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Economic and Social Commission for Western Asia

**MEASURING, MONITORING AND IMPROVING PERFORMANCE IN
REGIONAL INTEGRATION WITHIN ESCWA REGION**

**REGIONAL ECONOMIC INTEGRATION:
CONCEPTUAL FRAMEWORKS**

REGIONAL TRAINING WORKSHOP

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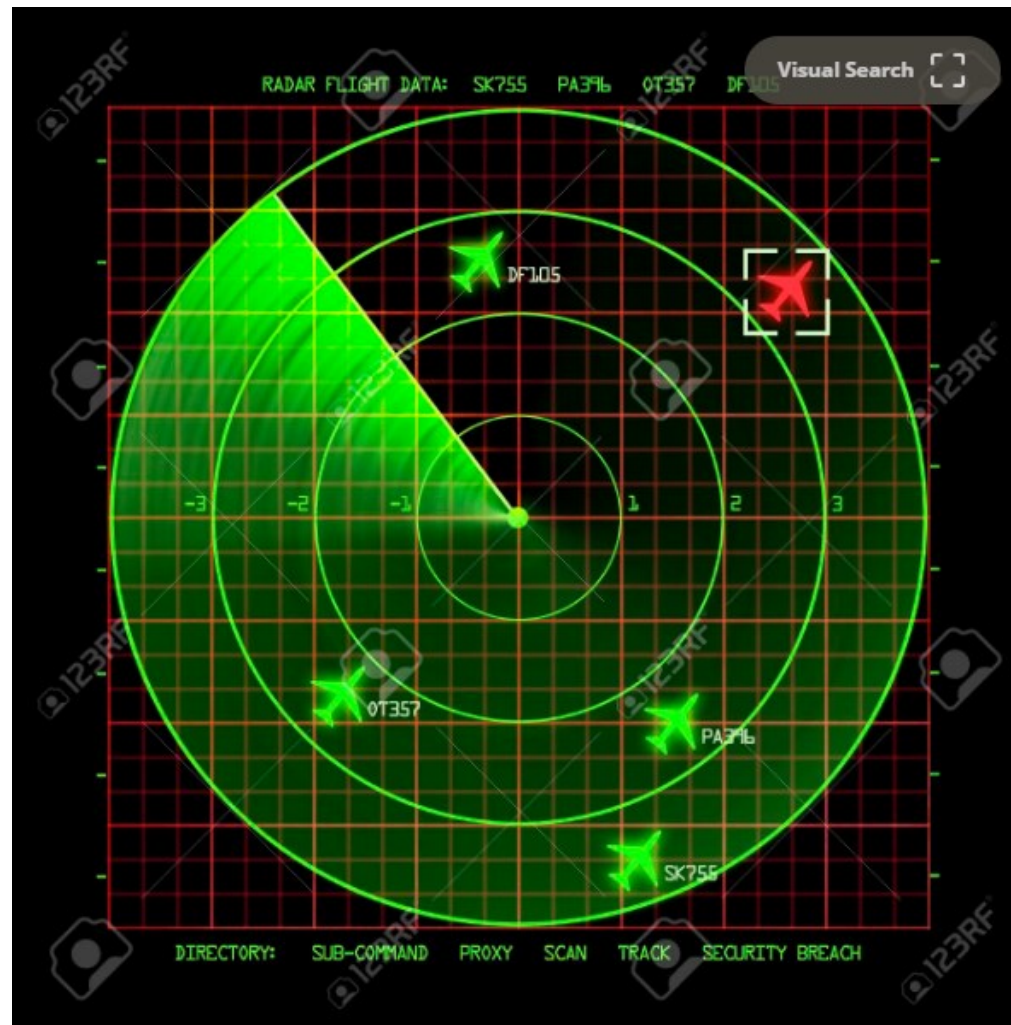
Rabat, 17-18 December 2019

Preliminary remarks at the start of the workshop

1. Introduction: regional integration concepts and theories
2. Trade perspective
3. Monetary perspective
4. Regional public goods

1. Introduction: concepts and theories

- Starting point: regional integration, regionalization, regions, Arab region, ... → **Ontology**: what is on our radar?



Theories



- From ontology to regional integration theories
- Theories, conceptual frameworks, theoretical frameworks, theorizing, ...
- Positive versus normative theories
- Abstract theories versus contextualized theories
- General theories versus 'European'/'eurocentric' theories

- Systems theory/Regional sub-systems (Binder et al.)
- Transactionalism (Deutsch) → ‘security community’
- Federalism
- (Neo-)functionalism (Haas, Schmitter, ...)
- (Liberal) inter-governmentalism (Moravcsik)
- Institutionalism(s)
- Multi-level governance (MLG) (Hooghe and Marks)
- Policy network analysis
- Globalizing IR
- ... (comparative politics, ...)

Economic theories



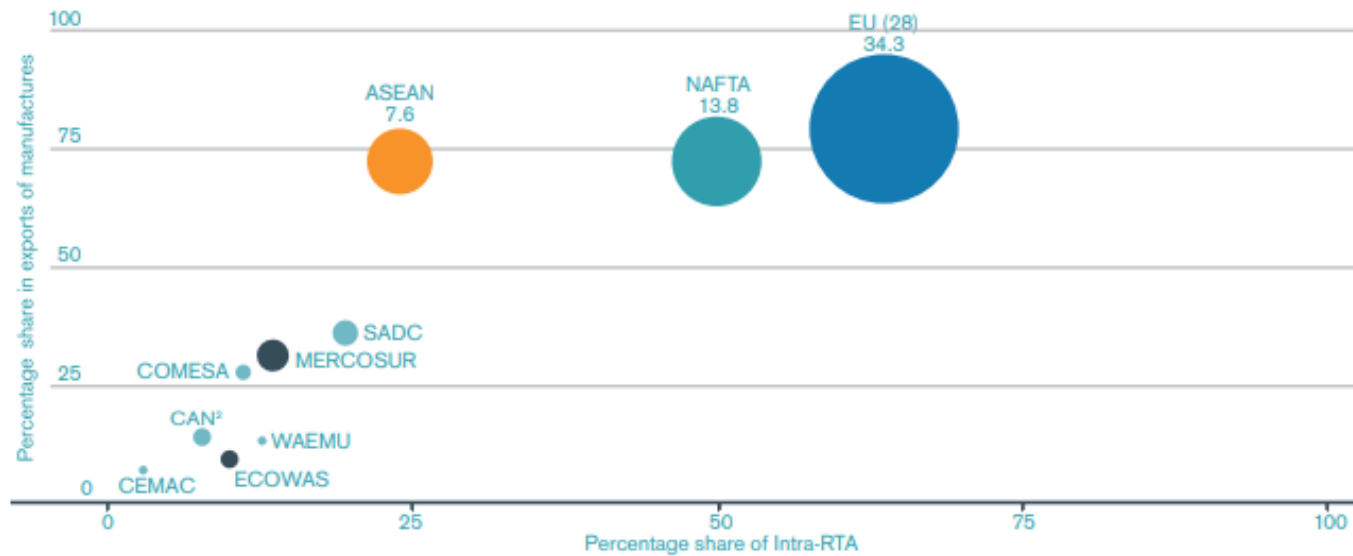
- Mainstream economic theories (< neo-classical economics, market imperfections):
 - Static trade theory: customs union theory (Viner et al.)
 - Typology of forms of economic integration (Balassa)
 - Positive versus negative integration (Tinbergen)
 - ‘Open’ regionalism
 - Dynamic trade theory
 - Intra-industry trade
 - Fiscal federalism, optimal policy levels (Tinbergen et al.)
 - Optimum currency area theory (Mundell)
 - Regional Public Goods
- Other approaches:
 - ISI model (UN ECLAC/Prebisch et al.)
 - Marxist approach to regional integration (Mandel et al.)
 - IPE approaches

2. Trade perspective

Chart 2.14

RTAs' share in global exports of manufactured goods and in intra-RTA trade,¹ 2016

(Percentage share)



¹ Trade with other members of the RTA.

² Andean Community.

Note: For composition of regional trade agreements, see Chapter VII.

Source: WTO estimates.



Balassa's typology



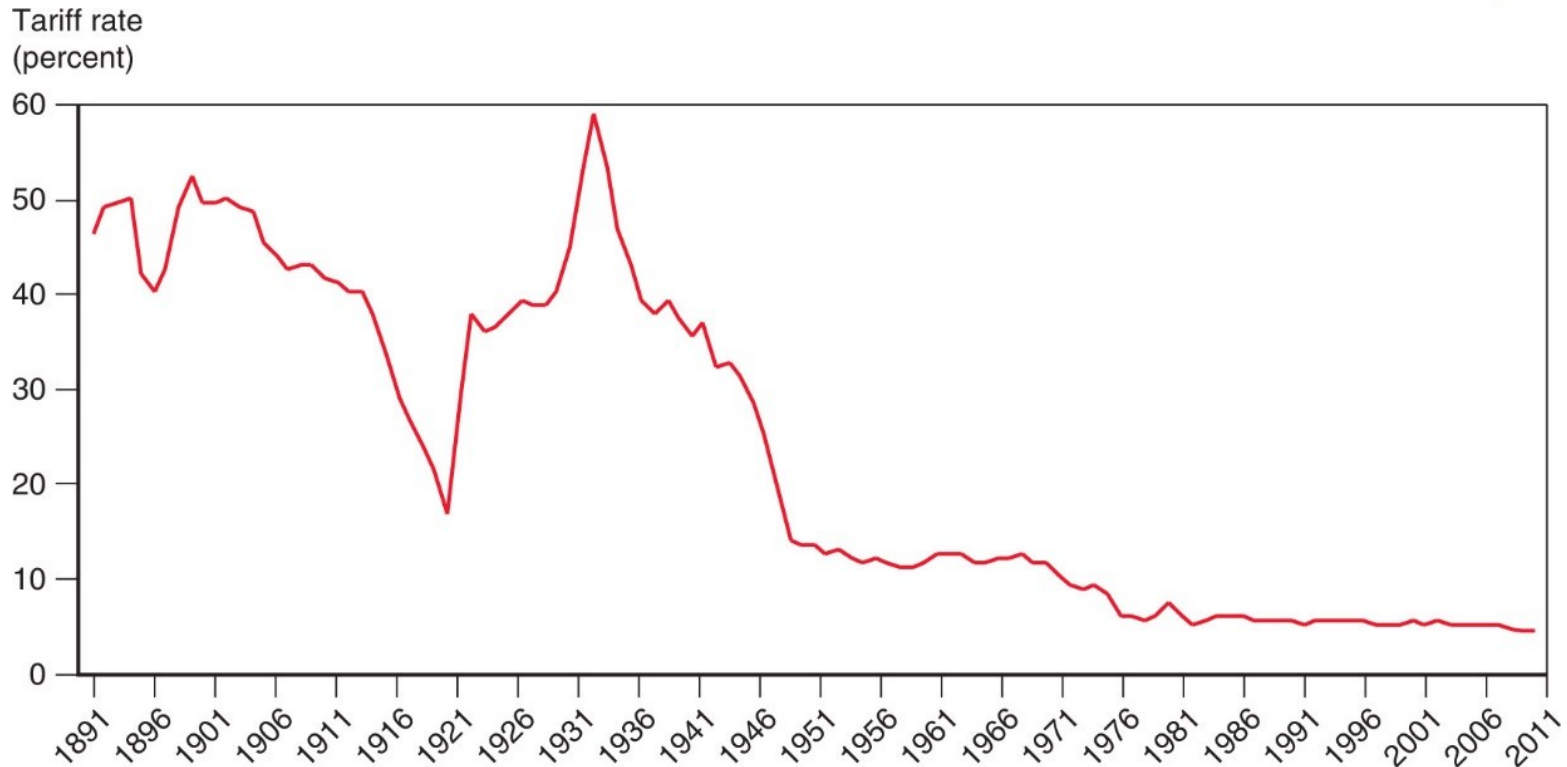
Forms of Economic Integration	Definition	Examples
Free trade agreement	<ul style="list-style-type: none"> • Removal of intra-regional tariff barriers in goods trade • Each member state maintains its own tariff policy vis-à-vis third countries 	<ul style="list-style-type: none"> • EFTA (1960-) • AFTA (1992-) • NAFTA (1994-)
Customs union	<ul style="list-style-type: none"> • FTA • Common external tariff (CET) vis-à-vis third countries 	<ul style="list-style-type: none"> • European Community (1968-) • EU-Turkey customs union (1996-)
Common market	<ul style="list-style-type: none"> • CU • Liberalization of markets for services and production factors (L, K) • Regulatory harmonization/convergence 	<ul style="list-style-type: none"> • EC (1993-) (« single market »)
Economic union	<ul style="list-style-type: none"> • CM • Harmonization of economic policies 	<ul style="list-style-type: none"> • European Union (incomplete)
Monetary union	<ul style="list-style-type: none"> • Common currency • Harmonization of economic policies 	<ul style="list-style-type: none"> • Euro area (euro) • OECS (EC dollar) • CFA (franc CFA)

Regional trade and the WTO



- Most-favoured nation (MFN) principle: GATT art. 1, GATS art. 2; TRIPS art. 4
- National treatment: GATT art. 3, GATS art. 17, TRIPS art. 3.
- GATT art. 24(FTAs, CUs), GATS art. 5 (EIAs), Enabling Clause
- Committee on Regional Trade Agreements (CRTA) → Transparency Mechanism for RTAs
- March 2019: RTAs in force = 471; physical RTAs in force = 293 (WTO)

The U.S. Tariff Rate

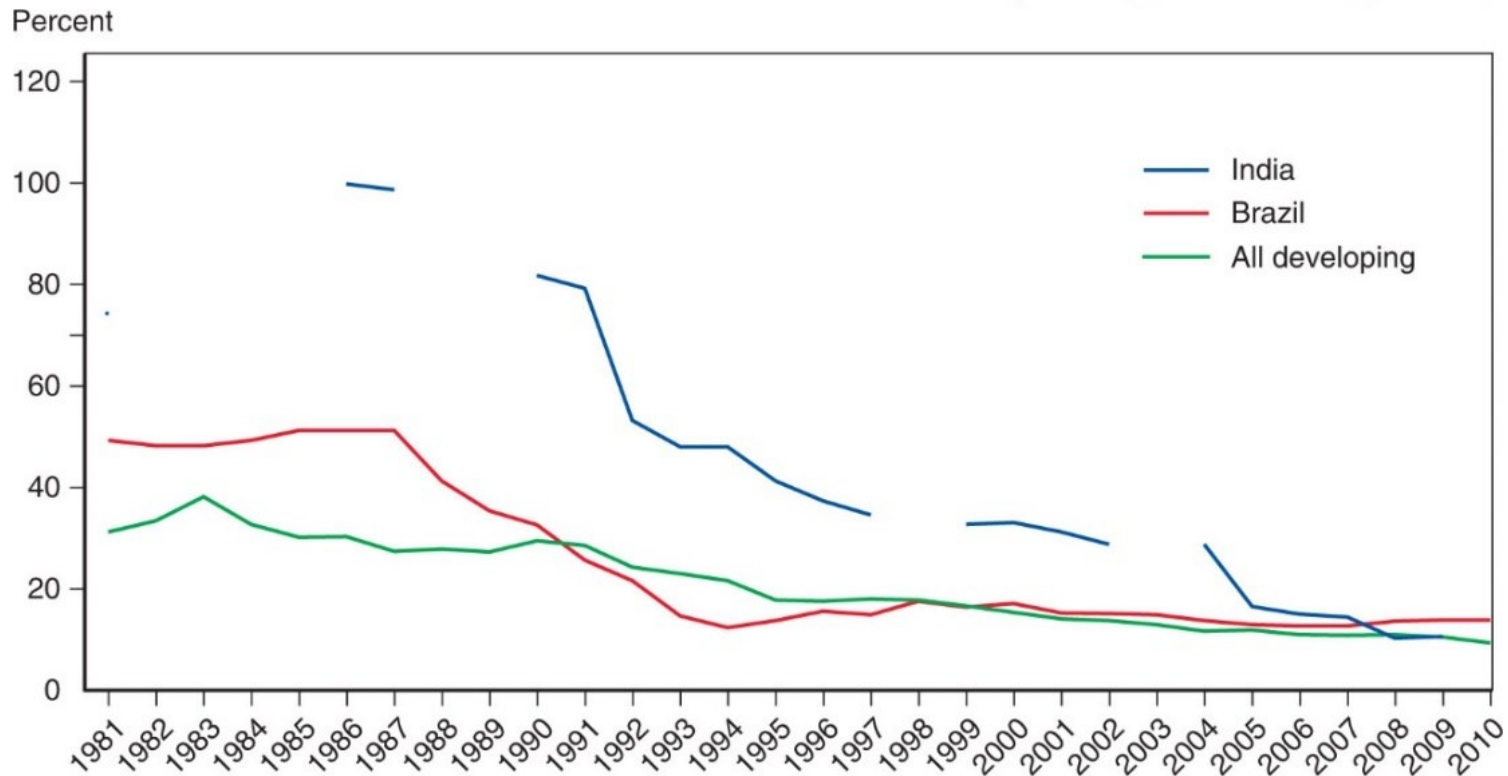


After rising sharply at the beginning of the 1930s, the average tariff rate of the United States has steadily declined.

Source: Krugman et al. (2018: figure 10.5)



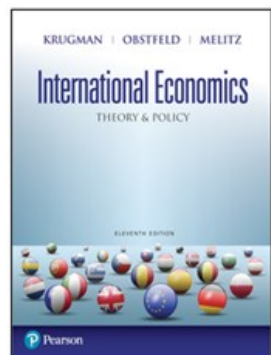
Tariff Rates in Developing Countries



One measure of the shift away from import-substituting industrialization is the sharp drop in tariff rates in developing countries, which have fallen from an average of more than 30 percent in the early 1980s to only about 10 percent today. Countries that once had especially strong import-substitution policies, like India and Brazil, have also seen the steepest declines in tariff rates.










Source: The World Bank

Source: Krugman et al. (2018: figure 11.1)



GATT/WTO negotiation rounds



GATT and WTO trade rounds ^{[1][2][3]} [hide]					
Name	Start	Duration	Countries	Subjects covered	Achievements
 Geneva	April 1947	7 months	23	Tariffs	Signing of GATT, 45,000 tariff concessions affecting \$10 billion of trade
 Annecy	April 1949	5 months	34	Tariffs	Countries exchanged some 5,000 tariff concessions
 Torquay	September 1950	8 months	34	Tariffs	Countries exchanged some 8,700 tariff concessions, cutting the 1948 tariff levels by 25%
 Geneva II	January 1956	5 months	22	Tariffs, admission of Japan	\$2.5 billion in tariff reductions
 Dillon	September 1960	11 months	45	Tariffs	Tariff concessions worth \$4.9 billion of world trade
 Kennedy	May 1964	37 months	48	Tariffs, anti-dumping	Tariff concessions worth \$40 billion of world trade
 Tokyo	September 1973	74 months	102	Tariffs, non-tariff measures, "framework" agreements	Tariff reductions worth more than \$300 billion achieved
 Uruguay	September 1986	87 months	123	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO, etc.	The round led to the creation of WTO, and extended the range of trade negotiations, leading to major reductions in tariffs (about 40%) and agricultural subsidies, an agreement to allow full access for textiles and clothing from developing countries, and an extension of intellectual property rights.
 Doha	November 2001	?	159	Tariffs, non-tariff measures, agriculture, labor standards, environment, competition, investment, transparency, patents etc.	The round has not yet concluded. Bali Package signed on the 7th December 2013.

Partial Scope Agreement (PSA)

PSAs are as such not defined in the WTO Agreement, but the WTO refers to them as agreements that cover only certain products and that are notified under paragraph 4(a) of the Enabling Clause.

This Clause refers to the Decision by GATT signatories on Differential and more favourable treatment reciprocity and fuller participation of developing countries of 1979 which allowed certain derogations to the most-favored nation (MFN) principle in favor of developing countries. More specifically, paragraph 2(c) of this Decision enables developing countries to enter into preferential arrangements on goods trade among themselves: "Regional or global arrangements entered into amongst less-developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with criteria or conditions which may be prescribed by the CONTRACTING PARTIES, for the mutual reduction or elimination of non-tariff measures, on products imported from one another".

Free Trade Agreement (FTA)

FTAs refer to free trade areas and are defined in paragraph 8(b) of Article XXIV of GATT 1994 as "[...] a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories". This article should be read in combination with the Understanding on the Interpretation of Article XXIV GATT 1994.

Economic Integration Agreement (EIA)

EIAs are defined in Article V of GATS (1995). According to its paragraph 1 "[t]his Agreement shall not prevent any of its Members from being a party to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement, provided that such an agreement: (a) has substantial sectoral coverage, and (b) provides for the absence or elimination of substantially all discrimination, in the sense of Article XVII, between or among the parties, in the sectors covered under subparagraph (a), through: (i) elimination of existing discriminatory measures, and/or (ii) prohibition of new or more discriminatory measures, either at the entry into force of that agreement or on the basis of a reasonable time-frame, except for measures permitted under Articles XI, XII, XIV and XIV bis. Paragraph 3 of the same article provides for flexibility for developing countries.

Customs Union (CU)

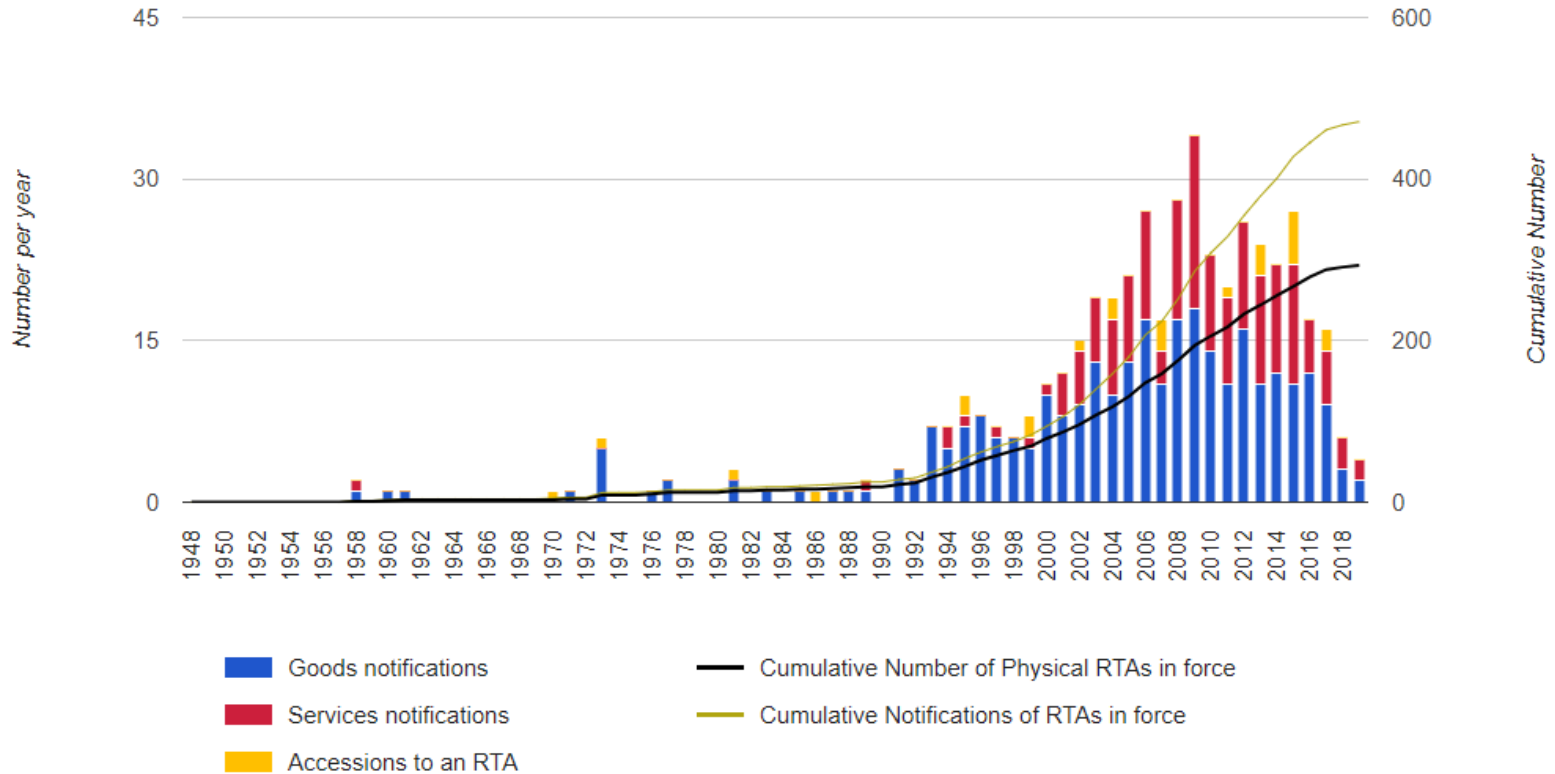
CUs are defined in paragraph 8(a) of Article XXIV of GATT 1994 as "[...] the substitution of a single customs territory for two or more customs territories, so that (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and, (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union".

Source : WTO, http://rtais.wto.org/UserGuide/User%20Guide_Eng.pdf

RTAs in force (WTO)



RTAs currently in force (by year of entry into force), 1948 - 2019



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together. The cumulative lines show the number of notifications/physical RTAs currently in force.

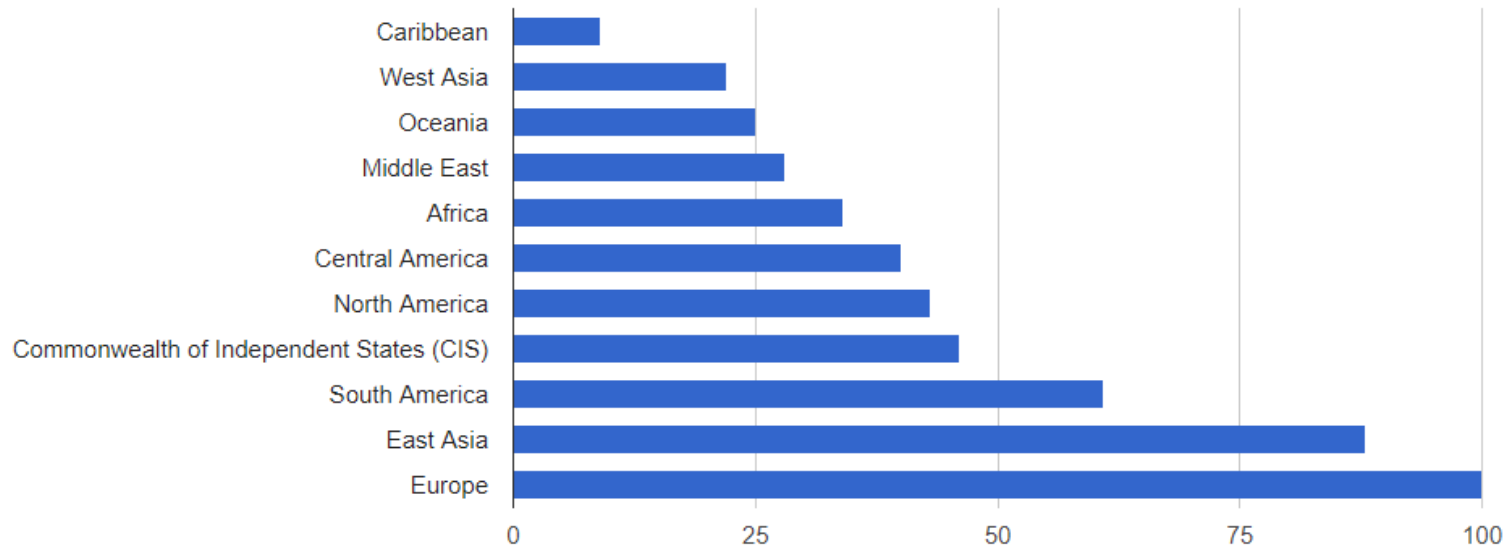
Source: WTO Secretariat - March 22, 2019

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RTAs in force (WTO)



Physical RTAs in force, participation by region



Note: The composition of regions may be found in the RTA database [User Guide](#). RTAs involving countries/territories in two (or more) regions are counted more than once.

Source: WTO Secretariat - March 22, 2019

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RTAs in force, by geographical reach (March 2019)



Geographical reach		Number of RTAs
Cross-regional		182
Intra-regional	North-America	1
	Central America	7
	Caribbean	0
	South America	6
	Europe	37
	CIS	33
	Africa	10
	Middle East	1
	East Asia	21
	West Asia	8
	Oceania	5
Total		311

Source : WTO (<http://rtais.wto.org/UI/PublicSearchByCr.aspx>)

Customs unions in force (March 2019)

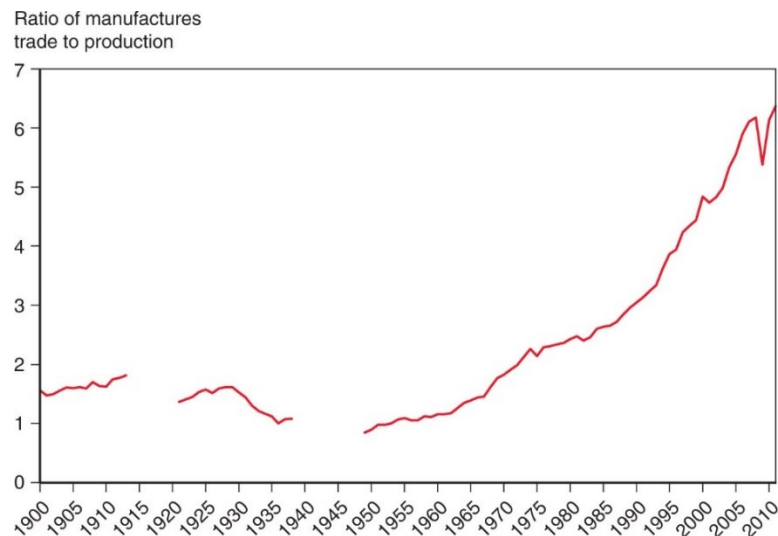


RTAs	Type	Notification	Entry into force
Andean Community (CAN)	CU	Enabling clause	1988
CARICOM	CU & EIA	GATT art. XXIV & GATS art. V	1973, 2002
Central American Common Market (CACM)	CU	GATT art. XXIV	1961
COMESA	CU	Enabling clause	1994
East African Community (EAC)	CU & EIA	Enabling clause & GATS art. V	2000, 2010
European Community (EC)	CU & EIA	GATT art. XXIV & GATS art. V	1958, 1995
CEMAC	CU	Enabling clause	1999
ECOWAS	CU	Enabling clause	1993
Eurasian Economic Union (EAEU)	CU & EIA	GATT art. XXIV & GATS art. V	2015
Gulf Cooperation Council (GCC)	CU		2003
Russian Fed. – Belarus - Kazakhstan	CU	GATT art. XXIV	1997
Southern African Customs Union (SACU)	CU	GATT art. XXIV	2004
Southern Common Market (Mercosur)	CU & EIA	Enabling clause & GATS art. V	1991, 2005
West African Economic and Monetary Union (WAEMU)	CU	Enabling clause	2000

Note: table does not include accession and enlargement notifications. Source: WTO

- World trade: trade liberalization, technological innovation, vertical disintegration (fragmentation), ... → general trend towards more trade
- Trade and distance: gravity model → general trend towards regional trade
- Trade barriers: borders → starting point: analysis of import tariffs

Figure 2.5 The Fall and Rise of World Trade

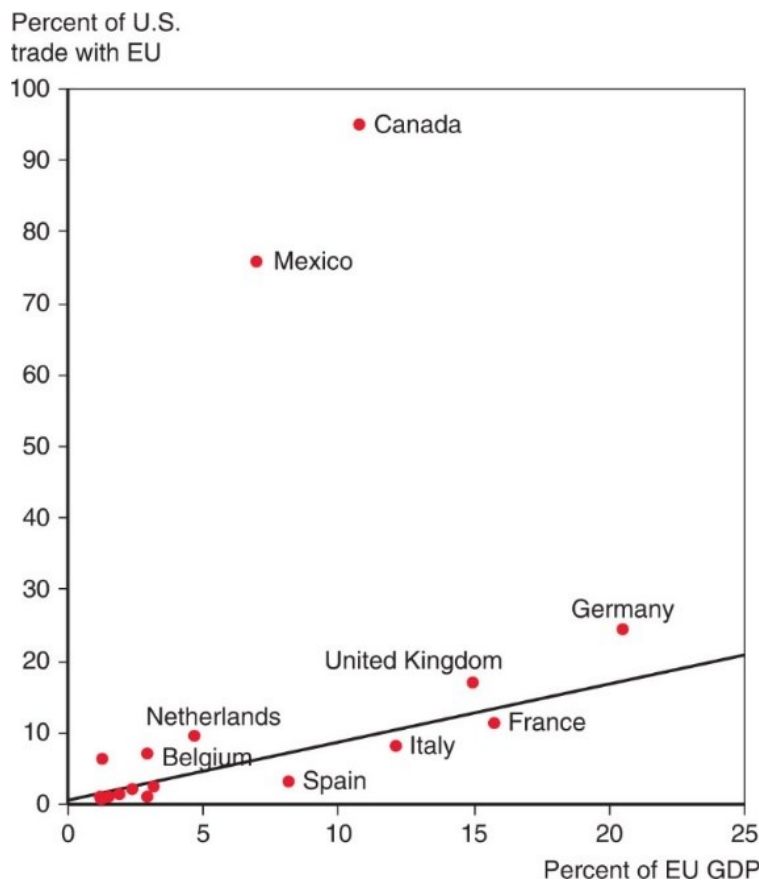


The ratio of world exports of manufactured goods to world industrial production rose in the decades before World War I but fell sharply in the face of wars and protectionism. It didn't return to 1913 levels until the 1970s but has since reached new heights.

Source: UN Monthly Bulletin of Statistics, World Trade Organization.

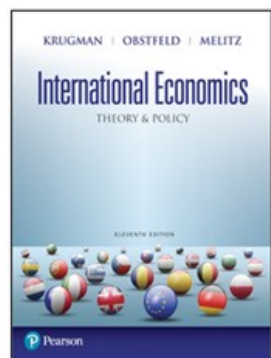


Figure 2.3 Economic Size and Trade with the United States



The United States does markedly more trade with its neighbors than it does with European economies of the same size.

Source: U.S. Department of Commerce, European Commission.



Customs union theory



- Viner (1950), Johnson, ...
- Trade creation vs. Trade diversion
- Building blocks versus stumbling blocks discussion (Bhagwati)
- Natural markets/blocs (Krugman)

- Infant industry argument
- Structuralism, unequal trade
- CEPAL/Prebisch: (temporary) protection + larger ('domestic') markets = regional integration
- Andean Community, CACM, ...
- Closed vs open regionalism

Table 11.2 Effective Protection of Manufacturing in Some Developing Countries (percent)

Mexico (1960)	26
Philippines (1965)	61
Brazil (1966)	113
Chile (1961)	182
Pakistan (1963)	271

Source: Bela Balassa, **The Structure of Protection in Developing Countries** (Baltimore: Johns Hopkins Press, 1971), p. 82.



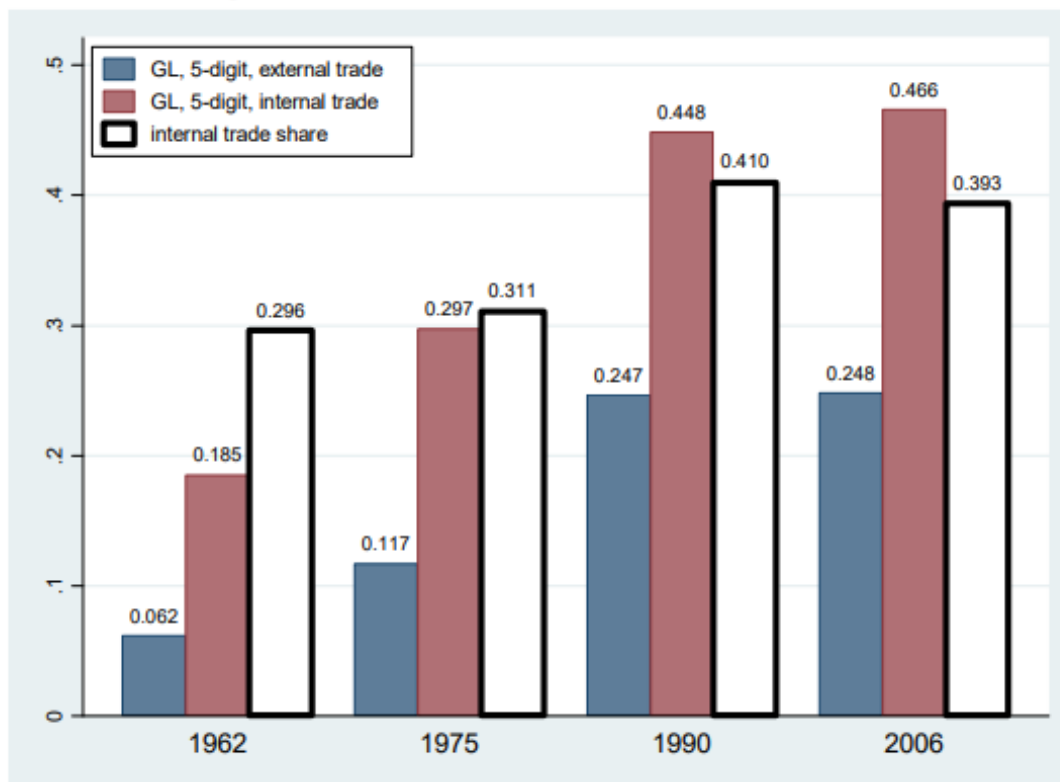
- Benelux, European Community (Verdoorn 1960, Drèze 1960, Balassa 1966, ...)
- Grubel-Lloyd index

$$GL_i = \frac{(X_i + M_i) - |X_i - M_i|}{X_i + M_i} = 1 - \frac{|X_i - M_i|}{X_i + M_i} \quad ; \quad 0 \leq GL_i \leq 1$$

where X_i denotes the export, M_i the import of good i .

→ New trade theories (dynamic effects, economies of scale, product differentiation)

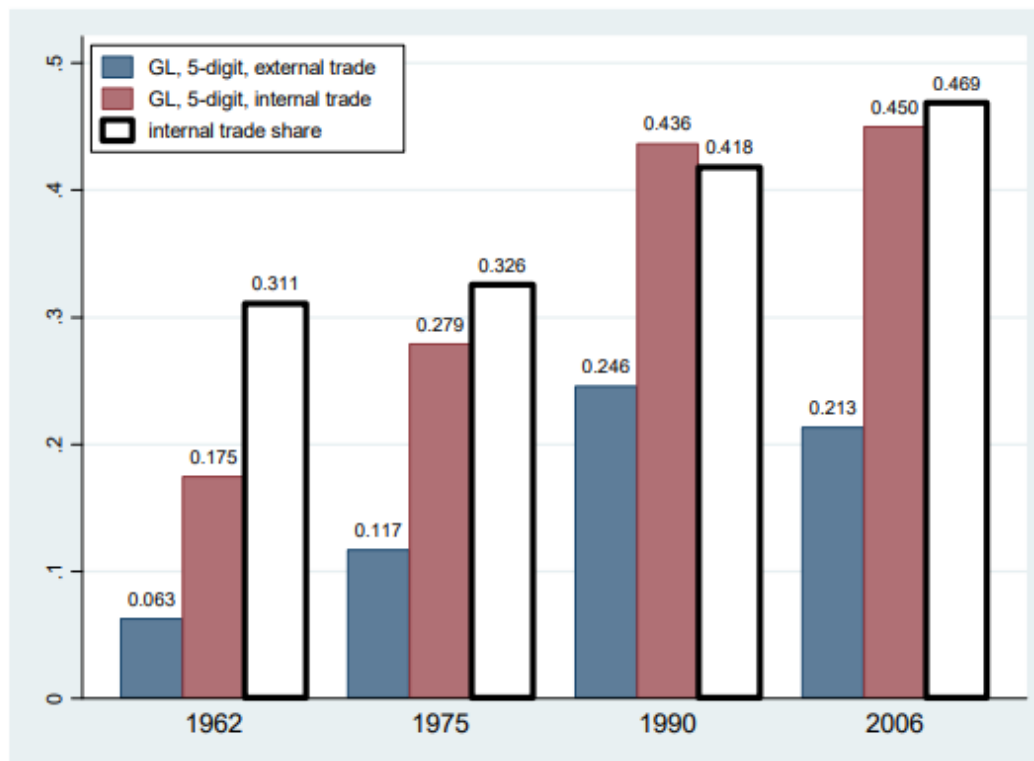
Figure 18 IIT of the EU-15; 1962, 1975, 1990 and 2006



Notes: “wide coverage” data set; EU 15 (since 1995): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom



Figure 19 IIT of the EU-27; 1962, 1975, 1990 and 2006



Notes: “wide coverage” data set; EU-27 (since 2007): EU-15 + Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia

**Table 1. Intra- and Inter-industry Trade (%):
East Asian Countries for 1980, 1985, 1990, 1995, 2000 and 2005**

5. Singapore							
a. Intra-regional trade							
- Intra-industry trade	45.5	45.4	55.0	72.5	78.8	73.6	61.8
- Inter-Industry trade	54.5	54.6	45.0	27.5	21.2	26.4	-51.5
b. Inter-regional trade							
- Intra-industry trade	30.7	38.5	36.1	37.4	50.2	44.4	44.4
- Inter-Industry trade	69.3	61.5	63.9	62.6	49.8	55.6	-19.7
6. Indonesia							
a. Intra-regional trade							
- Intra-industry trade	10.6	8.9	15.1	25.6	30.3	36.4	242.4
- Inter-Industry trade	89.4	91.1	84.9	74.4	69.7	63.6	-28.8
b. Inter-regional trade							
- Intra-industry trade	31.0	23.2	10.6	14.4	20.0	17.7	-43.0
- Inter-Industry trade	69.0	76.8	89.4	85.6	80.0	82.3	19.3
7. Malaysia							
a. Intra-regional trade							
- Intra-industry trade	18.0	27.3	42.1	55.3	65.3	72.5	303.6
- Inter-Industry trade	82.0	72.7	57.9	44.7	34.7	27.5	-66.5
b. Inter-regional trade							
- Intra-industry trade	19.6	23.1	25.9	34.7	39.9	28.4	44.6
- Inter-Industry trade	80.4	76.9	74.1	65.3	60.1	71.6	-10.9
8. Thailand							
a. Intra-regional trade							
- Intra-industry trade	16.1	20.6	29.8	42.6	58.1	57.5	257.9
- Inter-Industry trade	83.9	79.4	70.2	57.4	41.9	42.5	-49.4
b. Inter-regional trade							
- Intra-industry trade	13.9	16.0	20.4	28.6	29.8	24.8	78.2
- Inter-Industry trade	86.1	84.0	79.6	71.4	70.2	75.2	-12.7
9. Philippine							
a. Intra-regional trade							
- Intra-industry trade	21.5	29.8	38.8	46.1	52.5	60.8	183.2
- Inter-Industry trade	78.5	70.2	61.2	53.9	47.5	39.2	-50.1
b. Inter-regional trade							
- Intra-industry trade	23.1	25.1	41.9	45.3	53.1	55.1	138.7
- Inter-Industry trade	76.9	74.9	58.1	54.7	46.9	44.9	-41.7

Source: UN-COMTRADE, author's calculation

3. Monetary perspective



- Context: discussion on fixed versus flexible exchange rates
- Mundell, Kenen, McKinnon, ... → Optimum currency area theory
- Macro-economic gains (losses) versus micro-economic losses (gains)
- (a)symmetric shocks
- Optimality of exchange rate regime depends on the extension of the area (region)

4. Regional public goods



- Public good: non-excludable, non-rivalrous
- Fiscal federalism, optimal policy levels (Tinbergen et al.)
- Optimum currency area theory (Mundell)
- Which public goods to be provided at the regional level?
- Needs addressed by the RPGs: transnational challenges with regional scope OR common challenges
- Production technology: weakest link, summation, best shot, etc (Sandler)

Table 1.1. Regional Public Goods: Typology and Examples

Aggregation technology	Pure public good	Impure public good	Club	Joint products
Summation: Overall level of public good equals the sum of countries' contributions	Cleansing a lake	Treatment of HIV/AIDS patients	Transnational park	Preserving the rain forest
Weighted sum: Overall level of public good equals a differentially weighted sum of the countries' contributions	Curbing the spread of AIDS	Reducing acid rain	Power grid	Eliminating transnational terrorist threat
Weakest link: Smallest contribution determines the good's aggregate level	Implementation of international standards for financial practices	Surveillance of disease outbreaks	Airport hub-spoke network	Prevention and mitigation of natural disasters
Weaker link: Smallest contribution has the greatest influence on the good's aggregate level, followed by the second smallest contribution, and so on	Forestalling the spread of an agricultural pest	Maintenance of sterilization	Transportation infrastructure	Internet connectivity
Best shot: Largest contribution determines the good's aggregate level	Curing a disease	Agricultural research findings	Satellite launch facility	Regional peacekeeping
Better shot: Largest contribution has the greatest influence on the good's aggregate level, followed by the second largest contribution, and so on	Discovering effective treatment	Uncovering intelligence on political instabilities	Biohazard facility	Bioprospecting

Thank you



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