exports	5,123,850	100.0

Source: Computed from UNIDO/IS.204, p.33

relatively backward countries usually impose lower tariff rates for manufactures before the implementation of integration schemes, allowing them access to less costly extra-regional products which, after integration often are replaced by less efficient, highly protected regional products.

In summary, regional integration schemes have generally brought about the desired increase in trade in manufactures, which is most pronounced in intra-regional trade. Manufactured goods constitute a very high share of intra-regional trade and are certainly the most dynamic component with growth rates well above the average growth rate of total intra-regional exports. Some of the potential for increased industrialization through South-South co-operation, thus, seems to have been realized in response to the formation of regional integration schemes. In terms of short-run developments, it should be borne in mind, however, that in manufacturing the amount of trade diversion might exceed the amount of trade creation due to the highly protectionistic structure of this sector.

In the majority of the integration areas the largest subsector of manufacturing is that of consumer goods and it is still increasing. This suggests that some of the increases of manufacturing exports are attributable to the initial "easy" phases of import substitution on a regional level. As a consequence, some slow-down of manufacturing exports should be expected as more difficult phases are entered.

The breakdown of the manufacturing sector exports into its subsectors shows only in the case of ASEAN a high share of capital goods. In general, the share of capital goods is relatively low, but displays the highest growth rate of all manufacturing subsectors. The small absolute size of the capital goods subsector indicates that in most regional integration schemes the dependence on the North in terms of science and technology is still relatively high and that they generally have not yet overcome the lack of capability to support a large, capital-intensive sector due to capital and human skills shortages. The very high growth rates of the capital goods subsector, however, suggest that there is some hope to overcome these deficiencies through regional integration.

3. Polarization and Regional Trade

The liberalization of intra-regional trade along with increased regional factor mobility has in many cases tended to accentuate already existing disequilibria in the given integration areas. Considerable inter-countries polarization occurred, particularly in those regions with highly heterogeneous member states. The main reason for this phenomenon is the fact that the existence of distorted markets in most areas was not provided for by appropriate compensation schemes. Market forces therefore lead to a concentration of the benefits from integration (i.e., trade creation and industrialization) in the larger and more advanced member countries where better infrastructures and other agglomerational advantages existed. Another possible cause for inter-country polarization effects is trade diversification within the integration area.

Although being difficult to quantify and thus the continuous course of regional disputes, the concentration of productive activities in the larger and relatively more developed member countries can be observed in practically each regional integration scheme. The most widely discussed case is probably that of EAC, where Kenya was the main benefactor of integration, to an extent that ultimately lead to the dissolution of the EAC in 1977. Other cases, though, have not been any less serious. In CACM the concentration of benefits in El Salvador and Guatemala caused the withdrawal of disadvantaged Honduras. In three cases, the polarization effects were a strong contributing factor to a de-facto disintegration of existing integration areas into smaller groups. In LAFTA, Argentina, Brazil, and Mexico were the main benefactors, thus initiating the formation of the Andean Pact. (Other reasons, of course, contributed to this). In CARICOM, where the polarization occurred between the MDCs, particularly Trinidad and Tobago, and the LDCs, the latter proceeded to create their own integration alliance within CARICOM, i.e., the ECCM (Eastern Caribbean Common Market). The third case is that of UEAC (Union des Etats de l'Afrique Centrale), founded within UDEAC, where Cameroon is the dominating member. In the remaining integration schemes polarization effects are also observable, although this fact has had less serious implications than in the above cases. Columbia and Venezuela benefit most from the Andean Pact, Singapore most from ASEAN, and Nigeria in bound to be the main benefactor of ECOWAS, once the trade liberalization measures become fully effective.

The aggravation of regional disequilibria through inter-country polarization effects should be regarded as a serious impediment to regional integration. The realization of this fact along with the extremely high political awareness of the distribution of integration benefits have brought about the development of compensatory mechanisms in many regional schemes. They usually consist of special privileges for the disadvantaged members, as for example, redistributive transfers, special incentives for foreign investors, smaller tariff reductions, preferential treatment in regional industrial plans etc. Experience has shown that these measures do remedy some of the polarization effects but there are still often difficulties in eradicating the causes due to the scope involved. Polarization therefore still occurs, but the compensation mechanisms in most cases mitigate the suboptimal allocation of productive activities that would be brought about by a genuine liberalization of trade in the face of distorted LDC markets. It is clear, however, that this is one of the areas with the highest potential for political disputes among the member countries of regional associations, demonstrated by the frequent negotiations of existing agreements or the exercise of pressure for renegotiations. (This issue will be taken up again in Chapter VI.)

IV. Regional Industrial Co-operation

1. Rationale for Regional Industrial Co-operation

The formation of regional integration areas has largely increased the potential for industrial development within the respective regions. A realization of this potential would imply the development of much closer industrial linkages in the region and thus be one important step towards overall self-reliance through economic integration in the South. In the past, the individual member countries of many integration schemes have tended to follow industrialization strategies of the import-substitution type, creating rather similar, duplicative, industrial structures in each country. These are often characterized by inefficiency due to considerable underutilization of capacity, and high unit costs operation behind protective tariff walls. Industrial co-operation on the regional level could be a means to overcome these serious limitations of import-substituting industrialization which often result from the relatively small size of the domestic markets.

There are basically five types of advantages that industrial co-operation, as a step towards economic integration, could bring about in the enlarged regional market:

(1) The existing endowments of raw materials, skills and other resources, which often differ between the member countries and are potentially complementary, can be utilized much more efficiently in the subregion and thus lead to a more rational allocation.

(2) The enlarged market, a joint use of investment funds and a co-ordination of regional and sectoral investment can lead to economies of scale, allowing for the production of goods which would not have been viable in an individual member country.

(3) In the same manner, provisions would be made for increased specialization and diversification of industrial production at an expanded level.

(4) One can also expect productivity improvements and a more efficient use of the existing productive apparatus, once production is expanded to the regional level.

(5) If the investment policies of the subregion are co-ordinated from the beginning, the allocation of investment projects within the region can be used as a compensation mechanism for polarization effects.

It is obvious, that the majority of the above advantages refer to the creation of industries new to the area. It seems much more difficult to restructure already existing industrial capacities in order to meet the above efficiency criteria. The setting up of new industries could, therefore, prove to be less difficult than rationalization of existing industries. The setting up of new industries, however, requires a certain economic environment that is favorable to new investment. The present economic recession seems to work against such an environment: investment is declining severely in most developing countries, diminishing their capabilities to adapt their productive structures. For the process of economic integration, this implies that the means to seek accelerated, region-wide industrialization are presently reduced to the rationalization of existing industries. Rationalization on a regional level, however, as compared to investment in new industries, not only involves

many practical, technical problems, but also serious political obstacles, since interest and pressure groups of the existing national industries will most likely be opposed to and impede regional restructuring. A slow-down of the integration process can be expected as a consequence.

In the long run, it is also apparent that, in order to make full use of the above possibilities, the industrialization strategies of the member countries need to be harmonized, joint programs for integration industries should be designed and co-ordinated regional investment planning seems indicated.

2. Regional Experiences with Industrial Co-operation

Industrial co-operation strategies have been applied with different intensities in the existing integration areas, but have generally had only limited success in view of the potential outlined in Section 2.

In CARICOM the co-operation efforts have been limited to tax and tariff incentives for industrial projects with so far very little impact on increased industrialization. A region-wide program for industrial development has not yet been established. This seems especially advisably, though, because the narrowness of even the integrated market increases the danger of duplication of industries in the absence of regional planning and because the polarization of industries in the MDCs calls for a corrective allocation scheme.

In CACM two instruments for regional industrialization have been created, the "System of Integration Industries" and the "Special Systems for the Promotion of Production". The actual effect of these schemes on industrialization in Central America has been relatively limited. Only very few so-called "integration industries" were established which, in addition, were concentrated in only a limited range of industries. The production induced by both instruments in combination with further fiscal incentives is estimated at about 6 per cent of the growth in total value added in manufacturing. 9/

9/ D.H. McClland, The Central American Common Market, Praeger Pub., New York, 1972, p.99

The only two regions where industrial co-operation resulted in some type of regional investment planning are ASEAN and Andean Pact. In both cases the joint industrial programs have become core parts of the integration efforts and have had much further reaching effects than the primarily fiscal incentives of most of the other areas.

In the Andean Pact industrial co-operation is being pursued through "Sectoral Programs of Industrial Development", "Industrial Rationalization Programs", and "Integrated Development Projects". This so-called Joint Industrial Program is meant to "prevent the imbalance in those integration processes where the participating countries have marked differences of industrial development and where the commercial mechanisms of the free market operate." ^{10/} Market reservations and other special provisions have thus been designed for Bolivia and Ecuador, which have relatively less developed industrial structures.

The main emphasis of the program is on sectoral development. Agreements for three sectors have so far been reached: metal fabricating, petrochemicals, and the automotive industry, while the iron and steel program is in the process of being approved. These sectoral programs allocate certain types of plants to the different member countries, a rather problematic time-consuming process which often works according to distributional and political criteria more often than according to economic efficiency considerations. The long time lags involved have at times even in individual member countries to go ahead on their own, which has then rendered the process of finding regional agreements for the respective sector even more difficult. Further problems tend to occur at the country level when determining the feasibility of the individual plants, assigned to them, which is not part of the sectoral program. The latter problem has often lead to long delays in the implementation of the sectoral programs causing the member countries to forego further benefits.

^{10/} UNIDO/IS.312, p.38

In ASEAN three instruments have been developed to foster industrial co-operation: large-scale government sponsored "ASEAN Industrial Projects", "ASEAN Joint Ventures" in the private sector. The "ASEAN Industrial Projects" are combined in a "package deal", where each country is being assigned one large-scale industrial project intended to serve the entire ASEAN market. The achievements of this program are quite meagre, mainly due to the rather hasty initial choice of projects for each country. Out of the five planned projects, only two are presently being carried out, one of which would most likely have been pursued even in the absence of ASEAN, one project is still being evaluated and two projects have been cancelled.

The main problems occurred with those projects that were connected to already existing industries in ASEAN. Like in the Andean Pact negotiations have proven to be considerably more cumbersome and difficult in those cases where industries are concerned that are not "new" to the area. As for industrial complementation programs, so far only two have been approved for the automotive industry. The provision for ASEAN joint ventures is too recent to show any results yet, but it stands a good chance of success, since joint ventures can be handled much more flexibly and pragmatically (no more than two countries need to agree on such a project for example).

3. Implications of Regional Industrial Co-operation

Despite the large potential for regional industrial co-operation no attempts have yet been made to design a comprehensive, integrated development plan for the industrial sector of the regional associations dealt with and should probably be regarded as politically unfeasible and economically cumbersome. Very few integration schemes have developed the instruments and mechanisms of industrial co-operation much beyond the level of tax and tariff incentives. Only the Andean Pact and ASEAN have devised systems of sectoral industrial co-operation in the form of joint sector planning. The reasons why the attempts to develop even the partial approaches to industrial co-operation seem to stagnate and are regarded with disillusionment are manifold. It should be borne in mind, of course, that the efforts in this area date back only to the middle of the 1970s and should consequently be given some more time to determine their full impact. Some tentative conclusions, however, seem possible already at this stage.

The core problem of regional industrial co-operation seems to be the hesitation of the member countries to commit themselves to any regional agreements. This is in part attributable to a certain element of economic nationalism, since each member is afraid of being disadvantaged in the allocation of industries or plants, and it is also attributable to the often complicated nature of the agreements, causing lengthy negotiations. Complications arise because the economic feasibility of industrial co-operation schemes has to be assessed at the sectoral and often even at the project level by means of shadow prices with detailed studies on the distributional effects, which are hard to determine especially in a continuously changing environment. Political instability and the resulting instability of the economic systems contribute to this. Under these conditions the reluctance of the individual member countries to commit themselves to regional agreements is understandable and explains the lengthy process of negotiations and renegotiations.

Summarizing, the results of regional industrial co-operation efforts have been somewhat disappointing. In most integration areas the usage of available instruments for a co-ordinated industrialization process has been very limited. Even in those cases where fairly comprehensive regional industrial planning took place on a sector level, lengthy negotiations and delayed implementation have caused serious problems, in addition to the difficulties that are created by the conflict between national as well as pressure group interests and the efficient and/or equitable regional allocation of industries and plants. This all suggests that, in the short-run at least, the existing schemes for regional industrial co-operation can be expected to play only a very limited role as a vehicle for fostering South-South co-operation with the aim of accelerating industrialization.

V. Co-operation in the Transport and Communications Sector

The efficient functioning of a regional transportation and communications system is the basic pre-requisite for increased intra-regional trade and joint industrialization in each regional integration scheme. Without it most efforts are deemed to fail due to unamountably high transport and communications costs. In the EAC and UDEAC some co-operation in this area existed already during colonial times (e.g., common railway, communications and postal services), although many improvements were required to arrive at an

efficient operation of these services. In the majority of the other integration schemes only very poor intra-regional connections existed. The transportation and communications systems were primarily oriented towards export markets and/or the administrative centres, the allocation of which often dates back to colonial times. This implies for instance, that to this day, in order to place a phonecall between West African states, the connections have to be made via London or Paris. More generally, the focus of the transportation and communications systems on overseas markets has led to the formation of traffic junctions along the coast at the major ports. Roads and rail links were constructed to transport bulky primary products from the interior to the ports, which were the direct links to the colonial power's markets. Consequently the hinterland has been very neglected, very few cross-border road or rail links exist, and even the coastal connections are often rather poorly developed.

The task ahead in most integration schemes is therefore rather tremendous, before even the most basic pre-conditions for the efficient operation of an integration process can be said to exist. The fact that only the bare minimum of transportation links exist, however, offers the chance of using a region-wide inter-state transport planning strategy, without the need of having to piece together already fairly developed transport networks. This is particularly true for road and railway links. The relatively most developed transport mode in the majority of the integration areas is the transport by sea. It can be better adapted to serve regional needs by developing some of the smaller ports' facilities, which would at the same time lessen the pressure on the often already congested major ports. But, of course, this measure too is contingent and an expansion of the railway and roads network to establish the connection to the hinterland. Railways and roads can therefore be expected to take up the bulk of the investment in overhead capital that is necessary to make integration work.

The majority of the regional associations have made joint transportation and communications projects part of their program. Some success can already be observed. In CACM the completion of the Transamerican Highway, in combination with various regional road projects has initially given some impetus to the increase in intra-regional trade. In the Andean Pact road and railway connections have been improved, major potentials now being port facilities. In ECOWAS a major telecommunications project is just being

approved and several road and railway projects are in the process of evaluation. CARICOM is probably the area with the most difficult to meet requirements for intra-regional transportation links, due to the fact that it consists of many very small and widely scattered islands. The formation of a regional shipping corporation has helped to improve the connections between and to the smaller islands, which are generally neglected on the foreign operated main routes. Air transport policies have been pursued rather successfully, but have been of a very nationalistic character as in many other integration areas - leading to some quite undesirable overinvestment in airports.

The construction of adequate transportation and communications facilities requires very high initial capital investments. Many regional associations have managed to find some outside sources of finance, mainly from regional and non-regional development banks. The financial limitations also force the member countries to carefully assess the benefits of the above projects. This is relatively hard due to the long gestation period of most transport and communications projects, and due to the difficulty of projecting regional traffic, which is interdependent with the state of the transport system and the dynamics of the integration process.

In summary, some notable improvements have been made in the transport and communications sector, thus creating a more sound basis for regional integration in other sectors. In most areas, however, much more needs to be done to create a viable transportation and communications network which could lead to the momentum of the integration process.

VI. Main Obstacles and Constraints to Regional Integration

1. General Problems

In the above chapters mention has been made of several problems that have impeded the integration process, and have in some cases represented serious obstacles to regional development. Some of these problems are region-specific and do not seem to follow any apparent pattern. Others, however, seem to be common to most economic integration schemes and thus imply some more general structural obstacles to regional integration. Among these, the two most important problems are the trend towards polarization and towards an unequal

distribution of integration benefits and costs, and secondly, the divergence of national policies on certain integration issues. Very often these problems are intertwined, which makes it hard to determine the causal relationships.

The unequal distribution of benefits and costs is perhaps the most overt and persistent problem in integration schemes. It has resulted in the withdrawal of individual member countries and in some instances even in the ultimate discontinuation of regional co-operation schemes. Two major causes of an unequal distribution can be identified. First, in largely heterogenous integration areas economic activities, particularly industrial activities, tend to concentrate in the relatively more developed countries, which offer a better infrastructure and other allocational advantages. Second, in many regions the reduction of intra-regional tariff rates in combination with a high external tariff has caused trade diversion particularly in industrial goods. The less developed member countries are thereby forced to buy the more expensive industrial products of the more developed members, which they were able to buy at lower cost prior to integration.

It is obvious that these polarization effects lead to an aggravation of already existing regional disparities. Compensation mechanisms have now been designed in most regions with the intention of mitigating their impact. In many instances, however, these mechanisms are not yet fully adequate. They generally consist of redistributinal transfers, special incentives for foreign investors, smaller tariff reductions, preferential treatment in regional industrial plans, or so-called "packaged deal" allocations of new industries. The deficiencies of these measures are often based on differing value systems between the member countries, which cannot properly be taken account of in supra-national cost-benefit analysis for the allocation of foreign investment and new investment, or other intra-regional restructuring measures. This problem could be overcome, if it were possible to design some type of auction-system whereby each country is assigned a certain amount of funds according to distributional criteria, and is then left free to carry out its own cost-benefit calculations and bid for those projects it values highest itself. No attempts in this direction have, however, so far been made. The inadequacy of existing compensation schemes in combination with the differing perceptions of the actual costs and benefits of integration, is thus still the major cause for regional conflicts. The conflicts can be expected to be less serious in regional associations with relatively more homogeneous member

countries with respect to their level of development, size, and resource endowment (i.e., CACM in comparison with LAFTA).

The problem of divergence and incompatibility of national policies is the other main obstacle to integration. Due to the organizational nature of most integration schemes - i.e., the lack of supra-national authorities - conflicting national interests enter at each step of the integration process. This leads to lengthy, cumbersome negotiations and an often unnecessary politicization of integration issues, with the ultimate effect of further delays in the implementation of integration projects (compare for example the process of industrial planning in ASEAN or the Andean Pact). These problems are reduced in those cases where automatic policies have been instituted, which work without high level political agreements at each new step (i.e., automatic tariff reductions in the Andean Pact). In the absence of some type of automatic policies, the integration process is accelerated or slowed down, respectively, depending on the present political relations between the member countries. In the same manner it depends on the political stability of each country and the influence that national pressure groups are able to exercise. On many occasions these factors have slowed down the efforts for economic co-operation or have lead to developments that are not necessarily efficient from an economic point of view. This problem gets progressively more serious, the higher the number of member countries is, because the diversity of national interests increases, making it considerably harder to reach agreements and to adapt flexibly and efficiently to the quickly changing environments of most developing countries. (See i.e., ECOWAS and LAFTA). No apparent solutions seem to offer themselves to this type of problem, other than the adoption of more automatic policy mechanisms which, however, is limited to certain areas.

The problems of unequal distribution and the difficulties of reaching political agreements have proven to be the most serious obstacles to regional integration in each of the described regional schemes. Solutions for the first issue have been attempted with some limited success through compensation mechanisms and special treatments for less developed members, without which most integration schemes would most likely have ceased to exist. Attempts to increase the efficiency and flexibility of integration schemes should be regarded as relatively bleak due to the political situations in the member countries, which rarely allow for quick agreements on integration programs, and due to the technical problems which often arise in the process of project evaluation.

2. Region-specific problems

This section will give a summary of the most pressing region-specific problems of the integration schemes dealt with. In so doing it aims at giving an impression of the present state of affairs in the individual regional associations, but a more detailed analysis of these problems is clearly beyond the scope of this paper.

In LAFTA 11/ one of the crucial impediments to integration has been the lack of effective institutions and decision making processes. Another factor is the particularly high protectionist pressures in this area. The pursuing of import substituting policies since the early 1950s has created a largely duplicative, light industrial structure which has been highly protected and has caused certain attitudes and expectations amongst entrepreneurs that are hard to reverse. These problems together with the general problems mentioned in section 2 have led to noticeable declines in LAFTA activities, until the final dissolution of LAFTA in 1980 and its reorganization as LAAI with a considerably less ambitious program.

In CACM a lack of high level political support could be observed, which resulted in the concentration on "easy" and inexpensive actions. Nevertheless CACM achieved quite substantial increases in intra-regional trade and noticeable progress in its industrialization efforts. The war between El Salvador and Honduras points to serious political divergencies as does the withdrawal of Honduras from the integration scheme. Recently, the integration efforts have come almost to a standstill due to the revolution in Nicaragua and the civil wars in El Salvador and Guatemala.

The Andean Pact 12/, although economically quite successful, has had to face serious problems with the compliance of the member countries with Andean decisions, the lack of which renders co-operation attempts meaningless and leads to lowered expectations and mistrust of the Andean pact. One can

11/ For the following compare J. Cochrane and J. Sloane, LAFTA and the CACM: A Comparative Analysis of Integration in Latin America, The Journal of Developing Areas No.8, October 1973, pp.13-37.

12/ For the following compare R. Vargas - Hidalgo, The Crisis of the Andean Pact: Lessons for Integration Among Developing Countries, Journal of Common Market Studies Vol.XVIII, No.3, March 1979, pp.213-226.

further observe poor interaction between decision-making processes at national and at community levels as well as other bureaucratic problems. Political divergencies have led to the withdrawal of Chile in 1976. The remaining members of the Pact, however, seem to be dedicated to continue the process towards integration especially in the industrial area and are searching for appropriate reforms to remedy the above problems.

ECOWAS has been created too recently to identify regional problems very precisely. It is, nevertheless, apparent that the large number of countries with considerable diversity in terms of level of development, language, external economic relations a.o. will slow down the integration efforts down considerably.

In CARICOM one of the main problems is the small size of even the regional market, the externally oriented structure of all the member countries, and the consequent vulnerability of the entire region to external shocks. The scope of regional co-operation in the face of economic crises is therefore quite limited and has been a contributing factor to the stagnation in Caribbean integration efforts during the past years.

In ASEAN the movement towards regional integration has been quite cautious but at the same time very steady. The main problems arise from the diverging external economic orientations of the member countries, either outward-looking or inward-looking, which results in differing economic interests within the integration scheme. The strong political and military co-operation of the five ASEAN countries might give some impetus to closer co-operation in the economic sphere.

VII. Summary and Conclusions

The foregoing analysis suggest that the achievements of regional integration schemes have generally fallen short of the relatively high expectations that were created by them and can hardly be regarded as a successful example for South-South co-operation. The potential for increased intra-regional trade has hardly been tapped, and, with few exceptions, percentages of intra-regional to total trade in most cases amount to no more than 10 per cent. Regional trade, thus, did not expand fast enough to reduce the trade dependence on the North or to contribute to increased self-reliance in the member countries of regional associations.

The composition of intra-regional trade has shifted noticeably towards manufacturing at a rapidly increasing rate, although the absolute share is still relatively low. Regional integration, therefore, seems to have been successful in developing regional industrial linkages, although some reservations need to be made on account of possible trade diversion effects in the short-run, and the possible entering into more difficult phases of regional import substitution. The small absolute size of capital goods exports in manufacturing exports indicates, for the majority of regional associations, a high dependence on the North in terms of science, technology, financial capital, and human skills, although the very high growth rates of this subsector provide some reason for optimism in the long-run.

In terms of regional industrial co-operation as a step towards overall economic integration some progress has been made, but the potential for a joint industrialization strategy is again much higher than actual achievements. Most integration schemes have limited their co-operation to fiscal incentives and only in two cases attempts have been made to design a fairly comprehensive regional industrialization plan for different sectors. Lengthy negotiations and delayed implementation, however, have reduced their full economic impact and effectiveness.

In Latin America and Asia the most basic pre-condition for increased regional co-operation in terms of transportations and communications facilities have been created in the course of the integration process - although there is much scope and need for improvements. The provision of the basic infrastructure should not be expected, however, to initiate closer co-operation in other areas in and of itself. In Africa and some parts of the Caribbean the relatively bad intra-regional transportation links represent a serious impediment to regional integration.

The main reasons for the disappointing performance of most integration schemes is to be seen in the unequal distribution of integration benefits and costs and the resulting frustrations of individual member countries, as well as in the political difficulties of reaching agreements between the member countries at each step of the integration process. Region specific problems add to this. Considering that not very satisfactory solutions to these problems have yet been found, the outlook for most integration schemes should not be regarded as overly optimistic. This would suggest that the existing

regional integration schemes can only be expected to play a very limited role as a vehicle for fostering South-South co-operation and accelerating industrialization in the South.





