1 General introduction: the EU within the context of regional integration worldwide

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1.1 Introduction

The European Union (EU) is the most prominent scheme of international economic integration (IEI). The first aim of this chapter is to provide a precise definition of IEI, since what it means to those specializing in trade theory is very different to what one would expect on purely linguistic grounds. IEI creates 'clubs' between some nations, which discriminate against non-members, in contrast to multilateralism, which extends agreed 'arrangements' to all nations. The World Trade Organization (WTO), which regulates trade, is based on the principle of non-discrimination, so the second aim of the chapter is to examine how IEI fits within the WTO framework. IEI can take several forms, and the third aim is to describe the various schemes that have actually been adopted worldwide and to set the EU within this broader context, substantiating the statement made in the opening sentence about the EU. The fourth aim is to show why most countries seek IEI - that is, to consider what economic or other benefits become possible as a consequence of IEI.

1.2 What is economic integration?

IEI is one aspect of 'international economics', which has been growing in importance since the middle of the twentieth century. The term itself has quite a short history; indeed, Machlup (1977) was unable to find a single instance of its use prior to 1942. Since then the term has been used at various times to refer to practically any area of international economic relations. By 1950, however, the term had been given a specific definition by international trade specialists to denote *a state of affairs or a process which involves the amalgamation of separate economies into larger free trading regions*. It is in this more limited sense that the term is used today. However, one should hasten to add that recently the term has been used to mean simply increasing economic interdependence between nations, now glamorized as *globalization*.

More specifically, IEI (also referred to as 'regional integration', 'regional trading agreements' (RTAs), 'preferential trading agreements' (PTAs) and 'trading blocs') is concerned with (a) the discriminatory removal of all trade impediments between at least two participating nations, and with (b) the establishment of certain elements of cooperation and coordination between them. The latter depends entirely on the actual form that IEI takes. Different forms of IEI can be envisaged and many have actually been implemented (see Table 1.1 for a schematic presentation):

1. In *free trade areas* (FTAs or PTAs), the member nations (MNs) remove tariffs among themselves, but retain their freedom to determine their own policies vis-à-vis the outside world (the non-participants). Recently, the trend has been to extend this treatment to investment.
2. *Customs unions* (CUs) are very similar to FTAs/PTAs, except that MNs must conduct and pursue common external commercial relations - for instance, they must adopt common external tariffs (CETs) on imports from the non-participants.
3. *Common markets* (CMs) are CUs that also allow for free factor mobility across MNs' frontiers - that is, capital, labour, technology and enterprises should move unhindered between MNs.
4. *Complete economic unions*, or economic unions (EcUs), are CMs plus the complete unification of monetary and fiscal policies - that is, MNs must introduce a central authority to exercise control over these matters, so that MNs effectively become regions of the same nation.

Table 1.1 Schematic presentation of economic integration schemes

Scheme	Free intra-scheme trade	Common commercial policy (CCP)	Free factor mobility	Common monetary and fiscal policy	One government
Free trade area (FTA)	Yes	No	No	No	No
Customs union (CU)	Yes	Yes	No	No	No
Common market (CM)	Yes	Yes	Yes	No	No
Economic union (EcU)	Yes	Yes	Yes	Yes	No
Political union (PU)	Yes	Yes	Yes	Yes	Yes

5. In *complete political unions* (PUs), MNs literally become one nation – that is, the central authority needed in EcUs should be paralleled by a common parliament and other institutions needed to guarantee the sovereignty of one state.

However, one should hasten to add that political integration need not be, and in the majority of cases will never be, part of this list. Nevertheless, it can of course be introduced as a form of unity and for no economic reason whatsoever, as was the case with the two Germanys in 1990, and as is the case with the pursuit of the unification of the Korean Peninsula, although we should naturally be interested in its economic consequences (see Section 1.5, page 14). More generally, we should stress that each of these forms of IEI can be introduced in its own right; hence they should not be confused with *stages* in a *process* which eventually leads to complete economic or political union.

It should also be noted that there may be *sectoral* integration, as distinct from general, across-the-board IEI, in particular areas of the economy, as was the case with the European Coal and Steel Community (ECSC; see Chapters 2 and 17), created in 1951, but sectoral integration is considered to be only a form of cooperation because it is inconsistent with the accepted definition of IEI, and also because it may contravene the rules of the General Agreement on Tariffs and Trade (GATT), which began to be run by the WTO in 1995 (see next page). Sectoral integration may also occur within any of the mentioned schemes, as is the case with the EU's Common Agricultural Policy (CAP; see Chapter 20), but then it is nothing more than a 'policy'.

It has been claimed that IEI can be *negative* or *positive*. The term 'negative IEI' was coined by Tinbergen (1954) to refer to the simple act of the removal of impediments on trade between MNs. The term 'positive integration' relates to the modification of existing instruments and institutions, and, more importantly, to the creation of new ones so as to enable the market of the integrated area to function properly and effectively and also to promote other broader policy aims of the scheme. Hence, at the risk of oversimplification, according to this classification, it can be stated that sectoral integration and FTAs/PTAs are forms of IEI which require only negative integration, while the remaining types require positive integration, since as a minimum they need the positive act of adopting common external trade and investment relations. However, in reality this distinction is oversimplistic, not only because practically all existing types of IEI have found it essential to introduce some elements of positive integration, but also because theoretical considerations clearly indicate that no scheme of IEI is viable without certain elements of positive integration – for example, even the ECSC deemed it necessary to establish new institutions to tackle its specified tasks (see Chapter 2).

1.3 Economic integration and WTO rules

There are four basic WTO principles: (a) trade *liberalization* on a most favoured nation (MFN) basis (the lowest tariff applicable to one member must be extended to all members); (b) *non-discrimination*; (c) *transparency* of instruments used to restrict trade (now called *tariffication*); and (d) the promotion of *growth and stability* of the world economy. More generally, these principles are reduced to three: *non-discrimination, transparency* and *reciprocity*. GATT's Article XXIV (GATT 1986, p. 42; see also WTO, which subsumed GATT in 1994, and hence can be used interchangeably) allows the formation of IEI schemes on the understanding that (a) they may not pursue policies which increase the level of protection beyond that which existed prior to their formation; (b) tariffs and other trade restrictions (with some exceptions) are removed on *substantially* (increasingly interpreted to mean at least 90 per cent of intra-MN trade) all the trade among MNs; and (c) they become established within a reasonable period of time. Box 1.1 provides the full text of item 5 of Article XXIV. The drafters of Article XXIV.5 recognized the benefits of closer IEI, even though this contradicted one of the basic WTO principles, that of *non-discrimination*.

There are more serious arguments suggesting that Article XXIV is in direct contradiction of the spirit of WTO (see Chapter 6 and, inter alios, Dam 1970). However, Wolf (1983, p. 156) argues that if nations decide to treat one another as if they were part of a single economy, nothing can be done to prevent them from doing so, and that IEI schemes, particularly the EU at the time of its formation in 1957, can have a strong impulse towards liberalization; in the EU case, the setting of CETs by 1969 (see Chapter 24) happened to coincide with GATT's Kennedy Round of tariff reductions (by about 35 percent) in 1967. However, experience suggests that IEI can be associated with protectionism – for example, in the EU case, after the first oil crisis there was a proliferation of non-tariff barriers (NTBs), which is why the single European market (SEM) programme (Chapters 2 and 7) was introduced in 1992 – but the point about the WTO not being able to deter countries from pursuing IEI has general validity: the WTO is ultimately dependent on MSs respecting its rules.

Of course, these considerations are more complicated than is suggested here, particularly since there are those who would argue that nothing could be more discriminatory than for a group of nations to remove all tariffs and other trade impediments (import quotas and NTBs) on their mutual trade while *at the same time* maintaining the initial levels against outsiders. Indeed, it is difficult to find 'clubs' which extend equal privileges to non-subscribers, although the Asia Pacific Economic Cooperation (APEC) forum aspires to 'open regionalism', one interpretation of which is extending the removal of restrictions on trade and investment to all countries, not just MNs. This point lies behind

Box 1.1 GATT's Article XXIV.5

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or of a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; provided that:
   (a) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;
   (b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement, as the case may be; and
   (c) any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

Source: GATT 1986

the concern about whether IEI hinders or enhances the prospects for the free multilateral reductions in trade barriers that the WTO is supposed to promote (see El-Agraa 1999, for the arguments for and against). Moreover, as we shall see in Chapter 6, IEI schemes may lead to resource reallocation effects that are economically undesirable. However, to deny nations the right to form such associations, particularly when the main driving force may be political rather than economic, would have been a major setback for the world community. Hence, much as Article XXIV raises serious problems in terms of how it fits in with the general spirit of the WTO, and many proposals have been put forward for its reform, its adoption also reflects deep understanding of the future development of the world economy.

1.4 Economic integration worldwide

Although this book is concerned with the EU, it is important to view the EU within the context of the global experience of IEI. This section provides a brief summary of this experience. (See El-Agraa 1997 for full and detailed coverage, and Crawford and Fiorentino 2006 and the WTO website for the latest information.)

Since the end of the Second World War various forms of IEI have been proposed and numerous schemes have actually been implemented. Even though some of these were subsequently discontinued or completely reformulated, the number adopted during the decade following 1957 was so great as to prompt Haberler in 1964 to describe that period as the 'age of [IEI]'. Since 1964, however, there has been a further proliferation of IEI schemes, so Haberler's description may be more apt for the post-1964 era: by December 2008, 421 RTAs had been notified to the WTO,[1] and 230 of these are still in force.

1.4.1 Economic integration in Europe

The EU is the most significant and influential of IEI schemes. There are three reasons, which, when taken together, explain this significance:

1. Of the six EU founding states, Germany, France and Italy were top-ten world economies. Since then, two such economies have joined, the UK and Spain. So the EU today includes five of the world's top ten economies. Also, the EU has proved a magnet for new members, so in addition to the founding MNs, known as the Original Six (hereafter, the Six), there are now an extra 21 MSs (see Table 1.2 for a tabulation of European states and their IEI arrangements). The EU of 27 continues to receive applications for membership, hence it is set to include practically the whole of Europe and may go beyond the geographical area if Turkey succeeds in joining in 2015 (see Chapter 2). No other scheme matches this economic size and diversity.
2. In terms of the voluntary nature of membership, the EU is the oldest IEI scheme in operation. This longevity is part of its attraction.
3. Most vitally, the EU has the deepest scheme of IEI. It is almost a complete economic union (EcU; see pages 1 and 2): (a) it is practically a complete CM; (b) 17 of its 27 MSs have the same currency (euro), with the European Central Bank in charge of eurozone monetary policy; (c) it has a system for monitoring and influencing fiscal policy, the *Stability and Growth Pact* (see Chapters 11 and 12); (d) it has its own budget, financing a range of policies; and since the Treaty of Lisbon came into force on 1 December 2009 it has (e) a single president of the European Council; and (f) a foreign policy chief who controls a vast diplomatic corps, now being established.

The influence of the EU is simply due to its relative global weight. Using 2008 data (see Table 1.3), the population of EU27 exceeds that of NAFTA (Canada, Mexico and the USA) by about 43 million (9.7 per cent) and is the third largest in the world, after China (1,325 million) and India (1,140 million). The combined economic weight of EU27, in terms of GNI, converted using the World Bank's Atlas method for exchange rates, exceeds that of NAFTA by about $249 billion (1.46 per cent), and, using purchasing power parity (PPP), falls short of it by about $2,384 billion (13.59 per cent).

The European Free Trade Association (EFTA) is the other major scheme of IEI in Europe. To understand its membership one has to know something about its history (detailed in Chapter 2). In the mid-1950s, when the European Economic Community (EEC) of the Six plus the UK was being contemplated, the UK was unprepared to commit itself to some of the economic and political aims envisaged for that Community

Table 1.2 Economic integration in Europe

Country	Scheme (year founded) and aim			
	EU (1957) CM/EcU	When to join EU? CM/EcU	EFTA (1960) FTA	EEA (1992) FTA
Austria	✓			✓
Belgium	✓			✓
Bulgaria	✓			✓
Cyprus	✓			✓
Czech Rep.	✓			✓
Denmark	✓			✓
Estonia	✓			✓
Finland	✓			✓
France	✓			✓
Germany	✓			✓
Greece	✓			✓
Hungary	✓			✓
Ireland	✓			✓
Italy	✓			✓
Latvia	✓			✓
Lithuania	✓			✓
Luxembourg	✓			✓
Malta	✓			✓
Netherlands	✓			✓
Poland	✓			✓
Portugal	✓			✓
Romania	✓			✓
Slovak Rep.	✓			✓
Slovenia	✓			✓
Spain	✓			✓
Sweden	✓			✓
UK	✓			✓
Albania		Applied in 2009		
Bosnia & Herzegovina		Hopes to apply soon		
Croatia		Negotiating since 2004		
Macedonia		Applied in 2004		
Montenegro		Applied in 2008		
Serbia		Applied in 2009		
Turkey		Negotiating since 2005 for 2015		
Iceland		Applied in 2009	✓	✓
Norway			✓	✓
Switzerland			✓	
(Liechtenstein)			✓	✓

Table 1.3 A Comparison of the EU and NAFTA, 2008

Scheme	Population (million)	GNI ($ billion)	GNI(PPP) ($ billion)
EU	496.7	17,338.3	15,155.3
NAFTA	443.8	17,089.1	17,539.6

– for example, the adoption of a Common Agricultural Policy and the eventual political unity of Western Europe were seen as aims that were in direct conflict with the UK's powerful position in the world and its interests in the Commonwealth, particularly with regard to 'Commonwealth preference', which granted special access to the markets of the Commonwealth. Hence the UK favoured the idea of a Western Europe which adopted free trade in industrial products only, thus securing for itself the advantages offered by the Commonwealth as well as opening up Western Europe as a free market for its industrial goods. In short, the UK sought to achieve the best of both worlds, but such an arrangement was not acceptable to those seriously contemplating the formation of the EEC, especially France, which stood to lose in an arrangement excluding a common policy for agriculture (see Chapter 20). As a result, the UK approached those Western European nations which had similar interests, with the purpose of forming an alternative scheme of IEI to counteract any possible damage due to the formation of the EEC. The outcome was EFTA, which was established in 1960 by the Stockholm Convention, with the object of creating a free market for industrial products only; there were some agreements on non-manufactures, but these were relatively unimportant.

The membership of EFTA consisted of Austria, Denmark, Norway, Portugal, Sweden, Switzerland (and Liechtenstein) and the UK. Finland became an associate member in 1961 and Iceland joined in 1970 as a full member. But Denmark, Ireland and the UK joined the European Community (EC; what the EEC became) in 1973; Portugal and Spain did so in 1986; and Austria, Finland and Sweden joined in 1995. All the remaining EFTA countries except Switzerland – that is, Iceland, Liechtenstein and Norway – now belong to the *European Economic Area* (EEA), a scheme introduced in 1992 which provides economic but not political membership of the EU – being part of the SEM without having a say in EU decisions.

Before the dramatic events of 1989–90, IEI schemes in Europe were not confined to the EU and EFTA. The socialist planned economies of Eastern Europe had their own arrangement: the Council for Mutual Economic Assistance (CMEA), or COMECON as it was generally known in the West. The CMEA was formed in 1949 by Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the USSR; they were later joined by three non-European countries: Mongolia (1962), Cuba (1972) and Vietnam (1978). In its earlier days, before the death of Stalin, CMEA activities were confined to the collation of MNs' plans, the development of a uniform system of reporting statistical data and the recording of foreign trade statistics. However, during the 1970s the CMEA adopted a series of measures to implement a 'Comprehensive Programme of Socialist Integration', hence indicating that the organization was moving towards a form of integration based principally on plan coordination and joint planning activity, rather than on market levers (Smith 1977). The CMEA comprised a group of relatively small countries and one 'superpower', and the long-term aim of the association was to achieve a highly organized and integrated bloc, without any agreement ever having been made on how or when that was to be accomplished.

The CMEA's demise inevitably came about due to the dramatic changes that took place in Eastern Europe and the former USSR in the 1980s, together with the fact that the CMEA did not really achieve much in terms of economic integration – indeed some analysts have argued that the entire organization was simply an instrument for the USSR to dictate its wishes to the rest of the group (El-Agraa 1988b). However, soon after the USSR's demise, twelve of the fifteen former Soviet Republics formed the Commonwealth of Independent States (CIS) to bring them closer together in a relationship originally intended to match the EU's, but the relationship remains very limited.

Before leaving Europe, mention should be made of the Central European Free Trade Agreement (CEFTA), the Council of the Baltic Sea States (CBSS) and the Nordic Community. CEFTA was originally formed by Czechoslovakia, Hungary and Poland in 1992, but with EU enlargement members have left when they joined the EU and new countries have joined, so it has moved southwards to include the republics of former Yugoslavia,[2] Albania and Moldova. The CBSS involves eleven states, nine EU states bordering the Baltic, Norway and Russia, and it involves cooperation but not economic integration. The Nordic Community involves five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden.[3] In spite of claims to the contrary (Sundelius and Wiklund 1979), the Nordic scheme is one of cooperation rather than IEI, since its members belong to either the EU or the EEA, through which economic integration is organized.

1.4.2 Economic integration in Africa

Africa has numerous schemes of IEI (see Table 1.4), with practically all the African countries belonging to more than one scheme. If we include involuntary colonial integration, Africa could claim to have the oldest two schemes in the world: the Southern African Customs Union (SACU, 1910, which is dominated by South Africa, with all members except for Botswana part of a Rand-based common monetary area), and the East African Community (EAC, established by the British in 1919 for their own colonial administrative ease).

In West Africa, the Union Économique et Monétaire de l'ouest-Africaine (UEMOA) and Mano River Union (MRU) coexist with the Economic Community of West African States (ECOWAS), with considerable membership overlap. A similar situation exists in Central Africa, with the Economic Community of Central African States (ECCAS), the Communauté Économique et Monétaire des États de l'Afrique Centrale (CEMAC) and the Economic Community of the Countries of the Great Lakes (CEPGL). In eastern Africa there is the Common Market for Eastern and Southern Africa (COMESA), with the Intergovernmental Authority on Development (IGAD) and the East African Community (EAC) as smaller inner groups. In southern Africa there are the Southern African Development Community (SADC) and the Southern African Customs Union (SACU). Northern Africa used to be the only subregion with a single scheme, the Arab Maghreb Union (UMA), but the recent creation of the Community of Sahel-Saharan States (CENSAD) has brought it in line with the rest of Africa.

UMA, created in 1989, aimed for a CU before the end of 1995 and a CM by 2000, but has yet to achieve a mere FTA. CENSAD, established in February 1998, has no clear objectives, not even with regard to a trade liberalization strategy, but since its MNs belong to other blocs, the aims of these are pertinent. ECOWAS was launched in 1975 with the aim of creating an economic and monetary union, but its revised treaty envisaged a mere CU by 2000, later delayed to 1 January 2003, and some MNs do not even apply an FTA. UEMOA, created in 1994 by the francophone MNs of ECOWAS, is now a CU, introducing its CETs in January 2000, but applying them to the rest of ECOWAS as well, and some MNs are still not even FTAs! MRU, established in 1973, is a CU with a certain degree of cooperation in the industrial sector. ECCAS has been dormant for almost a decade, but has recently been resuscitated. CEPGL was created in 1976, but is virtually inactive due to the conflicts within the bloc. Most activity in this part of Africa is confined to CEMAC, which has a common currency and has taken steps towards a CU. COMESA, established in 1993, launched an FTA in October 2000 comprising nine of its MNs. Note that of the MNs of the EAC (first *truly* established in 1967), Kenya and Uganda are also members of COMESA, while Tanzania also belongs to SADC, having earlier withdrawn from COMESA. The EAC and COMESA, in their May 1997 *Memorandum of Understanding*, agreed to become a CU. SADC aims to achieve an FTA within the next five years. Note that IGAD (formed in 1996 to replace the equivalent Association on Drought and Development of 1986) and the Indian Ocean Commission (IOC, set up in 1982, with vague aims and ambitions, except for concentration on some functional cooperation areas, such as fisheries and tourism) have agreed to adopt COMESA's aims.

Hence the unique characteristic of IEI in Africa is the multiplicity of overlapping schemes, made more complicated by the coexistence of intergovernmental cooperation organizations. For example, in West Africa alone, in 1984 there was a total of thirty-three schemes and intergovernmental cooperation organizations, and by the late 1980s, about 130 intergovernmental, multi-sectoral economic organizations existed simultaneously with all the above-mentioned IEI schemes (Adedeji 2002, p. 6). That is why the United Nations

Table 1.4 Economic integration in Africa

Country	UMA	CENSAD	ECOWAS	UEMOA	CEMAC	ECCAS	CEPGL	MRU	COMESA	EAC	IGAD	IOC	SADC	SACU	AEC	AU
Algeria	✓														✓	✓
Angola						✓			✓				✓		✓	✓
Benin		✓	✓	✓											✓	✓
Botswana													✓	✓	✓	✓
Burkina Faso		✓	✓	✓											✓	✓
Burundi						✓	✓		✓	✓					✓	✓
Cameroon					✓	✓									✓	✓
Cape Verde			✓												✓	✓
Central African Rep.		✓			✓	✓									✓	✓
Chad		✓			✓	✓									✓	✓
Comoros									✓			✓			✓	✓
Congo					✓	✓									✓	✓
Congo Dem. Rep.						✓	✓		✓				✓		✓	✓
Côte d'Ivoire		✓	✓	✓											✓	✓
Djibouti		✓							✓		✓				✓	✓
Egypt		✓							✓						✓	✓
Equatorial Guinea					✓	✓									✓	✓
Eritrea		✓							✓		✓				✓	✓
Ethiopia									✓		✓				✓	✓
Gabon					✓	✓									✓	✓
Gambia		✓	✓												✓	✓
Ghana		✓	✓							–					✓	✓
Guinea-Bissau		✓	✓	✓											✓	✓
Guinea-Conakry		✓	✓					✓							✓	✓
Kenya		✓							✓	✓	✓				✓	✓
Lesotho, Kingdom of													✓	✓	✓	✓
Liberia		✓	✓					✓							✓	✓
Libya	✓	✓													✓	✓
Madagascar									✓			✓	✓		✓	✓
Malawi									✓				✓		✓	✓
Mali		✓	✓	✓											✓	✓
Mauritania	✓	✓													✓	✓
Mauritius									✓			✓	✓		✓	✓
Morocco	✓	✓													✓	
Mozambique													✓		✓	✓
Namibia													✓	✓	✓	✓
Niger		✓	✓	✓											✓	✓
Nigeria		✓	✓												✓	✓

Table 1.4 (continued)

Country	UMA	CENSAD	ECOWAS	UEMOA	CEMAC	ECCAS	CEPGL	MRU	COMESA	EAC	IGAD	IOC	SADC	SACU	AEC	AU
Réunion												✓			✓	
Rwanda							✓		✓	✓					✓	✓
Saharawi Arab Dem. Rep.															✓	✓
São Tomé and Príncipe		✓				✓									✓	✓
Senegal		✓	✓	✓											✓	✓
Seychelles									✓			✓	✓		✓	✓
Sierra Leone		✓	✓					✓							✓	✓
Somalia		✓									✓				✓	✓
South Africa													✓	✓	✓	✓
Sudan		✓							✓		✓				✓	✓
Swaziland									✓				✓	✓	✓	✓
Tanzania										✓			✓		✓	✓
Togo		✓	✓	✓											✓	✓
Tunisia	✓	✓													✓	✓
Uganda									✓	✓	✓				✓	✓
Zambia									✓				✓		✓	✓
Zimbabwe									✓				✓		✓	✓

Economic Commission for Africa (UNECA) recommended in 1984 that there should be some rationalization of the economic cooperation attempts in West Africa. Therefore, some would claim that the creation, by all the African nations except Morocco, of the African Economic Community (AEC) in 1991, and the African Union (AU) in 2001 by the Constitutive Act, are the appropriate response; the AU replaced the Organization for African Unity (OAU). However, such a claim would be incorrect, since the AEC not only officially endorses all the existing African IEI schemes, but also encourages the creation of new ones, while remaining silent on how they can all coexist (El-Agraa 2004). When this uniqueness is combined with the proliferation of schemes, one cannot disagree with Robson (1997) when he declares that, regarding IEI, '*Reculer pour mieux sauter* is not a dictum that seems to carry much weight . . . On the contrary, if a certain level of [IEI] cannot be made to work, the reaction of policy makers has typically been to embark on something more elaborate, more advanced and more demanding in terms of administrative requirements and political commitment.'

1.4.3 Economic integration in the western hemisphere

IEI in Latin America has been too volatile to describe in simple terms, as the post-1985 experience has been very different from that in the 1960s and 1970s. At the risk of oversimplifying, one can state that there are four IEI schemes in this region (see Table 1.5). Under the 1960 Treaty of Montevideo, the Latin American Free Trade Association (LAFTA) was formed between Mexico and all the countries of South America except for Guyana and Surinam. LAFTA came to an end in the late 1970s, but was promptly succeeded by the Association for Latin American Integration (*Asociación Latinoamericana de Integración*, ALADI or LAIA) in 1980. The Managua Treaty of 1960 established the

Table 1.5 Economic integration in the Americas

Country	Scheme (year founded) and aim					
	NAFTA (1993) FTA	CACM (1961) FTA	LAIA (1960/80) FTA	CARICOM (1973) CU/CM	AP (1969) FTA	MERCOSUR (1991) FTA
NAFTA:						
Canada	✓					
Mexico	✓		✓			
USA	✓					
Caribbean:						
Belize		✓		✓		
Costa Rica		✓				
El Salvador		✓				
Guatemala		✓				
Honduras		✓				
Nicaragua		✓				
Panama		✓				
Central America:						
Antigua and Barbuda				✓		
Bahamas				✓		
Barbados				✓		
Dominica				✓		
Grenada				✓		
Jamaica				✓		
Montserrat				✓		
St Kitts and Nevis				✓		
St Lucia				✓		
St Vincent and Grenadines				✓		
Trinidad and Tobago				✓		
South America:						
Argentina		✓				✓
Bolivia		✓			✓	
Brazil		✓				✓
Chile		✓			✓	
Colombia		✓			✓	
Ecuador		✓			✓	
Guyana				✓		
Paraguay		✓				✓
Peru		✓			✓	
Uruguay		✓				✓
Venezuela		✓			✓	✓

Central American Common Market (CACM) between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. In 1969 the Andean Pact (AP) was established under the Cartagena Agreement, forming a closer link between some of the least developed nations of LAFTA, now LAIA.

Since the debt crisis in the 1980s, IEI in Latin America has taken a new turn, with Mexico joining Canada and the USA in the North American Free Trade Agreement (NAFTA; see below) and Argentina, Brazil, Paraguay and Uruguay, the more developed nations of LAIA, creating MERCOSUR (*Mercado Común del Sur* or Southern Common Market) by signing the Treaty of Asunción in 1991. MERCOSUR became a CU on 1 January 1995 and aimed to become a CM by 1995, but this has yet to happen. Bolivia and Chile became associate members in mid-1995, a move which Brazil sees as merely a first step towards the creation of a South American Free Trade Area (SAFTA), a counterweight to the efforts in the north (see below); indeed, by 2005 the number of associates increased to six, with the inclusion of Colombia, Ecuador, Peru and Venezuela, and in 2006 Venezuela joined and is in the process of becoming a full member. In 1999 MERCOSUR reached agreement with the EU to start negotiations on an arrangement for free trade and investment between the two, which has yet to be concluded. Also, on 29 April 2006, Cuba, Bolivia and Venezuela signed an agreement creating the Bolivarian Alternative for the Americas (ALBA) to thwart US plans for a Free Trade Area of the Americas (FTAA; see below).

There is one scheme of IEI in the Caribbean. In 1973 the Caribbean Community (CARICOM) was formed by practically all the nations in the area. CARICOM replaced the Caribbean Free Trade Association (CARIFTA), which was established in 1968.

In 1988 Canada and the USA established the Canada–US Free Trade Agreement (CUSFTA or CUFTA), and, together with Mexico, they formed NAFTA in 1993, which started to operate from 1 January 1994. NAFTA also covers investment, and hence is in line with the present trend for FTAs (see page 1). The enlargement of NAFTA to include the rest of the western hemisphere was suggested by George Bush, Sr while he was US president. He hoped to construct FTAA, to be concluded by 1 January 2005, but due to a strong movement against increased poverty, led by Argentina, Bolivia, Brazil and Venezuela, this did not happen. Chile has been negotiating membership of NAFTA. It should be added that a Central American Free Trade Agreement (CAFTA), between the USA, five Central American nations (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) and the Dominican Republic was to take effect on 1 January 2006, but due to various inconsistencies in the process of legal reforms in these countries, with the exception of the USA, this did not happen.

1.4.4 Economic integration in Asia-Pacific

Until recently, Asia did not figure prominently in the league of IEI schemes (see Table 1.6 for a tabulation of IEI arrangements in the Asia-Pacific region), but this was not surprising given the existence of such large (if only in terms of population) countries as China and India. Nevertheless, there was the Regional Cooperation for Development (RCD), a very limited arrangement for sectoral integration between Iran, Pakistan and Turkey. In addition, there was the Association of Southeast Asia (ASA), which was a collaborative effort between Malaysia, the Philippines and Thailand; and Maphilindo, which followed soon after, joining together Indonesia, the Philippines and Thailand. The Association for South-East Asian Nations (ASEAN), which is now comprised of ten MNs, was founded in 1967, but after almost a decade of inactivity, ASEAN 'was galvanized into renewed vigour in 1976 by the security problems which the reunification of Vietnam seemed to present to its membership' (Arndt and Garnaut 1979). The drive for ASEAN's establishment and for its vigorous reactivation in 1976 was both political and strategic. However, right from the start, economic cooperation was one of the most important aims of ASEAN; indeed most of the vigorous activities of the group since 1976 have been predominantly in the economic field, and the admission of Vietnam in 1995 is a clear manifestation of this. Moreover, at the fourth ASEAN summit, held in Singapore in January 1992, ASEAN initiated the ASEAN Free Trade Area (AFTA), which set out a comprehensive programme for tariff reductions between MNs, to be implemented in phases by 2008; this was completed in 2002, six years ahead of schedule. In the meantime, the programme of tariff reductions has been broadened and accelerated, and a host of 'AFTA Plus' activities initiated, including efforts to eliminate NTBs and to harmonize customs nomenclatures, valuation and procedures, and develop common product certification standards. In addition, ASEAN later signed framework agreements for intra-regional liberalization of trade in services and for regional cooperation in intellectual property rights (IPRs), and on 23 August 2006 its trade ministers agreed on an EU-style association by 2015 instead of 2020. On 4 November 2002 ASEAN and China signed a PTA, covering both trade and investment, to be completed by 2010 by the original six MNs and by 2015 by the remaining four. Moreover, an ASEAN+3

Table 1.6 Economic integration in Asia-Pacific and the Middle East

Country	Scheme (year founded) and aim						
	CER (1983) FTA	ASEAN (1967) FTA	ACM (1964) CU	GCC (1981) CU	AFTA (1991) FTA	APEC (1989) FTA	EAEC (1990) FTA
Australia	✓					✓	
Brunei		✓			✓	✓	✓
Cambodia		✓			✓		
Chile						✓	
China						✓	✓
Hong Kong						✓	✓
Indonesia		✓			✓	✓	✓
Japan						✓	✓
Laos		✓			✓		✓
Malaysia		✓			✓	✓	✓
Myanmar		✓			✓		✓
New Zealand	✓					✓	
Papua New Guinea						✓	
Philippines		✓			✓	✓	✓
Singapore		✓			✓	✓	✓
South Korea						✓	✓
Taiwan						✓	✓
Thailand		✓			✓	✓	✓
Vietnam		✓			✓	✓	✓
Bahrain				✓			
Egypt			✓				
Iran, Islamic Rep.							
Iraq			✓				
Jordan			✓				
Kuwait				✓			
Libya			✓				
Oman				✓			
Qatar				✓			
Saudi Arabia				✓			
Syrian Arab Rep.			✓				
UAE				✓			
Yemen Rep.			✓				
Canada						✓	
Mauritania							
Mexico						✓	
Pakistan					✓		
Peru						✓	
Russian Federation						✓	
Turkey					✓		
USA						✓	

PTA with an East Asian Community (see, inter alios, El-Agraa 2010a, b) in mind, was agreed with China, Japan and South Korea in 2003, but has yet to be finalized; the same is also true of an ASEAN+6, which includes Australia, India and New Zealand.

On 8 December 1985 the South Asian Association for Regional Cooperation (SAARC) was established by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka. Its aim is to accelerate the process of economic and social development of the members, but within the wider context of working together in a 'spirit of friendship, trust and understanding'. In November 2005, at the thirteenth summit, held in Dhaka, Bangladesh, SAARC agreed to admit Afghanistan as a member, to grant China and Japan observer status and to firmly commit to the realization of a South Asian Economic Union as well as an FTA (SAFTA).

In 1965 Australia and New Zealand entered into an FTA called the New Zealand Australia Free Trade Area. This was replaced in 1983 by the more important Australia New Zealand Closer Economic Relations and Trade Agreement (CER, for short): not only have major trade barriers been removed, but significant effects on the New Zealand economy have been experienced as a result.

A scheme for the Pacific Basin integration-cum-cooperation was being hotly discussed during the 1980s. In the late 1980s I argued (El-Agraa 1988a, b) that 'given the diversity of countries within the Pacific region, it would seem highly unlikely that a very involved scheme of integration would evolve over the next decade or so'.

Various fora involving governments, business and academics existed across the region,[4] but the Asia Pacific Economic Cooperation (APEC) forum was established in 1989 by ASEAN plus Australia, Canada, Japan, New Zealand, South Korea and the USA. These were joined by China, Hong Kong and Taiwan in 1991. In 1993 President Clinton galvanized it into its present form and its membership increased to eighteen nations by adding Chile, Mexico and Papua New Guinea. In Bogor, Indonesia, in 1994, APEC declared its intention to create a free trade and investment area embracing its advanced MNs by 2010, with the rest to follow ten years later. APEC tried to chart the route for realizing this vision in Osaka, Japan, in 1995, and came up with the interesting resolution that each MN should unilaterally declare its own measures for freeing trade and investment, but with agriculture completely left out of the reckoning; China immediately obliged by declaring that it would do this for a vast number of products, an act conditional on WTO membership which China was negotiating at the time. In November 1998 Peru, Russia and Vietnam joined APEC, increasing its total membership to twenty-one nations. In its 2004 meeting in Bangkok, Thailand, APEC outlined its priorities to be the promotion of trade and investment liberalization, the enhancement of human security, and using the organization to help people and societies to benefit from globalization. And in the 2010 summit, with the financial crisis in mind, its leaders declared their support for the goals of the G-20 London 2009 Framework for Strong, Sustainable and Balanced Growth, by joining in their commitment to:

1. work together to ensure that macroeconomic, regulatory and structural policies are collectively consistent with more sustainable and balanced trajectories of growth;
2. promote current account sustainability and open trade and investment to advance global prosperity and growth sustainability;
3. undertake macro prudential and regulatory policies to help prevent credit and asset price cycles from becoming forces of destabilization; and
4. promote development and poverty reduction as part of the rebalancing of global growth.

Officially speaking, APEC aims to further enhance economic growth and prosperity as well as strengthening the Asia-Pacific region. It claims to be the only intergovernmental grouping in the world that operates on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants. It has no treaty obligations and reaches decisions by consensus and commitments entered into voluntarily; hence it is consistent with the WTO.

1.4.5 Economic integration in the Middle East

There are several schemes in the Middle East, but some of them extend beyond the geographical area traditionally designated as such. This is natural since there are nations with Middle Eastern characteristics in parts of Africa. The Arab League (AL) clearly demonstrates this reality since it comprises twenty-two nations, extending from the Persian Gulf in the east to Mauritania and

Morocco in the west. Hence the geographical area covered by the scheme includes the whole of North Africa, a large part of the 'traditional' Middle East, plus Djibouti and Somalia. The purpose of the AL is to strengthen the close ties linking Arab states, to coordinate their policies and activities and to direct them to their common benefit, and to mediate in disputes between them. These are vague terms of reference, consistent with very limited achievements. For example, the Arab Economic Council, whose membership consists of all Arab Ministers of Economic Affairs, was entrusted with suggesting ways for economic development, cooperation, organization and coordination. The Council for Arab Economic Unity (CAEU), which was formed in 1957, had the aim of establishing an integrated economy of all AL states. Moreover, in 1964 the Arab Common Market was formed by Egypt, Iraq, Jordan and Syria, but in practice never got off the ground. The exception seems to be the Gulf Cooperation Council (GCC), established on 25 May 1981, which is keen to stress that long-lasting and deep religious and cultural ties link its members, and strong kin relationships prevail among its citizens. The GCC claims to have concrete objectives as an economic and political policy-coordinating forum, and has growing cooperation, inter alia, on customs duties, intellectual property protection, standard setting and intra-area investment, and has resolved most of the practical details for establishing a CU. This was set for 2003, but has yet to happen. The target date for introducing a single currency was 2010, but disputes regarding the location of the common central bank in Riyadh rather than the UAE have put this on hold. In short, the GCC wants to bring together the Gulf states and to prepare the ground for them to join forces in the economic, political and military spheres.

With regard to economic integration in the Middle East, UMA, which aims to create an organization similar to the EU, has already been mentioned in the context of Africa. But there is also the Arab Cooperation Council (ACC), founded on 16 February 1989 by Egypt, Iraq, Jordan and the Yemen Arab Republic, with the aim of boosting Arab solidarity and acting as 'yet another link in the chain of Arab efforts towards integration'.

1.4.6 An intricate web of relationships

All these schemes are connected by an increasing number of PTAs. This had resulted in an intricate web of interrelationships. Considering the EU alone, since it is the main protagonist of PTAs, and adding the seventy-eight African-Caribbean-Pacific (ACP) nations of the ACP–EU[5] arrangement (see Chapters 24 and 25) as well as those of the EEA, one can understand why the term 'spaghetti bowl' has been used to describe this web surrounding the EU.

1.4.7 Sectoral digressions

There are two schemes of sectoral IEI that are not based on geographical proximity. The first is the Organization for Petroleum Exporting Countries (OPEC), founded in 1960 with a truly international membership; its aim was to protect the main interest of its MNs, petroleum, by setting production quotas, and hence determining prices. The second is the Organization for Arab Petroleum Exporting Countries (OAPEC), established in January 1968 by Kuwait, Libya and Saudi Arabia, joined in May 1970 by Algeria and the four Arab Gulf Emirates (Abu Dhabi, Bahrain, Dubai and Qatar); in March 1972 Iraq and Syria became members, and Egypt followed them in 1973; Tunisia joined in 1982, but withdrew in 1986 (OAPEC was temporarily liquidated in June 1971). There are also the Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO). However, all these are organizations for intergovernmental cooperation rather than for economic integration. Therefore, except where appropriate, nothing more shall be said about them in this book.

1.5 The possible gains from economic integration

We shall see in Chapters 2 and 10 that the driving force behind the formation of the EU, the earliest and most influential of all existing IEI schemes (see page 4), was the political unity of Europe, with the aim of realizing eternal peace in the continent. Some analysts would also argue that the recent EU attempts for more intensive economic integration can be cast in the same vein, especially since they are accompanied by one currency, the euro, a full-time president and a 'foreign policy supremo' (see page 4 and Chapter 2). At the same time, during the late 1950s and early 1960s, IEI among developing nations was perceived as the only viable way to make some real economic progress; indeed that was the rationale behind the UN's encouragement and support of such efforts. More recently, the drive for IEI has been the belief that the opening up of markets would enhance the economic performance of the countries involved (see Chapter 6 for a list of possible gains). It is conceded that the gains would be even greater if pursued globally, but frustrations with the WTO's slowness in reaching agreement, due to the varied interests of its many participants, have led some to the conclusion that IEI would result in a quicker pace for negotiations since, by definition, it would reduce the number of parties involved. There are also practical considerations and countries may feel that IEI would provide security of markets among the participants. These possible gains will be addressed in Chapters 6 and 9.

1.6 Conclusion

Several conclusions are reached from this brief panorama of economic integration. First, although GATT's Article XXIV allows for the formation of IEI schemes, it sits uneasily within the general spirit of the organization. This is because the formation of clubs between some nations naturally discriminates between MNs and non-members, which is in direct contradiction of the principle of the WTO's non-discrimination. But because of the strength of the commitment to IEI of some European nations, a compromise was needed; hence the Article is in the nature of an accommodation of 'realities', which enabled a wide membership of GATT to be achieved at its inception. Second, practically every country in the world belongs to at least one scheme of IEI, with Africa going mad in terms of the number of schemes and overlapping membership. Third, the EU is the most significant and influential of all schemes. Fourth, the drive behind IEI is not confined to possible economic gains; indeed, political considerations are of the essence in some cases.

Summary

- IEI is defined as *a state of affairs or a process which involves the amalgamation of separate economies into larger free trading regions.*
- Conceptually, IEI can take several forms: free trade areas or preferential trading agreements; customs unions; common markets; and complete economic unions. But actual schemes do not strictly conform to these terms.
- IEI promotes the creation of 'clubs' between some nations, and because clubs will always discriminate against non-members, this contradicts GATT's fundamental principle of 'non-discrimination'.
- GATT's Article XXIV allows the formation of IEI schemes *provided* that: (a) they do not increase their level of protection relative to what it was before their formation; (b) tariffs and other trade restrictions (with some exceptions) are removed on *substantially* all the trade among MNs; and (c) they become established within a reasonable period of time.
- Despite the provisos, many analysts are uncomfortable with GATT's Article XXIV since it still contradicts the WTO's principle of non-discrimination. They concede, however, that without it some European countries would not have joined GATT.
- There are over 400 schemes of IEI in the world, of which the EU is the most significant, influential and committed to the deepest type of economic integration.
- IEI has become popular for two reasons:
  1. One reason is that individual countries believe that their economies will benefit from free access to a larger market, lower costs through removal of barriers on trade, enhanced competition leading to better products and/or lower prices, greater innovation, and so forth.
  2. The other is that countries have become increasingly frustrated by the slow progress in achieving global agreements through the WTO because with 153 members it is difficult to reach a consensus: the Doha Round commenced in November 2001 and has yet to be finalized. It is also believed that the proliferation in IEI schemes may actually induce countries to galvanize the WTO into establishing the favoured multilateral regime.

Questions and essay topics

1. Discuss the claim that IEI as defined by trade theorists is far removed from what one would expect on purely linguistic grounds.

2. What form can IEI integration take?
3. What are 'positive' and 'negative' IEI?
4. What does 'WTO' stand for?
5. Under what conditions does GATT/WTO condone IEI? Assess the reasons for and the adequacy of these conditions.
6. What are the arguments for and against GATT's Article XXIV?
7. Multilateral trade negotiations under GATT/WTO have been reasonably successful. So why do countries pursue the formation of IEI schemes?
8. Is it true that a unique feature of IEI in Africa is its overlap and proliferation? If so, to what factors would you attribute such proliferation?
9. What makes the EU the most significant of all IEI schemes?
10. What makes the EU the most influential of all IEI schemes?
11. Discuss the proposition that IEI hinders efforts to achieve the multilateral freeing of trade.

FURTHER READING

El-Agraa, A. M. (1997) *Economic Integration Worldwide*, Macmillan and St Martin's, New York.

El-Agraa, A. M. (1999) *Regional Integration: Experience, Theory and Measurement*, Macmillan, London; Barnes and Noble, New York.

NOTES

1 305 of these agreements since 1995.
2 Except Slovenia.
3 Plus the autonomous territories of the Faroe Islands, Greenland and Åland.
4 There were and continue to be four such bodies: (1) Pacific Economic Cooperation Conference (PECC), which is a tripartite structured organization with representatives from governments, business and academic circles, with the secretariat work being handled between general meetings by the country next hosting a meeting; (2) Pacific Trade and Development Centre (PAFTAD), which is an academically oriented organization; (3) Pacific Basin Economic Council (PBEC), which is a private-sector business organization for regional cooperation; and (4) Pacific Telecommunications Conference (PTC), which is a specialized organization for regional cooperation in this particular field.
5 Cuba became the seventy-ninth member in 2000, but has not participated in the agreements.

Part I EU history, institutions and legal dimension

2 A history of European integration and the evolution of the EU
3 EU institutions
4 The legal dimension in EU integration
5 The European economy: bare essentials

The aim of this part of the book is to provide a general background to the EU. Chapter 2 gives a short account of the history of European integration and the development of the EU. Chapter 3 provides a general description of EU institutions and their functioning. Chapter 4 explores the legal dimension in EU integration. Chapter 5 is a general survey of the bare essentials of the EU economy, mainly using charts, with the full statistical tables available on the website; it covers the major economic indicators for the present EU27 MSs, as well as those involved in imminent enlargements and, to enable comparison, for the rest of those in the group of eight (G8, now G20).