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TRADE AND DEVELOPMENT BOARD
Fortieth session, first part
Geneva, 20 September 1993

DRAFT REPORT OF SESSIONAL COMMITTEE I

Rapporteur: Mr. E.M. Manakine (Russian Federation)

**AGENDA ITEM 5: FOLLOW-UP TO THE RECOMMENDATIONS ADOPTED
BY THE CONFERENCE AT ITS EIGHTH SESSION:
EVOLUTION AND CONSEQUENCES OF ECONOMIC SPACES
AND REGIONAL INTEGRATION PROCESSES**

<u>Speakers</u> :	Canada	Austria
	Japan	Romania
	China	United States of America
	Colombia	Switzerland
	Russian Federation	Czech Republic
	Brazil	Asian Group (Sri Lanka)
	Argentina	Bangladesh
	Belgium (European Community)	Sweden
	European Economic Community	Hungary

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 8 October 1993 at the latest to:

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INTRODUCTION

(i) At its 820th (opening) meeting, on 20 September 1993, the Trade and Development Board decided to establish a sessional committee of the whole (Sessional Committee I) to consider and report on the following agenda items:

- UNCTAD's contribution, within its mandate, to sustainable development; trade and environment (agenda item 4);
- Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration processes (agenda item 5);

(ii) At its 1st and resumed 1st meeting, on 20 September 1993, Sessional Committee I elected Mr. A. Hynninen (Finland) as Chairman and Mr. E.M. Manakine (Russian Federation) as Vice-Chairman-cum-Rapporteur.

(iii) In the course of the first part of the fortieth session, Sessional Committee I held seven formal meetings and ... informal meetings.

(iv) At its ... (closing) meeting, on ... October 1993, Sessional Committee I adopted its draft report (TD/B/40(1)/SC.1/L.1 and Add.1) and authorized the Rapporteur to complete the report to reflect the proceedings of its closing meeting. Sessional Committee I also recommended that its report be incorporated, as appropriate, in the final report of the Board on the first part of its fortieth session.

Chapter II

FOLLOW-UP TO THE RECOMMENDATIONS ADOPTED BY THE CONFERENCE AT ITS EIGHTH SESSION: EVOLUTION AND CONSEQUENCES OF ECONOMIC SPACES AND REGIONAL INTEGRATION PROCESSES

(Agenda item 5)

29. For its consideration of this item, the Board had before it the following documentation:

"Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration processes, Report by the UNCTAD secretariat" (TD/B/40(1)/7)

Consideration in the Sessional Committee

30. In introducing item 5, the **Director of the International Trade Division** stressed that the dynamism of regional integration and its rapid geographical extension around major trading nations, and intensification and spread to new policy areas, had inevitably exerted a major impact on world trade and economic relations. As the secretariat document (TD/B/40(1)/7) pointed out, there were a number of issues to be addressed in this connection: cohesion and the relationship between integration arrangements and emerging multilateral disciplines; the need to ensure that integration schemes were outward-oriented and supportive of multilateral trade; the need to evaluate the effects of integration processes on third countries, including investment, new sectors and new policy areas. He then underlined the document's main conclusions relating to: the impact of regional economic integration on trade and growth of third countries; compatibility of the major new disciplines in integration groupings with new disciplines being negotiated in the Uruguay Round; limited nature of GATT provisions for setting boundaries on groupings' actions which could be detrimental to the international trading system; need for a more comprehensive evaluation of implications of integration processes; areas where third countries would need support in order to derive benefits arising from integration processes; need to strengthen economic integration and cooperation groupings among developing countries; and the need for periodic reviews of the broader aspects of integration groupings.

31. The representative of Canada noted that, as regards regional integration, his country's most immediate experience was the conclusion of the North American Free Trade Agreement (NAFTA), signed on 17 December 1992 by the Governments of Mexico, United States and Canada. In creating a free-trade area, NAFTA had provided a solid foundation for future trade within North America and with other countries since it also included an accession clause for broadening membership to others accepting the same obligations as the existing NAFTA members. NAFTA did not erect any barriers to trade with third countries. Under NAFTA, the whole North American market would operate under the same transparent rules, including easier and more secure market access, which might create new trading opportunities. NAFTA marked the first free-trade agreement among developing and developed countries, and demonstrated the value of trade liberalization, as a complement to aid, in pursuing sustainable development. Through NAFTA, the signatory States would improve trade, domestic prosperity and human, environmental and community development. NAFTA was compatible with the GATT rules and would contribute to trade liberalization. Upon its ratification, it would be submitted for consideration by GATT, as the appropriate forum for examining compatibility of emerging regional trade and integration agreements with GATT rules. Within an improved global trade-policy framework, the existence and addition of GATT-consistent, trade-liberalizing regional and sub-regional trade structures could be considered excellent means of pursuing sustainable development through trade.

32. The representative of Japan, while underlining the importance and positive role of regional integration, at the same time expressed concern that it could lead not only to growth of the world economy but also to protectionism and discrimination. Regional integration efforts must therefore be consistent with multilateral disciplines and accommodate trade and investment interests of third countries to the maximum extent possible. In regard to Asian Pacific Economic Cooperation, the Government of Japan would respect the principles of non-discrimination and the open multilateral trading system. There was a need for continuous monitoring of regional integration processes. To some extent this was being done within GATT, but UNCTAD could nevertheless play a significant role. Japan supported the suggestion of the UNCTAD secretariat for a periodic, comprehensive review of integration groupings by the Trade and Development Board.

33. The representative of China noted that the end of the Cold War had not brought about satisfactory growth in the world economy and trade.

The economic recession faced by the developed Western countries and the difficulties experienced by the Central and East European countries had curtailed imports, slowed world economic growth and inhibited improvement of the trade terms of the majority of developing countries. The delayed conclusion of the Uruguay Round had allowed so-called "managed trade" to gain strength, casting a cloud of protectionism over the international trading system. At the same time, many countries, in particular the major trading ones, were making obvious progress towards the creation of trade integration groupings. While regional economic groupings had advanced trade liberalization and economic cooperation among their members, their external policy was nevertheless a cause of legitimate concern, particularly in the developing countries. China held the view that regional groupings should observe the following principles in their external policy and practice: (a) The regional integration process should be consistent with multilateral regulations. It should neither replace endeavours to establish the multilateral trading system nor impede global trade liberalization. (b) Regional groupings should consider themselves as part of the process of global trade liberalization and world economic integration. They should not only have a high degree of transparency, but should also be fair, open, non-discriminatory and non-exclusive to outsiders. (c) Regional integration must take fully into consideration the needs and requirements of developing countries, particularly the least developed countries. China was actively participating in the cooperation process in the Asia and Pacific region and would endeavour to strengthen these efforts.

34. The representative of Colombia cited the experience of the Andean Group, established in 1969 by Bolivia, Chile, Colombia, Ecuador, and Peru. Venezuela joined in 1976 but Chile withdrew that same year. In the beginning the Group's main objective was to foster economic development through coordination of indicative planning, particularly in the industrial sector. Later common regimes for the treatment of foreign capital and transfer of technology gained importance, followed by education, public health and labour concerns. In 1983 about 60 per cent of intra-group trade was duty-free, but the global recession broke this dynamic development trend. Since 1989, however, integration efforts had been strengthened following public and private sector initiatives. As a result, trade among member States had grown phenomenally. The Andean Group represented a market of 93 million people, but was not a closed trading bloc. The Group maintained good trade relations with third countries, respected GATT rules and aimed towards trade liberalization. Its existence proved that integration among developing countries could

be fruitful. Protectionist policies carried out by other integration groups, particularly the European Community, which maintained restrictions on agriculture, had a tendency to affect, above all, developing countries. The approach within GATT should therefore distinguish between economic groupings from developing and developed countries.

35. The representative of the Russian Federation supported the conclusion in the secretariat report stating that processes of regional economic integration did not in themselves contradict the principles and norms of the international trading system. However, openness was essential; regional groupings should not lead to closed economic spaces. Accordingly, the favourable trade and economic conditions created within integration groupings should become increasingly accessible to other participants. On the territory of the former Soviet Union a new subregional integration grouping was now being established which would be based exclusively on the market mechanism, with due regard for the economic interests of the newly independent States. In this context, the disintegration of the former USSR and its heavy economic consequences had clearly illustrated the significance for national economies of long-standing and stable economic links free of trade barriers. Russia had concluded bilateral free trade agreements with all former Union Republics in 1992, eliminating import customs duties while temporarily keeping export duties on basic raw materials. A multilateral free trade zone would soon be established with the participation of the majority of the former Union Republics. The agreement on its formation was expected to be an integral part of the Treaty on Economic Union, to be concluded by the interested Commonwealth of Independent States countries. In elaborating various integration mechanisms, Russia had paid particular attention to conformity with existing international principles and norms, including Article XXIV of GATT.

36. The representative of Brazil referred to the experience of his country with MERCOSUR, the integration agreement comprising Brazil, Argentina, Uruguay and Paraguay. This agreement provided an opportunity for the countries concerned to strengthen their efforts to cooperate on regional economic interests, natural resources and education. MERCOSUR member States had achieved marked progress in the deepening of regional economic integration. One of the objectives of MERCOSUR was to ensure that the participating countries could "jump over the stages" and accelerate the economic development process. MERCOSUR did not in any way define a closed economic space. In fact, this economic grouping

maintained beneficial relations with other countries and economic groupings, including Japan, United States of America, the European Community, and others. A positive outcome to the Uruguay Round negotiations was important because the process of regional integration must not lead to economic isolation but on the contrary form an integral part of global economic integration and development for the benefit of all trading partners.

37. The representative of Argentina referred to previous statements on the item and wished in particular to supplement remarks about emerging regional integration arrangements such as MERCOSUR. Regional economic integration in the Western Hemisphere had not only promoted intraregional trade but was aimed at generating closer cooperation across vast economic and social areas. Intraregional trade among MERCOSUR countries had increased 80 per cent between 1989 and 1992 and had also helped revitalize trade with some third countries. In addition, its dispute settlement system was intended to facilitate the smooth conduct of trade and the implementation of regional trade liberalization measures. Above all political will was the most essential element in strengthening regional integration processes, as was evident in the experience of the European Community and elsewhere.

38. The spokesman for the European Community and its Member States (Belgium) noted that regional cooperation was not in itself a recent phenomenon, especially for countries which shared a similar political context and which sought to enhance regional stability and to strengthen their relations by increased economic cooperation; however, there were new characteristics emerging. Increased regional integration, cooperation and consultation was a world-wide phenomenon as Governments took steps to increase competitiveness by establishing integration schemes. These new schemes also encompassed arrangements on investments, services, consultation and cooperation on the environment, technology and labour standards. However, regional integration processes should be viewed in the context of structural adjustments in many developing countries, as they were to some extent a consequence of efforts to integrate an economy into the world system by opening up markets and liberalizing foreign investment. The benefits deriving from economies-of-scale, rationalization of production and investment, enhanced domestic and foreign investment within the regional grouping and the new possibility to explore the comparative advantage of a larger market all provided powerful arguments for regional integration as a development strategy adequate for the world of today.

39. The representative of the European Economic Community congratulated the UNCTAD secretariat on the comprehensive, well-researched report it had prepared on the evolution and consequences of economic spaces and regional integration processes. The focus on integration initiatives in Europe and their likely effects on developing countries confirmed that the European Community remained the most advanced and successful model. The problems which the Community had overcome highlighted the political will necessary to achieve this degree of integration. Its experience showed that regionalism and multilateralism need not conflict if a fairly liberal external trade regime was adopted. The integration process had been beneficial both to the Community itself and to its trading partners because it had led to more substantial multilateral trade liberalization than would have materialized otherwise. The nine-month old Single European Market (SEM) was also functioning quite satisfactorily. Goods now circulated freely inside the Community, creating greater ease of access to its market as well as enabling third-country exporters to profit from economies of scale. Disparities between member States' import regimes had also been eliminated, particularly the residual national quantitative restrictions which, in most cases, had not been replaced by Community restrictions. Furthermore, once an economic entity had been established in one Member State or a product was in conformity with one Member's regulations, the service or product concerned could be sold throughout the Community. The same could be said about the creation of the European Economic Area as about the SEM and, mutatis mutandis, about the future accession of EFTA countries to the Community. This accession might affect the GSP schemes, but there was also a possibility to avoid negative consequences for third countries by taking corrective measures, as the secretariat's report had observed. These concerns would be considered in the GSP reform envisaged by the Community. The explicit link between the Uruguay Round and the European agreements ensured that liberalization vis-à-vis Central and Eastern Europe would not be at the expense of other trade partners. The present decline in trade between Central and Eastern European Countries in Transition (CEECT) and developing countries was mainly owing to the economic contraction of the former; in the long run, resumed growth in the Visegrad countries resulting, in part, from their closer integration into Western Europe held promise for reinvigorated trade with developing countries.

40. Integration schemes in other areas of the world showed how popular the European Community model remained; the Commission encouraged such efforts and stood ready to provide technical assistance but the political will could only come from the Member States concerned. The need for

industrialized countries' grouping to consider policies to encourage investment in developing countries so as to counteract possible private capital outflows had been addressed by the EC Investment Partners programme. The Cartagena Commitment (paragraph 14) had welcomed large economic spaces involving major trading partners for the benefits accruing to developing countries, provided that the impact on non-participating countries of binding international rules was respected. The multilateral trading system provided certain safeguards; in particular, Article XXIV of GATT specified the requirements which countries involved in a process of economic integration had to respect. This Article along with other rules and disciplines were at present under revision in the framework of the Uruguay Round. The outcome would determine the limits of new disciplines and rules. However compliance could only be examined in the framework of GATT. The Cartagena Commitment called on the Trade and Development Board to review the implications for developing countries of emerging regional free trade and economic integration agreements. The report prepared by the UNCTAD secretariat was an excellent basis for such a review and discussion. However, the Board should not engage in regular monitoring of this subject since paragraphs 66 and 146 of the Cartagena Commitment implied that this was a one-time exercise between UNCTAD VIII and UNCTAD IX and that the intervening sessions of the Board would address other subjects.

41. The representative of Austria emphasized that since the mid-1980s, with the extension of the European Community towards Southern Europe and the establishment of NAFTA, the old concepts of North-North and South-South integration had been gradually replaced by North-South models. Austria's experience with economic integration through participation in EFTA had been positive and, therefore, three further integration moves had been launched. The most recent was a Free Trade Agreement with the CEECT. This integration was beneficial for third countries, because the opening of the Austrian market was made possible by the economic strength gained thereby. Regarding Austria's negotiations for membership in the European Community, he underlined the political rather than economic nature of this step and added that it was much too early to speculate on the consequences; the relevant part of the secretariat's report had a number of weaknesses in this regard which might need revision. In conclusion, he stressed the importance of a strong global system for lowering or eliminating trade barriers. To this end, Austria strongly supported the successful conclusion of the Uruguay Round.

42. The representative of Romania stated that regional integration and multilateral liberalization could reinforce each other. To this effect, regional integration should facilitate trade and cooperation among members without erecting barriers to trade with third countries. Regional agreements would thus bring advantages to countries both within and outside such arrangements. GATT provided a mechanism by which to monitor regional integration so that it did not take place at the expense of third countries. In the same vein, multilateral trade negotiations had helped erode regional preferences, to the benefit of non-members. Romania had concluded association agreements with the European Community and a free trade agreement with the member countries of EFTA but these agreements in no way adversely affected economic relations with third countries. It was necessary to pursue in parallel regional and multilateral efforts to develop international trade. UNCTAD could facilitate these efforts.

43. The representative of the United States of America noted that, in general, the countries forming regional arrangements were those at the same economic level. Regional integration processes would, over time, become more like each other. The North American Free Trade Agreement (NAFTA) was really quite simple: it would eventually eliminate tariff and non-tariff barriers among Canada, Mexico and the United States, creating a single market. These actions were consistent with the spirit and the letter of GATT. No country could remain closed off from competition in the new global market revolutionized by technological and capital fluxes. The question was not whether to adapt, but how. The United States sought to open its markets and to trade and compete worldwide. Completing the Uruguay Round, reducing tariff and non-tariff barriers worldwide, and writing new rules for the international trading system thus remained a top priority. While Canada remained the number one trading partner, Mexico had become the third leading partner. Evidently geographical proximity made a difference, even in a globalized economy. Other agreements on common matters were also important, such as those on intellectual property, investment rules and trade in services. The United States was looking forward to expanding trade and investment with all Central, Latin American and Caribbean countries, many of which were liberalizing their economic and political systems, and reducing tariff and non-tariffs barriers. This region had become the second-fastest growing market for United States exports, expanding at a rate twice that of exports to the rest of the world.

44. The representative of Switzerland expressed full support for the view presented in the secretariat report: regional integration should complement other efforts to maintain and develop the international trading system. The document could, she felt, have paid somewhat greater attention to the following points: a systematic classification of regional integration arrangements; their historical context; political and economic motivation. Furthermore, an evaluation of the different types of integration arrangements in the light of their objectives would have been useful in order to draw lessons for the future. It was satisfying to note that the ex ante analysis of the regional arrangements in North America and Europe had suggested that they were not adversely affecting the multilateral trading system. Switzerland attached crucial importance to an open multilateral trading system and the development of clear and predictable rules, particularly as the country was not a member of the highly integrated regional arrangement formed by the European Community.

45. The representative of the Czech Republic said that accelerated globalization of economic activities and intensification of regional integration had included the creation of the Central European Free Trade Area, which was being established among the Visegrad countries (Czech Republic, Hungary, Poland and Slovakia). The disintegration of CMEA had raised the question of the orientation of foreign economic relations. For political and economic reasons, the clear priority was to develop cooperation with the European Community as support for the transition process. The conclusion of the Central European Agreement on Free Trade among Countries of Central Europe was less ambitious in its aim, namely to stimulate, on the basis of GATT rules, regional trade. While Hungary and Poland had traditionally been the top trading partners of the former Czechoslovakia, the conclusion of agreements of association with the European Community (EC) and on free trade with countries of the European Free Trade Association (EFTA) had given rise to a situation whereby the Visegrad Four countries had granted certain preferences to trade with EC and EFTA but not to each other. The mutual reduction of tariffs and elimination of other trade barriers among the Visegrad countries could play a significant role to stimulate exports. The basic obligations of the agreements were multilateral in character, but tariff concession lists were bilateral. The agreement on a tariff union of the Czech Republic and Slovakia allowed them to undertake obligations jointly. The agreement also included a joint declaration on opening, upon signature of the agreement, talks on shortening the transition period for concessions.

46. The spokesman for the Asian Group (Sri Lanka) emphasized that the Board's deliberations on this item should be guided by paragraphs 63 (3) and 146 of the Cartagena Commitment. The trends towards regional integration had raised the question of whether regional trade arrangements were likely to hinder or support the open multilateral trading system. The Asian Group was concerned that developments, such as the establishment of NAFTA and the expansion of the European integration process, might limit market access for Asian countries to their main traditional markets and perhaps have other adverse policy implications. While positive effects such as trade creation might take some time to materialize, negative impacts on the third countries in the area of investment and trade diversion could be expected sooner. The Asian Group therefore favoured close continuous review of these arrangements by the Board. Through this mechanism, potential problem areas could be identified soon enough to take preventive action. This would reduce tensions and apprehensions. The Board should act as a forum for solving problems which regional arrangements might entrain. For this purpose, the UNCTAD secretariat should undertake a continuous evaluation, with special emphasis on the interests of developing countries, and prepare necessary background studies. The Asian Group was concerned about the risk of further marginalization of weaker and small trading nations outside regional arrangements. Members of integration groupings had to work with those outside and make arrangements to provide technical support, training and other assistance in adjusting to new trading conditions. Ways and means should be explored for assisting and compensating any losses to developing countries because of regional integration arrangements. One of the major reasons for weak economic cooperation among developing countries was the absence of financial and other resources required to implement suitable arrangements and develop their full potential. As the UNCTAD study had illustrated, successful integration arrangements had been accompanied by increases in domestic and foreign investment. Investments and financial flows from outside could always play a catalytic role. The decision taken at the first session of the Standing Committee on Economic Cooperation among Developing Countries to have a policy dialogue with a view to mobilizing support for regional integration programmes of developing countries was welcomed.

47. The representative of Bangladesh stated that the increasing trend towards regional integration was viewed by many countries, particularly those outside such groupings, as a cause for concern. It raised questions about the impact of such arrangements on the international

trading system as a whole, as well as about effects on the trade and economic growth of non-participant countries. Not all developing countries were equipped to draw advantages from the potential growth effects of stiffer competition. Close, continuous review of integration arrangements was necessary. Ways and means might be explored for assisting and compensating the weaker trading partners. An international dialogue on the economic implications of integration schemes could enhance mutual understanding, reduce apprehensions of third countries and facilitate corrective action. The Trade and Development Board should, therefore, undertake to ensure that economic integration arrangements were outward-oriented and aimed at promoting a more liberal world trading and investment regime, fostering economic growth for both the participants in regional groupings and third countries.

48. With reference to chapter 7, "Regional integration and the international trading system", the representative of Sweden emphasized that care should be taken to maintain a clear distinction between the competences of UNCTAD, on the one hand, and GATT, on the other.

49. The representative of Hungary supported the statement made by the representative of Sweden.