

**Regional Economic Integration:
Perspectives from four continents**

**Peer-to-Peer Learning Event
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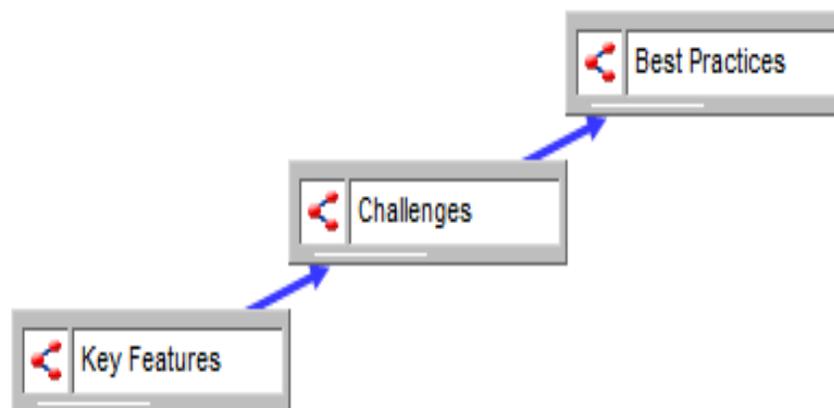
Outline of Presentation

1. Snapshot of the Learning Event
2. Latin America
3. Africa
4. Europe
5. Summary and Conclusion from Learning (including Asia)

1. Snapshot of Learning Event (Slide 1)

- Changing context of globalization
- Need to look at regional economic integration and cooperation in “new light”
- Latin America (UNECLAC; SICA; SIECA)
- Africa (ECOWAS; SADC; EAC)
- Asia (ADB; SAARC; GTI)
- Europe (EU; Regional Cooperation Council; CEFTA)

1. Snapshot of Learning Event (Slide 2: Structure of Discussions)



1. Snapshot of Learning (Slide 3: Key Takeaways)

- Homogeneity: Europe to Africa to LAC to Asia
- Premise: Politics & security to size to economic
- Approach: Top down to Bottom up
- Ambition: Super to Very ambitious to gradual
- Institutions: Super heavy to heavy to moderate
- Progress: “Good” to “OK?” to “Not Bad” to “Good”
- Challenges: Several common issues
- Scope: HUGE for Cooperation (Learning/KS; economic)

2. Latin America & Caribbean (Slide 1: Drivers of REIC)

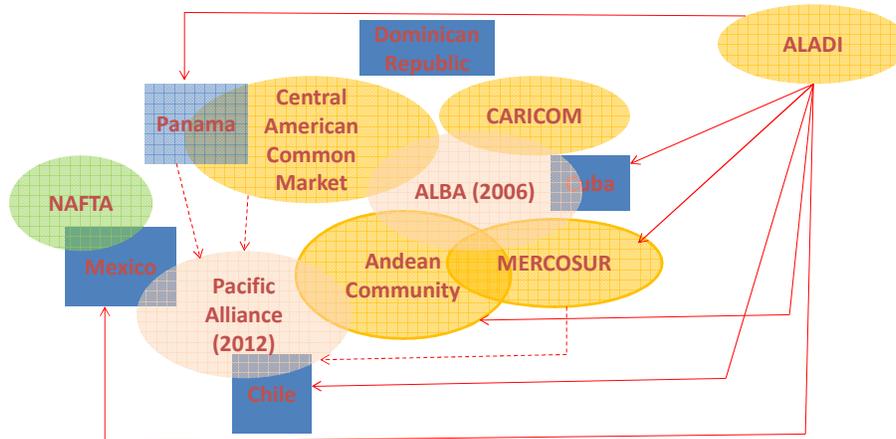
- 1960s: First wave
 - Integration seen as: (i) emulation of European Community; and (ii) extension of import substitution strategy
- 1970s-80s: Crisis of integration schemes
 - Military regimes, debt crisis, “lost decade”
- 1990s: Relaunch of integration, helped by: (i) re-democratisation; (ii) economic convergence; (iii) (open) regionalism’s return to fashion worldwide
 - Creation of MERCOSUR (’91), free trade area within Andean Community (’93), G-3 (Colombia-Venezuela-Mexico), etc.
- 2000s: Divergent trends; ever increasing complexity

2. LAC (Slide 2: Landscape)

Landscape of LAC economic integration

Plus:

- UNASUR (2007, All 12 SA countries)
- CELAC (2010, All 33 LAC countries)



2. LAC (Slide 3: Regional Differences)

- Central America:
 - (Generally) more positive attitude towards trade liberalization
 - It will probably evolve towards greater integration with North America (CAFTA-NAFTA convergence)
- South America:
 - Larger disagreements on development paradigms, including the role of trade integration
 - Integration is sometimes the victim of politics
 - Forum proliferation and overlapping memberships make convergence more difficult

2. LAC (Slide 4: Outcomes against Goals)

Integration Scheme	Common trade policy	Customs union	Macroeconomic coordination	Treatment of asymmetries
MERCOSUR	Partially	In progress	Incipient	Partially (FOCEM)
Andean Community	No	No	Incipient	No
Central American Common Market	Partially	In progress	Incipient	No
CARICOM	Yes	In progress	Incipient	Partially (Caribbean Dvt. Fund)

2. LAC (Slide 5: Why is REIC underperforming?)

- Geography and factor endowment play a role:
 - Mexico, C. America and Caribbean gravitate towards the US market
 - South America, being resource-rich, increasingly gravitates towards Asia
- Lags in infrastructure + red tape are a tax on intraregional trade
- Insufficient emphasis on policies aimed at export diversification, SME internationalization
 - Result: A handful of large firms, mostly in energy & mining, account for the bulk of LAC exports. Those firms export mostly outside the region
- Lack of an integrated Latin American economic space
 - Good progress in tariff elimination, but important Non Tariff Barriers persist and have been increasing in recent years
 - Insufficient progress in investment, services, government procurement, harmonization of technical standards

2. LAC (Slide 6: Why is REIC underperforming?)

- There is no shared view across the region on the merits of having an integrated economic space (or on how to get there)
 - The relative consensus of the 1990s on open trade policies no longer exists
 - Change of mood aggravated by the financial crisis, increased protectionist sentiment
- Proliferation of new integration initiatives with overlapping memberships and unclear mandates
- Much talk about integration but developments on the ground lag behind: integration without trade?
- Weak dispute settlement mechanisms; trade becomes politicized
- Business sector is often not consulted about its needs/suggestions
- An FTA between Mexico and Brazil/MERCOSUR could help to put order, but domestic sensitivities have prevented it

2. LAC (Slide 7: Which way forward?)

- **LAC needs to maximize the benefits of intraregional trade, as it is:**
 - The most conducive to the creation of high-quality employment
 - The most SME-friendly
 - And therefore the most conducive to balanced, socially cohesive growth
- **Start by not doing harm: respect the agreed rules**
- **Be pragmatic: small, incremental steps in areas of common interest often deliver more than grand projects with no follow-up**
- **Further trade liberalization remains controversial within the region, but there is much that can be done in other areas:**
 - Regional cooperation on regional public goods
 - Develop common positions in international debates (ex. G-20): starting by consultations of 3 LA's G20 with the rest of LA's countries

3. Africa (Slide 1: Southern African Development Community)

- Members: 15 countries (Angola; Botswana; Congo; Lesotho; Malawi; Mauritania; Mozambique; Namibia; South Africa; Seychelles; Swaziland; Tanzania; Zambia; Zimbabwe; and Madagascar – under suspension)
- Informal coordination conference to ensure peace and stability in Southern Africa, and help liberation in South Africa
- By 1992 moved on to economic integration and eradication of poverty, focusing on trade, customs, finance, competitiveness, and macroeconomic cooperation and integration
- Treaty basis, institutions, and enlarged
- High ambitions, including common currency
- Well-functioning SADC secretariat; very strong REI monitoring system

3. Africa (Slide 2: East African Community)

- Members: 5 countries – Burundi, Kenya, Rwanda, Tanzania, and Uganda
- Old EAC had single market in 1919 (strong colonial legacy and common language), collapsed in 1977
- Re-kindled cooperation; new treaty
- Customs Union (now) to Common Market to Monetary Union (with single currency ~ 2015) to Political Federation
- Weak institutions

3. Africa (Slide 3: Economic Community of West African States)

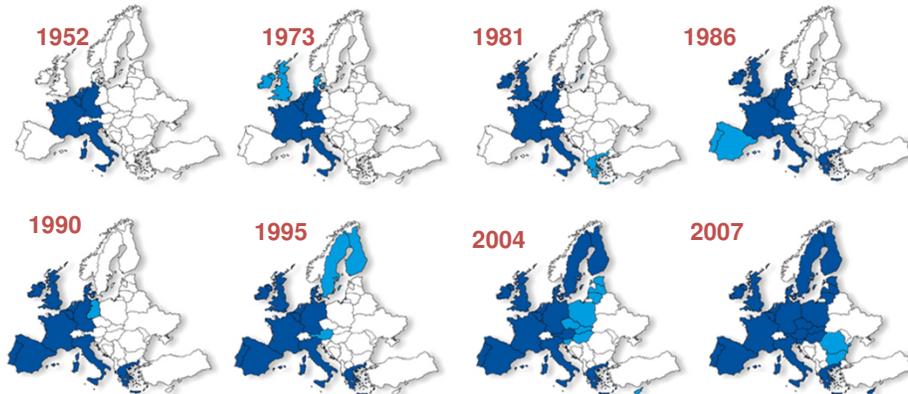
- ECOWAS Members: 16 countries – Benin, Burkino Faso, Cabo Verde, Cote d'Ivoire, Gambia, Ghana, Guinee, Guinee Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, and Togolese
- Political cooperation transitioned to economic cooperation (totally geared to promoting trade)
- 1993 treaty
- 4 pillars of economic integration: Sustainable development; Improving business climate; Regional peace and security; Monetary integration
- Single currency ~ 2020
- Good M&E system in place to track compliance with regional protocols

3. Africa (Slide 4: Challenges to REIC)

- Peace and democracy – significant volatility
- Overlapping memberships
- Weak institutions, against huge political ambitions (in turn tempered/tested by inability of member states to move in tandem)
- Continuous failure to enforce regional commitments – fear over ceding sovereignty
- Bigger countries do not want to play always their role
- Huge infrastructure bottlenecks
- Huge informal trade and migration (visa-free regimes in place)
- Severe non-tariff barriers, but greater intra-regional trade is the key driver

4. Europe REIC (Slide 1: European Union Evolution)

Enlargement – from 6 to 27 countries



4. Europe REIC (Slide 2: The EU Treaty Base)

The Treaties – Basis for democratic cooperation built on law



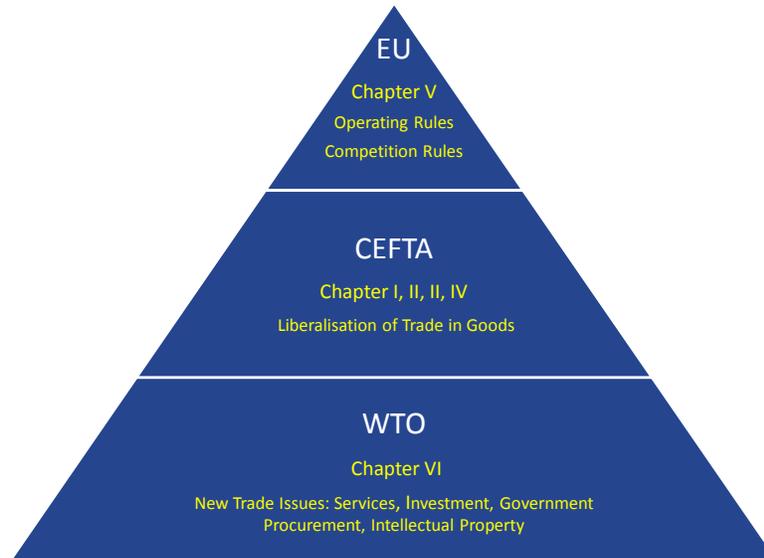
4. Europe REIC (Slide 3: EU Key Issues)

- Integration step by step but within the framework of a grand vision
- Timetables for gradual removal of internal barriers
- A set of common Institutions - Importance of Supranational institutions
- Common policies to accompany liberalization
- Increasing membership has made agreement on a common vision more difficult

4. Europe REIC (Slide 4: Central European Free Trade Agreement - CEFTA)

- CEFTA 2006 consolidates 32 previous bilateral FTAs in Southeast Europe
- Current membership: Countries with EU accession aspirations [Albania; Bosnia and Herzegovina; Croatia; Macedonia; Moldova; Montenegro; Serbia; and Kosovo (had included Bulgaria; Czech Republic; Hungary; Poland; Romania; Slovakia and Slovenia before)]
- Members aim to mobilize efforts to integrate into Western European political, economic, security and legal systems
- CEFTA harmonizes trade rules across the 'bloc' - intra-regional free trade is an integral part of pre-accession to EU

4. Europe REIC (Slide 5: CEFTA Basis)



4. Europe REIC (Slide 6: Regional Cooperation Council)

- Launched in February 2008, as successor of Stability Pact for Southeast Europe (SEE) to enhance stability, security, mutual respect and dialogue
- Operational arm of the South East Europe Cooperation Process (SEECPP)
- Total of 46 members, with 12 regional members:
 - EU Member States (Bulgaria, Greece, Romania, Slovenia)
 - “Enlargement countries” (Albania, Bosnia and Herzegovina, Croatia, Kosovo*, FYR Macedonia, Montenegro, Serbia)
 - Moldova
- **Focus on 5 key areas:**
 - Economic and social development
 - Energy and infrastructure
 - Justice and home affairs
 - Security
 - Building human capital

5. Summary and Conclusion (Slide 1: LAC Best Practices)

- Flexible approach. No deadlines or milestones
- Convergence towards a common/regional external commercial policy
- Forge a 'common' platform vis-à-vis Asia
- Avoid bilateral FTAs
- Boost manufactured trade within the region
- Establish a structural convergence fund (albeit small in LAC)

5. Summary and Conclusion (Slide 2: Africa Best Practices)

- Regional strategic roadmaps with milestones
- Fairly strong national committees to implement regional commitments
- Aim to have primacy of regional over national laws (EAC)
- Efforts to bring in private sector
- M&E at country and regional levels: SADC has pioneered an innovative system

5. Summary and Conclusion (Slide 3: Europe Best Practices)

- Start small and grow gradually
- Have a “guardian” with clear mandate and resources (i.e. EC, as well as secretariats to help with accession)
- Clear action plans to align national with regional and regional with global agendas
- Harmonize within the region with patience, but with reason
- Strong private sector engagement (e.g. Roundtable of Industries)
- Strong dispute resolution – support private sector policing role
- Adopt phased approaches for smaller/less able economies
- Common institutions allowing for ‘variable speed’
- Finance transition with liberalization support (Note: dismantling funds is a problem)
- Incentivize members and potential members
- Yet, name and shame laggards
- Address market access systematically
- Demonstrate strong group commitment to enforcement

5. Summary and Conclusion (Slide 4: Asia Best Practices)

- Bottom-up, private sector-led, gradual, institution light approach:
 - Definitely Asia is not doing badly at all.
 - In fact, relative to LAC and Africa (as seen by those regions as well), Asia’s approach is very pragmatic and “robust”
- Coordinated regional initiatives (e.g. CMIM; AMRO; AIF; CGIF; ABMI)
- Clear focus on promoting cross-border infrastructure
- Pragmatism on inter-subregional cooperation, than rushing to forge “intra” cooperation as in LAC/Africa, which unfortunately is often more difficult

Thank you

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