UNITED NATIONS

TD

United Nations Conference on Trade and Development

Distr.
GENERAL

TD/B/SEM.1/2
1 September 1995

Original : ENGLISH

TRADE AND DEVELOPMENT BOARD
Seminar on Regional Economic Arrangements
and their Relationship with the
Multilateral Trading System
Item 3 of the provisional agenda

IMPLICATIONS OF THE DYNAMISM OF LARGE ECONOMIC SPACES

Major new developments in large economic spaces and regional integration processes and their implications

Report by the UNCTAD secretariat

CONTENTS

LIST OF ABBREVIATIONS

ACP	African, Caribbean and Pacific States
ADP	Anti-dumping measures
AFTA	ASEAN Free Trade Area
ALCSA	Southern American Free Trade Area
ANCOM	Andean Common Market
ANZCERTA	Australia New Zealand Closer Economic Relations Trade Agreement
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
ATFA	United States - Andean Trade Preference Act
CACM	Central American Common Market
CAP	Common Agricultural Policy of EC
CARICOM	Caribbean Community
CBI	Caribbean Basin Initiative
CEECT	Central and Eastern European Countries in Transition
CEFTA	Central European Free Trade Area
CET	Common External Tariff
CIS	Community of Independent States
COMESA	Common Market of East and South African States
CUFTA	Canada - United States Free Trade Area
EA	Europe Agreements
EAI	Enterprise for the Americas Initiative
EC	European Community
ECDC	Economic Cooperation among Developing Countries
ECLAC	Economic Commission for Latin American Countries
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
ECU	European Currency Unit
EEA	European Economic Area
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign direct investment
FTAA	Free Trade Area of the Americas
GCC	Cooperation Council for the Arab States of the Gulf
GSP	Generalized System of Preferences
LAIA	Latin American Integration Association
LES	Large Economic Spaces
MERCOSUR	Southern Cone Common Market
MFA	Multi-fibre arrangement
MFN	Most Favoured Nations treatment
NAFTA	North American Free Trade Area
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SEM	Single European Market
UDEAC	Central African Customs and Economic Union
VER	Voluntary export restraints

Introduction

1. This document responds to the Board's request (conclusions 408 (XL)) that the secretariat report on significant new developments in large economic spaces and regional integration processes and present information on the implications of such developments for other countries. Subsequently, the Board decided to convene a seminar on regional integration arrangements and their relationship with the multilateral trading system (decisions 415 (XL)).

2. First the recent proliferation and expansion of regional arrangements are reviewed against the background of the rapid globalization of trade and investment based on enterprise initiatives. Then the substantial progress achieved by many developing countries and countries in transition with trade and investment liberalization is examined along with the far-reaching ramifications of liberalization of trade in goods and services by all countries as a result of the Uruguay Round. The report also evaluates the implications of large economic spaces for trade and investment of third, in particular developing, countries in the post-Uruguay Round world. Finally, it analyzes the implications of growing regionalism for the multilateral trading system.

3. Two policy issues are emphasized: (a) the impact of large economic spaces on trade, investment and general development prospects of developing countries, and possible policy responses; and (b) the relationship between large economic spaces and the post-Uruguay Round multilateral trading system with respect to major new integration initiatives and their expansion into new areas of integration.

Chapter I

CONCLUSIONS

4. The Uruguay Round gave a major impulse to multilateralism. It was also supposed to reduce the attractiveness of regional approaches and mitigate concerns about the implications of economic integration for the multilateral system and third countries. The Round has, to some extent, alleviated risks of trade diversion. Large economic spaces continue to expand, however, and several major new initiatives have been launched since the conclusion of the Uruguay Round. The reasons include increased pressure from business to remove remaining barriers to trade and investment and to open new markets through complementary regional negotiations. The Round left unfinished business where further progress would be difficult to achieve through multilateral negotiations in the near future. Furthermore, much of the emphasis of new integration moves has shifted towards such areas as investment liberalization, environment, competition or labour markets as well as a growing number of other economic, monetary and political objectives.

5. Mixed schemes between developed and developing countries and economies in transition are multiplying. Developing countries and economies in transition aim at securing access to their major markets for sensitive products and at increasing their attractiveness as investment locations and as partners for industrial and technological cooperation, though in most cases the main burden of liberalization and adjustment lies with themselves. Developed country partners find such reciprocal agreements attractive as they obtain free access to growing developing country markets and new investment opportunities, which is not the case with traditional unilateral preferential arrangements and the GSP. Such groupings pose higher risks for developing third countries: risks of intensified competition in major developed country markets for similar products benefiting from preferential advantages; risks of competition for investment in export-oriented production lines oriented to the same markets; and risks of pre-emption of limited financial aid flows in favour of developing countries belonging to the same integration system.

6. At the same time integration among developing countries has gained new momentum. Major developments include, in Latin America, further significant progress by MERCOSUR and the Andean Group with the liberalization of intra-group trade and the establishment of common external tariffs. In Asia, ASEAN has accelerated the implementation of its Free Trade Area, SAARC will start reducing intra-group barriers to trade in 1996, and new integration initiatives have been launched. Moreover, several African integration groupings are engaged in a major process of revision and restructuring, while COMESA and others are intensifying subregional integration.

7. Furthermore, integration arrangements have become increasingly complex in their structure and geographical coverage. Besides full integration of a core group of countries, others may be linked to them through trade and association agreements involving varying degrees of liberalization and economic interaction. Some groupings have been developing interregional linkages; examples are the EU with MERCOSUR. Groupings may also be interregional in their own dimension, such as APEC. Moreover, many countries are in the longer term likely to become members of more than one integration system. Some of the new integration projects, such as APEC and the Transatlantic Free Trade Area, would combine substantial economic power.

8. For third developing countries, risks of trade and investment diversion remain important in specific sectors and products and in terms of certain types of trade policy measures. They can severely hamper export and investment prospects. Ways need to be found to render these risks more transparent and to tackle them within the multilateral trading system.

9. There is a need for identifying, and eventually assessing, the risks that could arise for third countries from integration in other sectors. This would be of particular importance as regards sectors where integration measures are not applied on an MFN basis.

10. Possible policy responses by developing countries include: (a) strengthening national policies for increased international competitiveness and improved attractiveness to FDI; (b) support to enterprises to enter integration markets through affiliates or investments; (c) export strategies designed to open up new and dynamic export markets and exploit new trading opportunities; (d) associating with a large economic integration system in various forms; (e) strengthening subregional/regional integration with other developing countries; (f) further multilateral negotiations for liberalization and strengthening of the rule-based system. The feasibility of these options will vary, however, depending on the economic structure and capacities of each country.

11. International support measures in favour of developing countries and interested economies in transition could assist in evaluating the impact of new integration groupings or schemes in formulating policy options in response, and in exploring new opportunities for participants and outsiders that may arise from large economic spaces.

12. The systemic relationship between integration groupings and the multilateral rules of WTO has somewhat improved. The Uruguay Round Agreements have defined more precisely some of the rules applicable to integration arrangements in trade, and extended similar disciplines to services. The basic nature of these rules has not changed, however. They remain mostly of a formal nature and do not directly tackle potential economic effects of integration. Further improvement should include more systematic opportunities for a multilateral exchange of views on significant developments in new integration arrangements and projects, to inform third countries, explain new projects and discuss possible third-country implications.

13. It would also be desirable to promote consensus on policy principles and guidelines regarding integration groupings, and to render more meaningful such concepts as "outward-orientation", "openness" and "development consciousness". It would further be useful to pursue consensus on what measures groupings could reasonably be expected to adopt so as to impart dynamism in global trade or to bear a special responsibility vis-à-vis weaker trading partners, in particular developing countries.

14. Continued trade liberalization and intensified disciplines at the multilateral level are the most effective way of integrating regional groupings into the multilateral trading system. The multilateralization of the "new issues" which have been included in several regional agreements may prove to be a complicated issue in that different approaches may not easily be reconciled.

Chapter II

MAJOR NEW DEVELOPMENTS IN LARGE ECONOMIC SPACES AND REGIONAL INTEGRATION PROCESSES

15. The multilateral trading system took a major leap forward with the conclusion of the Uruguay Round and the creation of the World TradeOrganization (WTO). The results of the Round are expected to strengthen the multilateral rule-based system, engender major progress in liberalization of international trade and extend multilateral disciplines to new sectors. At the same time, the formation or the extension of large economic spaces progressed rapidly, if not faster than before. Such large economic spaces formed around major trading nations can have a significant impact on international trade as well as substantial influence on international trade and other negotiations. This was unexpected, as a successful conclusion of the Round had been viewed as obviating the need for further regional arrangements.

16. Over the past two years, the integration process has progressed rapidly in Europe and North America, with the effective entry into force of the North American Free Trade Area (NAFTA), the full integration of Austria, Finland and Sweden into the European Union and the strengthening of EU relations with the Central and Eastern European countries in transition. Furthermore, new integration projects for the longer term proliferated in all regions: APEC agreed to achieve free regional trade and investment by the decade 2010 - 2020; American countries agreed to establish a Free Trade Area of the Americas comprising the entire Western Hemisphere and to start implementation no later than the year 2005; the EU has plans to enlarge its membership to include a number of Central and Eastern European countries in transition, to open the association perspective for certain CIS countries and to negotiate association agreements with Mediterranean countries, MERCOSUR and South Africa. Recently, discussions have been revived regarding the proposal of a Transatlantic Free Trade Area between EU and USA.

17. At the same time integration among developing countries has gained new momentum. In Latin America, MERCOSUR and the Andean Group have rapidly moved ahead with the implementation of their programmes to liberalize mutual trade and establish customs unions. Furthermore, a whole network of bilateral and trilateral agreements and projects came into being between and among Latin American countries and groupings. In Asia, ASEAN has accelerated implementation of its Free Trade Area, while SAARC decided to reduce barriers to mutual trade in a first group of products in 1996. New integration initiatives were taken by the East Asian Economic Caucus and countries bordering on the Indian Ocean rim. Several African integration groupings have been engaged in a major revision and restructuring process while COMESA and others are intensifying subregional integration.1/

18. As a result, certain trends in regional integration are emerging: (a) the creation and rapid expansion of large economic spaces seems set to remain a lasting feature of international economic relations; (b) mixed groupings with reciprocal commitments between developed and developing countries are becoming more frequent in all regions; (c) integration groupings are increasingly expanding to other regions and becoming complex interregional integration systems with various grades and types of association. Some new large economic groupings are themselves interregional, such as APEC; others have been developing interregional linkages, such as EU with MERCOSUR. Some countries are becoming members of various large economic international systems: the United States, for example, is becoming a centre of integration in North America, South America, and APEC; MERCOSUR has been seeking free trade agreements within FTAA and with the EU. In the longer term, almost all countries are likely to belong to one or more integration systems. Nonetheless, concern persists over the impact of such groupings; (d) some of the new or revived projects, such as APEC and a trans-atlantic free trade area, would combine substantial economic power and would exert a major impact on third countries and on the functioning of the multilateral trading system.

19. One explanation for the multiplication of regional integration schemes may lie in the changing character of economic integration. It has moved far beyond pure trade or market integration in the form of free trade areas or customs

unions. Integration has become a multifaceted, multisectoral process covering a wide range of economic and other political objectives. Much of the emphasis of new agreements has shifted to liberalization of investment and labour markets, strengthening of technological and scientific cooperation, environment, common competition policies or financial and monetary integration. These are decisive components of NAFTA, FTAA, APEC, Europe and partnership agreements, and agreements among developing countries. Furthermore, integration groupings are still a means to overcome barriers to trade beyond what could be achieved within the Uruguay Round Agreements: certain of the new integration initiatives intend to achieve additional liberalization of important exports (e.g. agricultural products, clothing) and in sectors such as telecommunications, air transport or in public procurement, besides the harmonization or mutual recognition of technical standards. Business sector interest has been a major driving force stimulating Governments to negotiate multisectoral integration arrangements in order to liberalize access to new markets or investment opportunities.

20. A major motivation for developing countries to enter into mixed integration arrangements with their main trading partners is to open up their markets for sensitive export products, and to secure access in the face of anti-dumping and safeguard measures. Expectations of enhanced attractiveness for foreign investment and increased technology transfer are also high. Developed countries can obtain reciprocal advantages for their trade and investment through mixed arrangements which were not available through traditional unilateral preferential arrangements with developing countries or the GSP. Apart from benefitting from longer implementation periods with regard to liberalization, developing countries and economies in transition are frequently assuming commitments as stringent as their developed partners.

A. Recent developments in the Western Hemisphere

1. NAFTA

21. NAFTA, established by Canada, Mexico and the United States, entered into force on 1 January 1994. Besides progressive liberalization of trade in goods between the three countries, the Agreement extends to several important new areas, including: (a) elimination of barriers to trade in various financial and other services; (b) liberalization of investment policies in both goods and services (e.g. national and MFN treatment, elimination of local content, export performance and trade balancing requirements); (c) obligations to strengthen and enforce protection for intellectual property rights; (d) opening government procurement markets; (e) obligations to apply competition laws and cooperate on issues of competition law enforcement; and (f) elaboration of dispute settlement procedures.

22. Trade-related issues of labour standards and environmental protection are covered in side agreements. The Supplemental Agreement on Labour Cooperation is intended to assuage concern over whether lax labour standards and conditions in Mexico would give Mexican companies an unfair advantage: each party assumes an obligation effectively to enforce its own labour laws through "appropriate" government action. The Agreement is expected to result in the upgrading of labour laws, in particular in Mexico, as each country must "ensure that its labour laws and regulations provide for high labour standards". However, NAFTA does not provide for free movement of labour. The Supplemental Agreement on Environmental Cooperation is designed to respond to criticism that NAFTA would lead to a lowering of environmental standards or turn Mexico into a "pollution haven" for foreign companies. The agreement makes the enforcement of national environmental laws and the achievement of a high level of environmental protection an international obligation of each NAFTA country.

23. Thus, NAFTA has moved beyond the traditional scope of regional agreements, with a focus on measures applied at the border, to include a broad range of national policies and standards. It has thereby opened up new areas for liberalization and policy convergence at the regional level.

24. Many trade partners of NAFTA remain concerned about the potential scope for trade and investment diversion. As pointed out in an earlier UNCTAD report, various estimations indicate that trade diversion is likely to be relatively small at the aggregate level, but can be important for individual countries and

particular export sectors.2/ Caribbean countries, fearful of losing out both in terms of trade and of investment, are requesting "parity" with NAFTA treatment through improvements in the CBI.

25. In agriculture, demand in the United States is likely to increase, in particular demand for Mexican horticultural products. According to one study, an important case of trade diversion in this regard would be the substitution by the United States of frozen orange juice concentrate imports from Mexico for those from Brazil.3/ Caribbean countries might also suffer some trade diversion in horticultural products.4/ Moreover, trade diversion in sugar may occur due to increased procurement in Mexico. Trade diversion to the benefit of the United States, however, is not expected to be important as most of Mexico's agricultural imports already come from the United States. In manufacturing, liberalization in the Uruguay Round has narrowed the scope for trade diversion in some sectors (e.g. toys, furniture, pharmaceuticals, farm equipment, steel). However, the likelihood of trade diversion persists in favour of Mexico in a number of other sectors, in particular textiles, clothing, footwear, automobile parts, light trucks, and certain radio and electronics products, to the disadvantage of other supplier countries both in the Latin American region (e.g. Caribbean countries, Brazil) and in developing Asia.5/ Furthermore, certain industries in the United States may benefit from increased export opportunities in the Mexican market, including chemicals, machine tools, household appliances, general industrial machinery, telecommunications equipment, and electronics, at the expense of suppliers in both developed and more advanced developing countries. Brazil has claimed that NAFTA has already resulted in a decline in its exports of capital goods.6/

26. Stringent rules of origin are expected to contribute to trade diversion, especially in textiles, clothing, and automobile parts and certain electronics (e.g. television set components). Moreover, the phasing out of Mexico's duty drawback scheme will increasingly favour Mexican use of North American manufactured inputs at the expense of supplies from other countries, including developing economies in Asia. Mexican products will also become more competitive as the liberalization of cross-border trucking by NAFTA will reduce transportation costs.

27. Furthermore, many Latin American and Asian countries are concerned that Mexico may at their expense attract larger amounts of FDI by establishing itself as a low-cost production platform with free access to the North American market. Investors from NAFTA partner countries enjoy MFN and national treatment, as well as full protection and security. Moreover, they are not subject to performance requirements, can freely transfer foreign exchange and are protected against expropriation without compensation. Actual investment flows into Mexico had increased substantially during the period 1991 to 1993 and more than doubled in 1994 to $8 billion. Concerns may, however, be attenuated as developing Asia has remained by far the largest and most dynamic recipient of FDI.

28. NAFTA's effects on third countries will remain more limited than those of a customs union as the Agreement does not provide for a common external tariff or a common commercial policy. Its member States remain free to enter into agreements with foreign partners, in particular developing countries. Mexico has maintained and even enlarged the scope of its preferential trading arrangements in Latin America: with Colombia and Venezuela within the Group of Three, with Chile, and with Central American partners.

29. NAFTA's main implications for other developing countries reside primarily in the mixed character of the grouping. Mexico will improve its competitive position owing to its preferential advantages for products similar to those produced by other developing countries on the most important world market. Once the recent crisis has been overcome, Mexico will probably again attract substantial foreign direct investment from various sources as a gateway to the United States and Canadian markets and as a lower cost production base for North American companies for relocation of production processes which are no longer competitive in the United States. On the other hand, NAFTA will probably provide new impetus to the Mexican economy, even if temporarily prospects for export opportunities for third countries in the Mexican market are likely to materialize only at a later stage. When the Mexican economy resumes its growth path and takes advantage of the new preferential trade and additional investment

opportunities, its trade will not only increase with NAFTA countries but with other partners as well.7/

2. Towards a free trade area of the Americas

30. In December 1994, some 34 Latin American countries, Canada and the United States agreed to establish a Free Trade Area of the Americas (FTAA) by 2005. At the same time, participants reiterated their strong commitment to multilateral rules and disciplines. The agreement should be balanced and comprehensive: besides barriers to trade in goods and services an FTAA would cover liberalization and integration of capital markets, investment, intellectual property rights, government procurement, competition policy and cooperation in energy, science and technology, tourism and infrastructure. The inclusion of environmental and labour standard clauses in FTAA remains a contentious issue.

31. Owing to its broad coverage, the impact of the FTAA is likely to go beyond the trade-related implications of a free trade area. In a longer-term perspective, it could lead to a fundamental restructuring of the production base of the Western Hemisphere with a large developmental potential in terms of efficiency gains, more integrated production and research activities, technological up-grading and human resources development. North America may obtain a sourcing and production-sharing option that rivals, and possibly surpasses, Japan’s South East Asian connection. The United States’ exports to Latin America are expected to exceed those to the EU by the end of the decade.

32. The FTAA would be built up through the gradual extension of membership in existing regional groupings to new member countries and the establishment of increasingly closer links between such groupings. In practice, this is likely to be a complex process requiring a growing convergence and compatibility of the various integration arrangements. Several important events have rendered the major integration groupings in the region better able to face these challenges. Mutual trade is now largely liberalized within the Andean Group, the Central American Common Market (CACM) and the Caribbean Community (CARICOM). Furthermore, the national policy reforms of member countries have increased the economic competitiveness of their economies and brought about a substantial liberalization of foreign trade, while quantitative restrictions and other non-tariff barriers have been largely removed. Tariff levels are now much lower than they were around the end of the 1980s in most Latin American and Caribbean countries. This has also facilitated progress by the Andean Group, CARICOM and CACM in the implementation of their common external tariffs (CET), whose rates now range between 0 and 20 per cent. The major new development in 1995 was the effective formation of a customs union by MERCOSUR between Argentina, Brazil, Paraguay and Uruguay. MERCOSUR put its CET, also ranging from 0 to 20 per cent, into effect on 1 January 1995 for about 80 per cent of all products. Some 85 per cent of intra-grouping trade is now liberalized: the remainder will be gradually liberalized by 2006.

33. Membership negotiations started between NAFTA and Chile. This extension will only have limited implications for third countries, as Chile’s NAFTA exports amounted to $2.4 billion (1994) and its import share only to 0.27 per cent. Most of Chile’s exports will enter United Stattes and Canadian markets duty-free under MFN or GSP treatment after the Round. Market access conditions will, however, still matter for such Chilean exports as wine, grapes and other fresh fruit and certain processed fish and food products.

34. In the longer term, and if more countries join NAFTA, the progress from NAFTA to FTAA will have important implications for third countries. The 34 prospective FTAA countries represented a total GNP of $8,300 billion in 1993, or about 14 per cent more than that of NAFTA members. Export patterns of Latin American and Caribbean countries cover a large range of products, which are similar in quality and prices to those of developing countries of other regions. An *ex ante* estimation of the potential external effects suggests that FTAA might divert 2.8 per cent of exports from affected third countries to the United States by the year 2002; East Asia would suffer a diversion of 2.6 per cent of projected exports (mainly textiles and apparel, leather products, amusement and sporting goods); South Asia around 2.8 per cent (mainly food products, textiles and apparel) and Western Europe some 3.5 per cent (mainly food products and

textiles). FTAA might increase foreign direct investment in Latin America by $ 60 billion, which in turn could cause third countries to lose more than $ 20 billion of foreign direct investment, and possibly as much as $ 30 bilion annually of associated exports.8/

35. The FTAA project should also be seen in the international context. In view of the commitment to further negotiations within WTO and persistent calls for accelerating the calendar of follow-up to the Uruguay Round Agreements, the level of multilateral liberalization of trade, services, investment, government procurement, and other rules for international trade might also advance substantially just when FTAA is expected to come into being: MFA quotas should have disappeared and agricultural liberalization should have progressed, for example. Furthermore, the FTAA project has its counterpart in the APEC project aiming at free trade and investment in the Asia-Pacific region by 2010 to 2020. Some linkages between the two projects are likely because of the similarities of the basic integration concepts underlying both initiatives; and because NAFTA countries and Chile are members of APEC and potential members of the FTAA. Both factors will have a determining influence on future multilateral negotiations as well as potential implications for third countries.

B. The European Union: further progress and geographical extensions

1. Major new developments in EU integration

36. Significant recent developments in EU integration, which are of interest to developing countries,
economies in transition and third countries generally, include primarily its extension to Austria, Finland and Sweden, the intensification of its relations with Central European, Mediterranean and other developing countries, and the major review of the Lomé Convention. Moreover, a number of other measures taken by the EU in the framework of its Single Market Programme and the preparations for an economic and monetary union also have external implications.9/

37. In the field of trade, the results of the Uruguay Round have to some extent mitigated fears of protectionist attitudes in large economic spaces. The 1993 reform of the Common Agricultural Policy (CAP) has started a move away from price support towards the application of direct income support to farmers. The CAP reform concerns all agricultural products subject to a common market organization, excepting sugar, wine, fruit and vegetables, pork, poultry and eggs. Support prices have been reduced, in particular for major crops and beef and veal, but Community preference is maintained through border protection. Moreover, direct payments per hectare or per livestock unit compensate for the reduction in support prices. Duty-free treatment has been provided for oil seeds, animal fodder, tea, mango, ginger, and fish meal imports.10/

38. Completion of the harmonization of national trade measures under the Single Market Programme has led to higher tariffs for a few products such as canned fish, bananas and automobiles. Escalation of tariffs with greater stages of processing persists, making it more difficult for developing countries to diversify their export supply potential into higher-value products in fish, tobacco, leather, rubber, textile, metal products and electronics industries. The EU has removed a large number of previous national quantitative restrictions on imports in general or from countries in transition. Some were replaced by Community-wide quotas or VERs, as in the case of MFA quotas on textiles and clothing, temporary import restrictions on canned fish, including tuna; VERs on car exports from Japan are now applied by all member States. EU also maintains common quotas on certain imports from China. A special safeguard clause now applies regarding imports from countries in transition which are not partners to European agreements and has been applied to impose import quotas on steel and VERs for aluminium. Some exporting countries have expressed concern that certain quotas were set at very low levels, leading to shortages of supply on EU markets.

39. Developing countries have voiced concern that with progressing liberalization of tariff and non-tariff barriers, the EU might increasingly use anti-dumping measures, countervailing charges and negotiated settlements with a protectionist intent. In the same vein, import-licensing practices have caused concern among developing countries as such licensing could in their view

discourage exports to the EU. The use of anti-dumping measures had tripled between 1991 and l994. Such measures have increased, in particular, vis-à-vis some developing countries (e.g. China, Turkey) and countries in transition for such products as iron and steel, cement and fertilizers. The application of anti-dumping measures had become easier owing to the fact that since 1994 a simple majority within the EU was sufficient to introduce such measures. In some cases, the EU negotiated a settlement with regard to the imposition of countervailing duties on imports from developing countries, as in the case of imports of Chilean apples and pears. However, in 1994 the application of countervailing charges on imports of lemons from Argentina, the largest non-Community supplier, had resulted in a complete stop of Argentinian sales to the Community market.

40. The aggregate export performance of developing countries on EU markets tended to confirm that the Single European Market (SEM) made little impact on developing countries as a group. Developments need to be carefully monitored, however, with regard to potential trade diversion and trade creation effects, in particular in a longer-term perspective when dynamic efficiency gains are expected to increase in the EU.

2. Accession of Austria, Finland and Sweden

41. Austria, Finland and Sweden joined the EU on 1 February 1995. The three new member States adopted the Common Customs Tariff of the Community, which implied changes in both directions. Increases of bound MFN tariffs for a number of products gave rise to requests by Canada, United States and other WTO partners for negotiations of compensation within WTO. Applied rates also increased for developing countries for other products in cases where GSP rates of Austria, Finland and Sweden had previously been zero or lower than the new GSP rates of the EU.

42. Moreover, the new members adopted the Community non-tariff measures. The incidence of import quotas and VERs (e.g. the percentage of national tariff lines covered by such measures) is significantly higher in the EU than in Austria, Finland or Sweden. Certain Community import and tariff quotas have been increased to accommodate increased demand since adhesion of the three new members (examples are toy imports from China, banana imports from Latin America). Further upward adjustments for other quotas came into effect in the course of 1995.

43. In the textiles and clothing sector, patterns of restrictions varied widely between the EU and the acceding countries. The former had a comprehensive system of bilateral agreements covering the entire range of multi-fibre arrangement (MFA) products with numerous quota restrictions, while the latter had applied restrictions in a highly selective manner, with restraints mostly in the clothing sector. Moreover, the number of developing countries affected by export restraint arrangements (MFA and others) is significantly higher in the case of the EU than in the case of the three acceding countries. In the same vein, the EU restrains dominant suppliers more extensively than the others did. As a consequence, developing-country exporters will be subjected in the new member countries to a substantially larger area of restrictions by the extension of the EU’s bilateral agreements: even with increased quotas, they will face a drastic reduction of free market access. Sweden, which had abolished MFA quotas on 1 August 1991, had to reestablish them for developing countries and economies in transition.

44. The three new members took on board the CAP. Consequently, price levels in their agricultural sectors will adjust to EU price levels. This will largely imply a reduction in agricultural prices in the new member States which had been relatively more protectionist in the past. Still, developing countries will not necessarily find new market opportunities. Rather, they will likely face increased competition in the markets of the new members as Community suppliers gain unrestricted access to the acceding countries in previously protected sectors, such as many food, fruit and vegetable products: risks of trade diversion could become significant for certain developing countries. Moreover, even reduced border protection in the acceding countries may in some cases remain highly restrictive (e.g. beef). Import conditions for bananas to the new member States have become substantially more restrictive under the EU’s tariff

quota and licensing scheme for producers outside the EU and ACP countries, even if the overall EU quota has been increased.

45. The new members apply all anti-dumping measures of the EU. As a consequence, access conditions have become more restrictive. Anti-dumping measures have been considerably more important in EU trade policies than in the policies of any of the three acceding countries. For instance in 1993-1994, exports to Austria, Finland and Sweden from developing countries and economies in transition were not affected by anti-dumping duties or price undertakings. Anti-dumping investigations had been initiated only by Austria and Sweden and were directed against just two countries. This is in striking contrast to the much greater number of measures applied by the EU covering a range of products and countries.

46. The new members adopted all association and cooperation agreements with developing countries (in particular ACP and Mediterranean countries) and economies in transition. Thus, the new members will, for their part, grant preferential market access and financial aid and engage in cooperation activities as provided for under these arrangements.

3. Agreements with economies in transition

47. The Europe Agreements signed by the European Union with Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia entered fully into force. The EU further concluded Europe Agreements with the Baltic States. These agreements offer the future prospect of full membership. Negotiations with Slovenia are under way.

48. A preliminary analysis by the UNCTAD secretariat suggests that the aggregate effects of the Association Agreements on competition with developing countries in EU markets might remain limited for some time to come. However, competition could intensify for certain products (e.g. food, fertilizers, steel products, machine parts, and, to some extent, textiles, clothing and footwear). The liberalization of textiles and clothing from MFA quotas has been substantially accelerated in favour of Europe agreement partners following the conclusion of the Uruguay Round, which risks to intensify the preferential effects primarily vis-à-vis developing countries' exporters.11/

49. While it is still too early to draw detailed conclusions, the case of Hungary provides some concrete indications. Hungary has in recent years strongly expanded its exports of machinery and industrial consumer goods to the EU. Moreover, there has been a rapid expansion of subcontracting by firms from the EU in the Hungarian textile and clothing sectors. Conversely, exports of agricultural products where the Association Agreements leave high protectionist barriers in place have contributed much less to export expansion in trade with the EU.

50. Fears of some developing countries that the Association Agreements might lead to a diversion of FDI at their expense to the benefit of CEECT have not been confirmed by developments so far. Rather, the FDI stock has remained marginal in these countries, besides being concentrated in a few economies. The four countries belonging to the Central European Free Trade Area (CEFTA) accounted for 77 per cent of the region's FDI stock in 1993.

51. The Association Agreements envisage the possibility of full membership in the EU. Hungary, Poland, Romania and Slovakia have already formally applied for full membership. The EU has expressed its readiness to provide technical assistance for the reforms required in order to prepare the economies of these countries for eventual membership. Full membership of Central European countries in transition will raise complex agricultural issues and entail a high cost for the EU. Agricultural producers in the present EU member countries, but also suppliers of temperate agricultural products in developing countries, would face new competition from the CEECT in EU markets once these countries have become full members. Moreover, such competition can be expected to increase as and when CEECT suppliers improve their productivity, product quality and responsiveness to consumer demands. Major reforms of the CAP will be required to facilitate the adjustment of the EU's agricultural sector to such competition.

52. The EU has also negotiated Partnership and Cooperation Agreements with Belarus, Moldova, Russia and Ukraine. These Agreements strengthen cooperation in a number of areas, in particular investment, but do not provide for the creation of free trade areas in the immediate future: however, they leave open the possibility of creating such free trade areas later on, however. Another type of trade and cooperation agreement has been negotiated with Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan which does not offer an association perspective. A strategy of the EU vis-à-vis the Caucasus countries is under preparation.

4. Changes in EU's development policy and its relations with developing countries

53. The Maastricht Treaty spelled out, for the first time, the basic objectives of a Community development policy. There is agreement in principle that development policies should be "genuinely European", rather than pursuing narrow and often short-run national interests. Moreover, there is consensus that development cooperation should increasingly be based on the concept of mutual benefit.12/ New forms of economic cooperation between the EU and developing countries are geared more and more towards assistance for industrial and business development in the private sector, joint ventures, improving technological capabilities and raising human skills, rather than the provision of purely financial and food aid.

54. On the occasion of the mid-term review of the Lomé Convention, the EU agreed to provide Ecu 13.3 billion to the European Development Fund for the years 1995 -1999, as compared to Ecu 10.8 billion for the preceding period, which maintains essentially the real value of Community aid, taking into account the new member States. This major review also provided the opportunity for a comprehensive evaluation of operations and of the results of cooperation between the EU and the ACP States, as well as to make some improvements in the fields of financial, investment, trade and other cooperation.

55. The EU's Mediterranean policy also takes a new direction under the project of developing a EU-Mediterranean Partnership. This process will involve the progressive establishment of a vast free trade area over the longer term, comprising the EU, the Mediterranean countries and eventually the Central and Eastern European countries in transition. Cooperation would be of a reciprocal nature, wide-ranging and extend to trade, investment, industry, energy, environment, information and communication technologies, services, capital movements, science and technology, human resources development, drug trafficking, illegal immigration and tourism. For its part, the EU envisages a gradual opening of its market to Mediterranean products in exchange for liberalization of trade and investment by Mediterranean partners. The EU will also provide important financial aid, which will parallel its financial engagement in favour of Central and Eastern Europe and facilitate the economic and social adjustments which such a process entails for the developing country partners. The EU envisages aid for Mediterranean countries of Ecu 4.7 billion for the period 1995-1999 as compared to Ecu 6.7 billion allocated to Central and Eastern Europe. Inter-industry cooperation and a much higher level of joint ventures between the EU and Mediterranean countries should raise the competitiveness of the enterprise sector in both regions. The EU began to negotiate new reciprocal free trade area agreements with Egypt, Morocco and Tunisia. The EU also agreed to implement the customs union agreement with Turkey and to open the possibility of accession for Cyprus and Malta.

56. The EU is further expanding its network of free trade agreements beyond Europe and the Meditteranean region. In December 1994, the EU and MERCOSUR agreed to conclude an interregional framework agreement on trade and economic cooperation as a first step towards interregional association.13/ This agreement will pave the way for trade liberalization and launch more substantive economic cooperation involving, initially, support for MERCOSUR's integration process and for major regional projects (e.g. transport, energy, environment, telecommunications). The EU will provide financial and technical cooperation. The ultimate goal of an EU-MERCOSUR interregional association is gradual establishment of a free trade area, the liberalization of trade in services and of investment, and cooperation in industry, research and technology, environment, transport, information technologies and telecommunications. In

agriculture, the EU tentatively envisages a reciprocal and gradual liberalization that takes account of the sensitivity of some products. The EU's interest in closer relations with MERCOSUR is a response to the creation of NAFTA. Simulation studies by the European Commission suggest that current trends in trade, coupled with any extension of NAFTA, could lead to a loss of EU market share in MERCOSUR. Conversely, closer integration is expected to create new market opportunities for both regions and for the EU, particularly in high-value-added exports (e.g. aerospace, electronics, computer products, electrical goods and automobiles).14/

57. The EU further intends to negotiate similar free trade agreements with Mexico and South Africa. Its elaborate network of bilateral agreements with almost all other developing countries and groupings is, however, likely to remain that of an MFN-type with regard to trade, focussing on areas such as cooperation and liberalization of investment.

C. Integration processes in Central and Eastern Europe

58. The recent economic recovery in countries belonging to the Central European Free Trade Area (CEFTA), although still modest and fragile, has created favourable conditions for the acceleration and expansion of the integration processes among them and with other countries. The timetable for the establishment of a CEFTA free trade area, which was originally scheduled for the year 2000, was recently advanced to the end of 1997. Slovenia has established close economic links with CEFTA by concluding bilateral free trade agreements with the Czech Republic, Slovakia and Hungary. In January 1995, CEFTA members and Slovenia agreed to halve the tariffs on their mutual trade in agricultural products as from l January 1996 and to completely eliminate the remaining tariffs in this sector by the end of 1997. However, with the exception of trade between the Czech Republic and Slovakia, trade among CEFTA countries remains relatively small. Their main trading partner is the EU. The Free Trade Area Agreement between the three Baltic States of Estonia, Latvia and Lithuania came into effect at the beginning of 1995.

59. The Agreement on the establishment of an Economic Union within the Commonwealth of Independent States (CIS) of 1993 was aimed at the creation of a new market-based framework for trade and enterprise cooperation. This framework agreement was followed in 1994 by the adoption of agreements on the Establishment of a CIS Free Trade Area and on a CIS Payments Union. CIS cooperation managed to salvage an essential portion of previous free trade conditions into the new situation of newly independent states. Major problems for mutual trade subsist in particular in the monetary field, where cooperation has made little progress thus far. Attempts to advance towards the customs union objectives also ran into major difficulties. Parallel with their participation in the CIS economic union, many CIS countries have been looking for closer economic ties on bilateral, sub-regional or extra-regional bases.

60. These integration initiatives among countries in transition may be seen as an endeavour to at least partially re-establish the close economic links which had previously existed amongst them. For third countries, including developing countries, the economic recovery of Central and Eastern European countries means growing opportunities for mutual trade.

D. Economic integration in the Asia-Pacific region

61. In November 1994, the 18 member States of APEC15/ adopted the long-term goal of free and open trade and investment in the Asia-Pacific region. Industrialized countries intend to achieve this goal by 2010, developing economies by 2020. APEC members further decided to expand and accelerate trade and investment facilitation programmes by eliminating administrative and other impediments; they will also intensify cooperation on developing the human and natural resources and technological and entrepreneurial capacities of the region. The APEC countries confirmed at the same time their full commitment to the multilateral trading system, to accelerating the implementation of their Uruguay Round commitments, to continuing the process of unilateral trade and investment liberalization, and to working together with other countries towards further multilateral liberalization. APEC's intention is not the creation of an inward-looking trade bloc. While APEC will reduce barriers among regional

economies, it intends also to reduce those between APEC- and non-APEC economies; it will devote particular attention to ensuring that non-APEC developing countries also benefit from trade and investment liberalization, in conformity with WTO provisions.

62. APEC launched the preparation of detailed proposals for implementing these decisions and for elaborating the cooperative framework in various directions, including (a) a review of interrelationships between APEC and existing sub-regional groupings (the ASEAN Free Trade Area, the Australia New Zealand Closer Economic Relations and Trade Agreement and NAFTA); (b) preparation of comprehensive APEC non-binding investment principles with provisions regarding transparency, non-discrimination, national treatment, investment incentives: and (c) a continued APEC dialogue on economic policy issues and consultations on financial and capital markets, mobilization of investment capital and exchange rate movements. The 1995 APEC Ministerial Meeting was expected to consider ways to implement the Bogor Declaration and the Investment Principles, and prepare a plan of action to achieve the goal of free and open trade and investment in the region.

63. This new programme constitutes a major transformation of APEC cooperation towards the creation over the longer term of the largest free trade and investment area in the world. In 1993, APEC accounted for about one-quarter of global GNP and 43 per cent of global exports. Intra-APEC trade accounted for about two-thirds of total exports of these countries. The great diversity among APEC economies will condition the speed of progress towards the long term liberalization objectives. This diversity also implies certain opportunities: ASEAN and other developing APEC countries remain an important basis for raw material and component sourcing as well as for the relocation for industries of industrialized APEC countries.

64. Investment policies still differ widely, in spite of substantial progress towards more liberal operating conditions for enterprises and substantial liberalization of foreign exchange controls, favourable incentive policies and a rapid rise of the number of bilateral investment agreements and double-taxation agreements between APEC countries. On average, in 1991-1992 APEC attracted 37 per cent of worldwide FDI. Inflows into some developing countries show a significantly rising trend, even without any formal integration arrangement; some of the developing countries have themselves become important investors. Autonomous trade and investment liberalization policies pursued since the mid 1980s have contributed to this trend. Furthermore, APEC countries have participated actively in the Uruguay Round negotiations: the results, once fully implemented, will give further impetus to trade and investment within and outside the region.

65. At the present stage, it would be highly speculative to evaluate possible effects of APEC on third countries. Essential features of the APEC programme and the way it will operate are still to be defined.
In the longer term, by the time of the achievement of APEC objectives envisaged between 2010 and 2020, multilateral liberalization of trade and investment will have made major progress, as will have the production and trade structures of APEC developing member States. Strengthening technological and investment cooperation is likely to be at the forefront of future APEC policies and will also be a determining factor for the effects on third countries.

Chapter III

DEVELOPMENT IMPLICATIONS AND POSSIBLE POLICY RESPONSES

A. Main development issues raised by large economic spaces in the post-Uruguay Round situation

66. Some of the major development issues of large economic spaces are: (a) To what extent are concerns about possible trade or investment diversion still valid after the Uruguay Round? (b) How can developing countries benefit from advantages offered by large economic spaces? (c) What are the implications of integration in areas outside the scope of WTO? (d) How does the combined effect of the rapid spread of large integration systems affect development prospects? (e) How is this situation likely to evolve after the year 2000?

67. As discussed in chapter II, pre-Uruguay Round estimates of the *ex ante* effects of recent integration steps, such as the achievement of the Single European Market or the establishment of NAFTA, suggest that net effects would be small for developing countries as a group. While trade diversion could be significant, it would by and large be compensated by trade-creation effects deriving from accelerated growth of integrated economies (depending on the assumptions made in such models regarding price and income elasticities). However, these effects could be quite different for different types of developing countries, depending on their commodity patterns of exports and their capacity to benefit from spill-over effects of accelerated growth in integrating economies.

68. Once the Uruguay Round Agreements have been implemented, the risks of trade diversion for developing countries should generally be reduced. While tariff reductions of the Round will be more significant for trade of developed countries, i.e. about half of the previous MFN rates, they will nonetheless reduce significantly developed countries' MFN rates for imports from developing countries and countries in transition as well. The total removal of tariffs for steel, pharmaceuticals, beer, furniture, pulp and paper, construction and agricultural machinery, toys and various other products will essentially remove risks of trade and investment diversion for those exporters which can effectively compete on EU and NAFTA markets. As most developing and transition countries enjoy duty free entry under the GSP for a large number of their industrial products, the effective reduction of risks of diversion will relate more to products not covered by that scheme or benefitting only of small GSP margins. Average post-Uruguay round tariffs for such products will remain on average at about 10 per cent *ad valorem*, with peaks attaining 20 to 30 per cent for individual products of the food, footwear or clothing industries in some developed member States of groupings.

69. In specific sectors of particular export interest to developing countries, which correspond to a large extent to "sensitive" products, risks of trade diversion will remain significant over the short- and medium-term. They account for an important share of many developing countries' exports to NAFTA and EU (see table). The reduction of the level of protection through tariff cuts or quota elimination is small in the short and medium term for temperate zone and Mediterranean agricultural products, fishery products, clothing, textiles, shoes and certain other industrial products where some developing countries have reached a degree of export competitiveness. Tariff escalation will maintain a significant level of effective protection for certain food-processing industries and leather and shoe industries. For consumer electronics, steel and metal products, the risk of anti- dumping duties being imposed will remain, in which case the significance of tariff reductions will be reduced.16/ The increase in GSP rates, the removal of GSP benefits for certain products of specified countries, and the progressive graduation of developing countries, may even result in an increase in effectively applied tariffs on imports from developing countries into EU, NAFTA and ANZCERTA markets.

70. Moreover, market access will become more difficult as regional groupings enlarge the new members or when free trade benefits are extended to newly associated countries with important supply capacities in products competing with those of developing countries. Trade diversion risks will increase independently of whether an agreement takes the form of a free trade area or a

customs union. In the latter case, these risks may be aggravated as new member States take over common external tariffs, common quotas or common sectoral policies. Benefits arising from the reduction of protective levels by new members are, in turn. likely to accrue mainly to regional suppliers, as they enjoy the far bigger advantage of full liberalization.

71. Furthermore, liberalization commitments in a regional scheme may affect the capacity to progress faster with MFN liberalization, as integration and association partners may preempt the market available (in particular if the regional market is to absorb the entire export supplies of an agricultural commodity of a member State; or if rapidly increasing export capacities in textiles and clothing products benefit from an accelerated liberalization schedule).

72. Conversely, changes in market access will in most cases be phased over time and changes of trading channels and patterns will accordingly take place over a longer period. Still a country which does not belong to any of the major groupings, which is small and relatively less advanced and which is mainly exporting sensitive products, such as clothing and sugar, to developed country markets is likely to find itself in a worse position than a developing country which mainly exports advanced industrial products.

73. In the short term, the Uruguay Round may have little effect on investment, though over time incentives to invest in a member State of a large grouping in order to jump tariffs and other barriers may be somewhat reduced. Other incentives for investment, such as rationalizing multinational enterprise production or market proximity will remain strong attractions. Barrier-induced investments will, however, tend to diminish over the longer term, once quantitative restrictions on trade in textiles are phased out, and the programmed further negotiations on agriculture and services have brought about significant additional MFN liberalization.

74. Potential advantages which developing countries might expect to derive from integration relate in the first instance to growth effects for participants in a grouping. The importance of economic integration among developing countries as a policy option for fostering development and overcoming the constraints of small domestic markets has been recognized. This expectation underlies the renewed increase of interest in, and new initiatives for, strengthening subregional and regional integration among developing countries.

75. In principle, mixed groupings with major trading partners should open for developing country members wider prospects for trade and investment and hence, for growth and development than sub-regional groupings with neighbouring developing countries. However, a strongly integrated sub-regional grouping may be a prerequisite for effective negotiations with a developed partner. Such groupings are also expected to provide improved stability of access to product and factor markets. Developed countries have also been more inclined to enter into mixed groupings arrangements. Unlike traditional preferential agreements with developing countries, they offer reciprocity of advantages regarding market access, liberalization and guarantees for investments, and a possibility to accommodate major concerns, such as the protection of intellectual property rights, or adherence to environmental and labour standards. Owing to this reciprocity aspect, mixed groupings may not be a feasible option for several developing countries, apart from the relatively advanced open economies. Even if a certain postponement of their liberalization commitments were granted, it might be difficult for many developing countries to reach full competitiveness with major trading nations within the customary period of ten years. In this context, it is essential that developed member States provide, as part of such mixed integration arrangements, financial assistance and support to investment and technological cooperation and enterprise development in order to facilitate the necessary adjustment and raise the industries of developing country members to comparable levels of competitiveness. Otherwise, integration among unequal partners could accentuate imbalances and polarization.

76. Certain developing countries and economies in transition have been able to take advantage of integration arrangements with major developed countries. Turkey, Cyprus and Malta, for example, have expanded their exports to the EU at faster than average speed. Likewise, some Central European economies in

transition have taken advantage of their free trade area status with the EU and have become more attractive to foreign investors. Substantial financial and technical aid to associated countries has facilitated development and adjustment in these countries. Mexico has also been able to expand both its trade and investment in the first year of NAFTA. However, issues of reciprocity and traditional concerns about particularly sensitive sectors render the negotiation of agreements difficult when new partner countries have a large production capacity for sensitive products such as staple foods, fruit and vegetable products, clothing or textiles.

77. As noted earlier, econometric studies concerning growth effects of economic integration for third countries show widely varying results,17/ depending on assumptions about elasticities and whether dynamic effects regarding scale economies and investments are considered. In actual fact, import growth may be much more influenced by business cycles: for example, the EU’s total imports grew rapidly before 1991, but stagnated in real terms owing to the recession until 1994 by and large so that no growth effects could be derived by outsiders during that period. Since 1988, nominal import growth of EU (including intra-trade) reached an annual rate of 4.6 per cent, less dynamic than the 5.6 per cent import growth of developed countries as a group. Imports from developing countries achieved roughly comparable growth rates, in particular for manufactured products, though the import substituting effects of the CAP continued to determine the pattern of the EU’s import growth for food products.

78. With regard to the implications of integration in areas other than tariffs, some of the more important issues relate to regional product standards, which may imply substantial adjustment costs for developing country producers. This will be felt particularly if the standards become more restrictive than those applied previously by individual member countries. Preferential opening of government procurement in favour of member States or price preferences for public procurement also give rise to regional import substitution.

79. The effects of regional integration may also be felt in the services sector. Long distance flights of regional airlines will be more competitive than those of a developing country airline if they can collect passengers from various member States. In those groupings where labour movements are liberalized, market access for developing countries‘ workers will become more difficult to the extent that developed countries maintain overall ceilings on access of foreign labour and immigration which will be reserved primarily for nationals of regional members. Common rules and procedures for immigration within a large grouping may further tend to reduce access by developing countries’ labour, if visa and immigration controls are extended to a larger number of third countries and applied also by hitherto more liberal member States.

80. The expansion of regional integration may also raise complex issues for developing countries with regard to cooperation on environmental standards which may have implications similar to technical standards. Any tightening of standards may increase difficulties for developing countries to stay in the market or to enter it. Furthermore, such tightening may increase costs for regional producers and bind significant investment and financial resources. Similarly, tightening the application of labour standards may reduce international competitiveness of a member country of a regional grouping. Regional cooperation for technological development and research or training may also, if limited to members, reinforce existing gaps between the levels of human and technological development reached within the grouping and that of other developing countries. Common research policies are unlikely to take into account concerns of developing third countries: for example, projects for development of new materials may substitute raw materials produced by developing countries.

81. Integration in new areas may, however, also bring about positive development effects. The creation of a monetary union, in principle, imparts stability in the economy and contributes to reduce exchange rate fluctuations. A common currency will furthermore reduce transaction costs for trade and payments within the grouping. This will primarily benefit regional enterprises, although third country firms trading grouping-wide will also benefit. Furthermore, the common development policy of the EU under the Treaty of Maastricht should lead to a strengthening of the Union's overall development instruments for greater effectiveness. The enlargement of the EC to Greece, Portugal and Spain has stimulated closer cooperation between the EU and Latin America, while the three new member States widen the market and financial basis for cooperation between the Community and developing countries.

82. The combined effect of spreading regionalism is likely to diminish developing countries' options for diversification of markets and products. Even if many developing countries already belong to one grouping or another, this does not offer them the same efficiency as free and indiscriminate access to all world markets. The majority of developing countries are not members of a regional integration scheme involving developed countries. These countries face increasing competitive disadvantages and a narrowing down of their opportunities as these integration systems extend to new countries which compete on these major markets for the same products at similar levels of quality and price. They are moreover less attractive as a production base for exporting *vis-à-vis* groupings' members.

83. NAFTA and the EU absorb one-half to three-quarters of the total exports of such developing country outsiders as Bangladesh, Costa Rica, Ecuador, Honduras, Pakistan, Panama or Sri Lanka. Many developing countries outside NAFTA and the EU remain highly dependent on sensitive products; their exports remain subject to relatively high duties, quotas and frequent anti-dumping and countervailing duty action; and certain products are frequently excluded from GSP benefits. The share of exports of sensitive products to NAFTA and the EU exceeds one-third of total exports (excluding fuels) for the above countries (see table) which remain therefore vulnerable to risks of trade diversion by large integration systems.

84. The implications of the extension of large integration systems are likely to evolve substantially over the longer term. After 2000, the structural effects of integration are expected to become manifest. They could include: scale and efficiency effects; strengthened alliances and restructuring of enterprises; and the redesign of corporate strategies on a region-wide scale, They are expected to alter investment and production patterns within the integration groupings, and hence change the sectoral composition of future production, trade and international competitiveness. This type of effect may ultimately be the main change which third countries would face in their relations with economic groupings.18/

85. In the long term both large economic spaces and the multilateral framework will probably change considerably. A rapid further expansion of large integration systems is already programmed. They will expand substantially in trade, investment, financial and monetary coverage. This raises the question of whether all of these new initiatives do not ultimately reflect a need to accelerate the process of multilateral negotiation in the fields in which these integration projects fall and where the Uruguay Round has brought modest immediate results, in particular in agriculture, textiles, services, government procurement, environmental and technical standards, and investment liberalization and cooperation. Such areas would appear to remain difficult to negotiate between those partners which faced these same difficulties during the Round, even if such negotiations were to be put into a "bilateral" context within a new integration grouping. In turn, the multilateral trading system has also proved its capacity for further development and gradual, step-by-step improvements. Further elaboration of the multilateral system could provide developing countries with important advantages for defending their interests *vis-à-vis* partners with stronger bargaining power.

B. **Possible policy responses**

86. In the first instance, developing countries and economies in transition must rely to a certain extent on their national policies in order to attain higher international competitiveness. Such policies could help to cushion some of the longer term effects of large economic spaces on the domestic economy. This may include strengthening policies for attracting foreign investors and technology partners. This remains a possible option for countries which are not members of large groupings, as FDI decisions, while influenced by integration, maintain nonetheless a large degree of independence regarding location.

87. A more specific response to large integration systems is to encourage national enterprises to invest or establish affiliates within such groupings from which they can serve the whole region. In that manner they can avoid barriers, such as common external tariffs, and at the same time benefit from the advantages of a large market with common standards, rules and regulations.

88. Export promotion strategies could be designed to assist enterprises to diversify into new and dynamic markets which may provide an alternative option for the expansion of trade and investment. Thus, for example, Asian developing countries could target more effectively the business opportunities offered by their own region. Targeting new trading opportunities opened up by the Uruguay Round can also open alternative business prospects. Some developing countries should also be able to benefit from renewed growth prospects in Central and Eastern Europe, or from the reform process in Mexico.

89. In some cases, another option for outsiders would be to join a larger grouping. Apart from uncertainties about the effective advantages and risks involved, such a choice may, however, not always exist. The capacity and readiness of an integration grouping to absorb new members may be limited for economic, financial and institutional reasons. Furthermore, conditions of fairly strict reciprocity presuppose that the applicant economy has already reached a high level of international competitiveness and maturity of its productive structures in order to be able to face intra-grouping competition and to forego a number of development policy instruments. It should be mentioned that it may remain as difficult to negotiate full liberalization of sensitive products in an association agreement as in multilateral negotiations.

90. Simultaneous membership of several integration groupings broadens the development options and minimizes the implications of multilateral liberalization and disciplines. But it remains inferior to a multilateral approach, as developing countries and economies in transition need access to all major world economies and cannot neglect any of the major systems. Furthermore, multiple membership may raise issues of compatibility, give rise to conflicts and constrain the country to avoid discrimination between partners of different groupings: this harmonization can, in many cases, only be achieved through full liberalization and national treatment.

91. Strengthening subregional and regional integration among developing countries is an option which is more feasible for smaller and medium-sized developing countries. Integration into the regional economy may be a stepping stone to future integration into the world economy. Successful subregional integration can also increase attractiveness for foreign investors and improve a country’s position *vis-à-vis* foreign partners preferring to negotiate with larger units. On the other hand, only relatively few integration groupings among developing countries have effectively achieved their integration objectives. Significant economic advantages from integration have rarely been reaped in terms of increased international competitiveness, more efficient allocation of resources, or significant stimulation of production and investment in the region because of a wider regional market. A substantial under-utilized potential normally remains.

92. Developing countries might consider exploring the possibilities of further progress along the multilateral route. They may also seek to defend their rights in WTO when access barriers increase as individual countries accede to integration groupings. For that purpose they ought to be able to draw on technical advice. This will become more and more important as the membership of such groupings expands. Furthermore, developing countries may actively prepare for the scheduled multilateral negotiations on the further liberalization of agriculture, services, investments and other trade measures.

C. International cooperation and support

93. International support can assist developing countries in adjusting to the implications of large integration systems for their trade and development. The Trade and Development Board has suggested that the large economic integration groupings themselves take initiatives to help weaker trading partners to face the implications of their activities.19/ Member countries of groupings could provide technical cooperation to developing countries for identifying new opportunities for economic interaction and for familiarizing them with the rules, regulations and standards. They could encourage investment cooperation and the setting up of joint ventures between firms in their regions and in developing countries20/ and take any other measures which might help third countries to expand their trade and economic cooperation with their respective groupings. UNCTAD and other international organizations could provide technical advice and analysis, training programmes and seminars on various approaches to regional integration for participating and third countries, in order to facilitate information, dialogue and evaluation leading to a better understanding of these schemes. Such international support could also assist developing countries in evaluating the implications and possible opportunities arising for them from developments in individual large integration systems and to assess possible options for responding to them.

94. In order to enhance the chances of attaining ECDC and integration objectives, a number of new initiatives have been launched by the Standing Committee on Economic Cooperation among Developing Countries. Promising areas include: measures for increasing the effectiveness of trade liberalization regimes in regional integration arrangements; more intensive dialogue and cooperation among developing countries to exchange experiences and provide mutual support and assistance for economic cooperation and integration; the enhanced use of mechanisms of technical cooperation among developing countries; and promotion of the "partnership dialogue" in the framework of regular consultations between developed and developing countries and their respective groupings, with the participation of the private sector.

95. This partnership dialogue should obtain full international participation and support as it offers a forum to exchange experiences of various regions and programmes, to discuss major policy issues affecting donor-recipient relations and the scope and features of donors' programmes and policies, and to identify support required to implement the medium-term programmes and projects of ECDC and sub-regional integration among developing countries. Such a dialogue could, therefore, provide an efficient instrument to promote economic integration and ECDC in general, as well as act as a catalyst for enhancing the chances of success of individual projects and initiatives.21/

Chapter IV

LARGE ECONOMIC SPACES AND THE MULTILATERAL TRADING SYSTEM

A. Interaction between the multilateral system and regional integration

96. Regional integration groupings have become a lasting feature of the world economy, with substantial ramifications over a wide range of sectors and policies; they have also greatly changed in scope and character from the conventional customs unions and free trade areas foreseen in GATT. It thus appears necessary to consider how the evolution of regional integration could be fully integrated into the multilateral trading system.

97. Economic integration arrangements and the multilateral trading system can co-exist; the conclusion of the Uruguay Round Agreements demonstrates that the multilateral liberalization of trade in goods and services and the creation of new multilateral rules and disciplines can be achieved with the active participation of economic integration groupings and their member States. Intensification and acceleration of regional economic integration processes has advanced in parallel with major autonomous trade liberalization in many developing countries and countries in transition.

98. A recent study by the WTO secretariat examined a large number of free trade area and customs union agreements.22/ The study concluded that trade with partners in the same region and with partners in other regions had become increasingly important to national economies throughout the postwar period. Western Europe was an exception as it exhibited a clear policy-induced increase in the relative importance of intra-regional trade. Furthermore, members of agreements had actively supported multilateral tariff negotiations. The WTO secretariat concluded that there was no fortress-type regional integration arrangement among WTO members. To a much greater extent than is often acknowledged, regional and multilateral integration initiatives were complements rather than alternatives in the pursuit of more open trade.

99. Integration groupings have introduced a number of major new issues into the international trade policy debate, and are seen by some as "laboratories" for "testing" approaches to such issues. However, there is a possibility of incompability as between approaches to the same issue in different regions, and the possibility that such approaches may be inappropriate for application at the multilateral level, such as by failing to take into account the interests of developing countries.

100. In the longer run, the question of the interrelation between the multilateral trading system and large economic spaces may pose itself in new terms. If all existing projects were implemented, this would essentially result in two large integration systems which would cover virtually the whole world: one extending to the APEC and the American regions; the second one covering the whole of Europe, including CIS and embracing the Mediterranean and African regions, with some interregional linkages to other regional groupings. Such a scenario could change the course of future multilateral negotiations and the role of WTO. This possibility had given rise to the question of whether the WTO will be a catalyst for solving conflicts or be bypassed by direct negotiations between large integration systems.23/

101. Experience with the actual operation of integration groupings has furthermore pointed to issues of a systemic nature as well as concrete problems which are not, or not sufficiently, addressed by the multilateral trading system notwithstanding the conclusion of the Uruguay Round:

(a) The need has arisen for an opportunity to discuss and explain significant new developments in economic integration and to evaluate their potential implications for third countries, in particular developing countries, at an early stage.

(b) While the Round has significantly advanced in extending the coverage of multilateral disciplines to new areas, integration is moving even faster. The question needs to be explored of how to deal with economic integration in non-trade sectors where multilateral disciplines have not been established.

(c) This study has further shown the need for further elaboration of economic criteria for evaluating the external implications of integration groupings: criteria of trade coverage and a timetable are not sufficient by themselves to protect the interests of third countries. The meaning of "outward orientation" of a grouping or "open regionalism" needs to be further clarified. A disaggregated analysis of trade diversion and creation effects needs to be complemented by an analysis of external effects in investment and other areas and include structural implications for development.

(d) Many specific concerns of third countries relate to areas which are, in principle, covered by the Uruguay Round Agreements, but where no specific or bound commitments have as yet been negotiated for each country, for example with respect to preferential regional treatment for transport and telecommunication services, price preferences for government procurement or restrictive origin rules of free trade areas.

B. The impact of the results of the Uruguay Round on economic integration

102. As a result of substantial liberalization of international trade in goods and services in the Uruguay Round, the importance of traditional trade preferences will diminish significantly and hence risks of trade diversion will be reduced for a wide range of industrial products. As shown in chapter III.A, risks of trade diversion will nevertheless remain important for developing countries above all, especially in agriculture, clothing and textiles and with respect to certain high-tariff rates, tariff-escalation situations, and during the phase-out period of quantitative restrictions and VERs. On the other hand, the progressive integration of the clothing and textiles sector into WTO, the perspective of a new round of negotiations in the agricultural sector, may in the longer term mitigate concerns about trade diversion of integration groupings.24/

103. The GATS opens a new area for multilateral liberalization through the future extension of specific commitments. However, in various sensitive sectors where groupings apply differential or preferential rules, negotiations are still going on or concessions are of a limited nature, as for example in the case of maritime transport, basic telecommunications, and movement of persons.

104. Likewise, the agreement on government procurement has substantially expanded the coverage of government units, products and services and improved procedures for participation and tendering. However, this agreement is based on reciprocity and conditional MTN; moreover it applies only among the small number of participating countries. In addition, important sectors of government procurement remain excluded, even among members, such as telecommunications, railways and similar public infrastructure services. Regional price preferences, and national and regional procurement preferences continue to apply in such areas.

105. Another potential area of concern for third countries is the risk of investment diversion. In this respect, the new Agreement on Trade-Related Investment Measures (TRIMs) codifies the prohibition of conditions imposed on foreign investors which had the effect of trade restrictions mainly applied by developing countries in the past (such as local content obligations). The Agreement on Subsidies and Countervailing Measures limits the use of export-related investment incentives mainly to their application by developing countries. While the TRIMs Agreement provides for a major review and possible extension of the agreement into the areas of investment policy *per se*, and competition policy in five years time, it does not in itself liberalize

investment in the production of goods. Further provisions regarding application of national treatment and liberalization of national investment regulations are included, in principle, in the General Agreement on Trade in Services with regard to those services which are covered by specific commitments, and provided that no reservations were made on "commercial presence" provisions. The rapidly increasing emphasis of new and existing integration arrangements on reciprocal liberalization of investment is in part due to growing pressures stemming from the globalization strategies of their enterprise sectors. Many developing countries' principal motivation to join with developed countries in such agreements is the expectation of greater investment flows. The Uruguay Round Agreements will diminish only to a limited extent the effects of preferential and differential liberalization of investment.25/ The results of the Round will exert a more important impact on reducing risks of investment diversion in favour of integration groupings and their associated countries through the effects of reduced trade barriers; those foreign investments which were mainly located in major markets or free trade partner countries in order to circumvent high trade barriers will tend to diminish over time.

106. The treatment of services is an example of the manner in which the same issue can be addressed differently in regional and multilateral contexts. Through the mode of supply approach, the GATS treats factor movement as trade subject to a positive list of concessions of market access and national treatment on a sub-sectoral basis; the EU treats services as a residual sector, including activities which are not covered by the free movement of capital and of persons, while NAFTA deals with investment, whether in goods and services, in a negative list approach.

107. Through the overlapping obligations of regional and sub-regional agreements and the acceptance of the OECD instruments, many countries have accepted rather stringent mutual obligations with respect to investment policy, including that of national treatment in all but a few reserved sectors. Other countries, while generally welcoming foreign investment, have not accepted any obligations over their investment policy *per se* other than that included in their GATS commitments (for those which are members of the WTO). The decision of the OECD to negotiate a binding instrument on investment to which non-member countries could subscribe creates further complexities, and pressures for multilateral action on this issue.

108. The WTO Multilateral Trade Agreements, by establishing extensive disciplines placing all member countries on roughly the same level of obligation, can provide a basis for future regional agreements. Such agreements need not establish specific regional instruments to deal with all trade rules, but could cross-reference WTO instruments and concentrate on the key remaining issues in trade relations among member countries.

C. The WTO rules for regional integration in the light of the dynamism of regional integration

109. The Uruguay Round Understanding for the Interpretation of Article XXIV of GATT, which establishes provisions regarding free trade areas and customs unions, does not change the basic character of the GATT rules and criteria, but it does define some of them with greater precision. Free trade areas and customs unions have to be normally accomplished within ten years. Furthermore, more precise guidelines have been established for the rule that tariffs and restrictions to trade of third countries must not be higher or more restrictive than before the creation of the grouping, and for the calculation of average tariffs in the case of customs unions. However, other intensively discussed criteria of Article XXIV have not been clarified, such as the meaning of the commitment to liberalize substantially all mutual trade. The proposal made during the negotiations that no major sector may be excluded was not retained. The Understanding nevertheless recognizes that the contribution to the expansion of world trade is increased if trade barriers are eliminated for all mutual trade and no major sector is excluded. The Understanding raises new questions of interpretation in cases where a free trade area is formed between a developed and developing country: will developing countries have to offer full reciprocity within the ten year period, even in cases of substantial differences in their levels of development? Finally, the Understanding maintains the implicit assumption that criteria of trade coverage and relatively short time

schedules would bring about enough competition within the grouping to minimize adverse effects on third countries. Nonetheless, the preamble reaffirms that in the formation or enlargement of such agreements, parties should, to the greatest extent possible, avoid creating adverse effects on the trade of other countries. Likewise, the enabling clause continues to provide for special treatment of integration groupings among developing countries.

110. Corresponding criteria have been introduced regarding economic integration arrangements under the General Agreement on Trade in Services. According to Article V therein, agreements liberalizing trade in services must have substantial sectoral coverage, include all modes of supply and eliminate any discriminatory measures among the partners. The Agreement provides for flexibility in favour of developing countries participating in regional agreements, as well as in cases of agreements involving only developing countries. Any agreement on liberalization of services must facilitate trade between the partners and must not raise the overall level of barriers to trade in services for third countries within the respective sectors or subsectors compared to the level applicable prior to such an agreement. Article V bis of the GATS enables groupings to establish full integration of labour markets, provided that such an agreement exempts citizens of partners from requirements concerning residency and work permits.

111. Furthermore, the Uruguay Round Agreements have improved the procedures to ensure transparency of such agreements including notification, regular reporting and periodic review. They have also improved procedures for consultations, negotiations on compensation and for dealing with arrangements that do not fully meet the requirements of Article XXIV. In particular, the WTO dispute settlement procedures may be invoked "with respect to any matters arising from the application of the provisions of Article XXIV relating to customs unions and free trade areas". Even groupings that in the past had been considered to meet Article XXIV requirements will be subject to such procedures. However, the European Community has proposed that this provision be reviewed within WTO at a later stage: has advanced, that recourse to the WTO dispute settlement procedures should be limited only to specific measures arising from the implementation of Article XXIV, but not call into question conformity of existing free trade areas and customs unions with GATT, if these have been notified earlier and not given rise to recommendations by the Contracting Parties.

112. GATT/WTO procedures primarily seek to assess the compatibility of integration agreements with Article XXIV and other GATT provisions. The GATS Council will also start reviewing particular integration groupings in the light of Article V of the Agreement on Services. The Trade Policy Review Body could in principle also review specific integration groupings, but has effectively only reviewed the European Union. The GATT procedures have so far been of limited effectiveness: only two of the existing integration groupings, CARICOM and the Czech and Slovakian Customs Union, have been formally found to be in compliance with Article XXIV. GATT contracting parties have made no concrete conclusion or recommendation for action with regard to any arrangement whose GATT compatibility has never been adopted.

D. <u>Ways to strengthen multilateral principles for groupings' action</u>

1. International review of major new groupings or schemes

113. The rapid proliferation and deepening of large economic spaces has raised concern among non-participating countries and demonstrated the need for all countries, including third countries not belonging to WTO, to explore together with participants significant new developments in economic integration which may have a major bearing on third countries.

114. UNCTAD's Trade and Development Board is a forum for the exchange of views, information and explanations concerning *inter alia* new groupings and schemes. UNCTAD could provide for an evaluation of their effects, in particular on developing countries and economies in transition, as well as assess their implications for the evolution of the multilateral trading system, in line with conclusion 402 (XL) of the Trade and Development Board. These exchanges of views could enhance transparency and help developing countries and countries in transition to assist their enterprises to adjust to the new market and investment conditions in regional markets.

2. Principles and criteria for economic integration groupings

115. The United Nations General Assembly, the Eighth United Nations Conference on Trade and Development and the Trade and Development Board have all called upon groupings to be outward-oriented, to promote growth of the global economy and to take into account third country interests, in particular, those of developing countries.26/ The important role of the multilateral trading system is likewise emphasized, and groupings are called upon to support that system. In devising their policies, integration groupings are expected to observe multilateral disciplines and rules. In view of the rapid expansion of such groupings beyond the areas covered by contractual multilateral commitments, there is nevertheless a need to develop further criteria to evaluate the economic implications of groupings' actions for third countries. In fact, differential or preferential treatment in favour of member States of a grouping in any new area is also likely to imply a cost for third countries. This will be the case even if this is not intended, if external barriers are not raised, and if regional measures lead to intra-grouping liberalization of investment, services or labour movements.

116. "Outward orientation" of groupings corresponds conceptually in many ways to outward orientation of national policies, in contrast to national or regional import or investment substitution. The importance of the net economic effects of trade and investment diversion and creation has already been stressed above, as well have the difficulties of a reliable assessment. A further important yardstick for outward orientation is whether, or to what extent, barriers against non-participants would be reduced concurrently with the establishment of new regional arrangements. In other words, any step of intra-grouping liberalization in any area should go hand in hand with a certain degree of liberalization on a negotiated MFN-basis or in favour of weaker trading partners. Likewise, opportunities should be kept open for third countries to participate in cooperation in specific sectors or non-trade areas. An argument in favour of such an approach is that economic integration effectively increases the economic capacity of groupings, through scale and efficiency effects regarding production costs or other dynamic investment effects. Furthermore, increasing globalization strengthens the argument in favour of rendering multilateral their cooperation beyond groupings, in view of the growing interest on the part of groupings' firms in third country opportunities and the need for worldwide cooperation on large-scale technological and research projects.

117. Outward orientation also implies that the participation of members of a free trade area would not be precluded in arrangements with third countries on a regional or interregional basis or within WTO. Furthermore, provisions in regional agreements should be such that they do not affect rights acquired under WTO or limit recourse to its dispute settlement mechanism ("GATT acquis").

118. In accordance with the Board's guidelines, groupings should ensure the transparency of their rules, regulations and standards. Groupings' agreements are becoming more and more comprehensive and voluminous, which makes understanding them difficult, especially for outsiders who have not participated in their negotiation. This means that there is a need for prior explanations and consultations for the benefit of third countries and their firms. A closer definition of "outward-orientation" along the lines described above would go some way towards responding to the call by the General Assembly for groupings to take account of the effects on third countries of their agreements, so as to foster growth of the global economy and stimulate multilateral liberalization and cooperation.

119. With respect to "development consciousness", it had been agreed by the Trade and Development Board that "integration groupings should bear a special responsibility with regard to their implications for weaker trading partners, particularly developing countries".27/ This requirement arises from negative and positive effects not necessarily touching all third countries in the same way: wide differences may be experienced between developed and developing countries, as well as among developing countries and regions. The concentration of risks of trade diversion after the Uruguay Round on a number of developing countries illustrates this fact (see table). Likewise, the capacity to take advantage of potential growth opportunities arising within integration groupings, or from spill-over effects of enhanced growth, differs widely among developing countries, depending on the composition of their exports. As agreed by the Board, groupings should to the extent possible avoid adverse effects on liberal market access for developing countries in the course of accession of new member States.28/ Recent experience has shown the relevance of this principle with regard to MFA and anti-dumping action, as well as GSP benefits. Groupings should further assist developing countries by explaining their schemes and helping them to adjust to the new trading and investment conditions and opportunities in the regional market. It would be particularly useful if groupings promoted investment and technological cooperation with the developing countries concerned.

120. The concept of "open regionalism" has recently gained ground as a major principle of new integration groupings, particularly in Latin America and Asia. In its different expressions, this principle could be considered a concrete application of the broader principle of "outward-orientation". In the ECLAC context, open regionalism implies, in particular, that any group allows any country to join if it is prepared to accept the agreements already reached. *De facto*, several sub-regional groupings in Latin America apply flexible membership through bilateral and plurilateral agreements with other countries inside and outside their region. In the APEC context, open regionalism implies that member countries support the acceleration of multilateral liberalization of trade and investment, while simultaneously progressing with regional trade and investment and promoting the free flow of goods, services and capital through non preferential methods. The advantages of APEC liberalization would be available to other countries which offer to reciprocate, including within a multilateral framework of negotiations. Particular attention would be given to ensure that non-APEC developing countries will also benefit in conformity with WTO provisions. At the same time, APEC countries are expected to encourage further multilateral negotiations in trade, services and investment as well as national liberalization on an MFN-basis. Since the concrete details remain to be worked out as to how the various levels of national, sub-regional, regional and multilateral liberalization will be combined, it would be premature to evaluate the implications of this complex undertaking.

3. Integration into the multilateral trading system

121. Continued trade liberalization and intensified disciplines at the multilateral level are the most effective way of integrating regional groupings into the multilateral trading system. The Uruguay Round agreements themselves point to that course of future action with the extension of WTO disciplines for regional groupings to the services sector. The extension of the agreement on non-preferential rules of orign to origin rules of integration groupings would appear a priority area, in order to ensure that such rules do not unduly limit sourcing of supplies and components from third countries. Ideally, a common set of rules of origin for preferential and non-preferential purposes would greatly contribute to this objective. Alternatively, at least certain standards should be set for rules of integration groupings: it should always remain possible to use at least a certain percentage of third country materials, whatever the specific origin requirements may be for a particular product (in other words, there should be, in all origin systems, an alternative criterion allowing importation up to, say, 30 per cent of third country inputs (for obtaining preferences). The setting of multilateral standards for preferential rules of origin would also benefit smaller partners in free trade agreements.

122. The multilateralization of the "new issues" which have been included in several regional agreements is a more complicated issue. Their different approaches may not be easily reconciled. As a first step, however, there could be a comparative analysis of how these "new and emerging issues" have been addressed in the various regional and sub-regional agreements. In 1999-2000 the built-in agenda set out in the Uruguay Round Agreements will engender new multilateral negotiations which will likely be converted into a new multilateral round with the inclusion of the issues expected to be added to the WTO work programme at its first Ministerial meeting to be held in late 1996 in Singapore.

Table

Share of sensitive exports to NAFTA and the EU in non-fuel exports (percentage)

Country	Year	Share of EU and NAFTA			Special Preference Arrangements
		EU	NAFTA	EU AND NAFTA	
ASIA					
Bangladesh	93	34	36	70	
China	93	5	8	13	
Hongkong	94	11	21	32	
India	93	14	9	23	
Indonesia	94	9	9	18	
Korea, Republic of	93	3	7	10	
Malaysia	93	3	4	6	
Nepal	93	54	22	76	
Pakistan	94	26	16	42	
Philippines	93	6	13	19	
Singapore	93	1	1	2	
Sri Lanka	94	19	34	53	
Thailand	93	9	11	20	
AMERICA					
Argentina	93	10	4	14	
Barbados	93	20	7	27	ACP,CBI
Belize	93	3	88	91	ACP,CBI
Bolivia	93	2	3	5	ATPA
Brazil	93	5	7	12	
Chile	94	4	8	12	
Colombia	93	6	14	20	ATPA
Costa Rica	92	16	35	51	CBI
N Ecuador	93	22	36	58	
El Salvador	92	1	17	28	CBI
Guatemala	92	3	20	23	CBI
Honduras	93	13	46	59	CBU
Nicaragua	93	2	43	45	
Paraguay	93	2	1	3	
Peru	93	7	7	14	
Trinidad & Tobago	93	5	2	7	ACP,CBI
Uruguay	94	15	6	21	
Venezuela	93	1	4	5	
AFRICA					
Algeria	93	8	4	12	MED
Egypt	93	24	9	33	MED
Morocco	94	39	2	41	MED
Tunisia	93	41	1	41	MED
Ghana	92	2	1	2	ACP
Kenya	92	9	1	9	ACP
Madagascar	93	27	0	27	ACP
Mauritius	93	66	18	83	ACP
Zimbabwe	93	7	1	8	ACP

Sources: UNCTAD secretariat calculations, based on UNSO trade statistics.
Note: Sensitive exports include SITC numbers: 00,01,02,03,04,05,06,09,112,122,423,43,65,665,666,761,83,84,85,885.

NOTES

1/ A comprehensive review of recent developments in economic integration among developing countries is contained in "Evaluation of major developments in the area of economic cooperation among developing countries, including implications of the Uruguay Round results on ECDC arrangements and regular consultations, technical support, assistance and skill development", UNCTAD 1995 (TD/B/CN.3/14). See also "Development of integration processes in Latin America and the Caribbean", ECLAC 1995 (LC/R.1527 and Addenda).

2/ For an analysis and further references to the economic literature, see UNCTAD, "Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration processes" (TD/B/40(1)7).

3/ For a detailed analysis, see T. Grennes and B. Krissoff, "Agricultural trade in a North American Free Trade Agreement", *The World Economy*, Vol. 16, No. 4 (July 1993).

4/ E.g. citrus, processed fruit, orange juice concentrate, cut flowers. See A.T. Bryan, "Beyond NAFTA: CARICOM dilemma", *Caribbean Affairs*, Vol. 7, No. 1 (March-April 1994).

5/ For a more detailed analysis UNCTAD, "Follow-up to the recommendations adopted by the Conference at its eighth session: evolution and consequences of economic spaces and regional integration processes" (TD/B/40(1)7); furthermore R.H. Steinberg, "Antidotes to regionalism: responses to trade diversion effects of the North American Free Trade Agreement", Stanford Journal of International Law, Vol. 29, No. 2 (Summer 1993).

6/ See United States International Trade Commission, Publication No. 2353, *The Likely Impact on the United States of a Free Trade Agreement with Mexico* (February 1001), at 4-12 to 4-27.

7/ See also "The implications of NAFTA for the Asia and Pacific region: Regional perspective", ESCAP 1994 (ITEC/NAFTA/1).

8/ Gary Hufbauer and Jeffry Schott, " Western Hemisphere Economic Integration", Institute for International Economics, Washington D.C., 1994.

9/ See also "Recent changes in the European Union and their potential effects on Latin America", ECLAC 1995 (LC/R.1507).

10/ See Communications from the Commission, "Agriculture in the GATT negotiations and the reform of the CAP". SEC(92) 2267 final (Brussels, 25 November 1992).

11/ See "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).

<u>12</u>/ See also European Commission, "Development cooperation policy in the run-up to 2000", SEC(92) 915 final (Brussels, 15 May 1992).

<u>13</u>/ See "Solemn joint declaration between the Council of the European Union and the European Commission, on the one hand, and the MERCOSUR member States on the other". OJ No. C 377 (31 December 1994).

<u>14</u>/ See Commission of the European Communities, "The European Community and MERCOSUR: an enhanced policy". COM(94) 428 final (Brussels, 19 October 1994).

<u>15</u>/ Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua and New Guinea, Philippines, Republic of Korea, Singapore, Taiwan Province of China, Thailand, United States.

<u>16</u>/ See "Identification of New Trading Opportunities arising from the Implementation of the Uruguay Agreements in Selected Sectors and Markets", UNCTAD, June 1995 (TD/BWG.8/2).

<u>17</u>/ See "Evolution and consequences", <u>*op. cit.*</u> (TD/B/40(1)/7).

<u>18</u>/ See also ESCAP, 1994, <u>*op. cit*</u>.

<u>19</u>/ Conclusions 408(XL). (See Official Records of the General Assembly, Forty-eighth session, Supplement No. 15 A/48/15, Vol. II.)

<u>20</u>/ EU's pilot scheme of "EC - Investment Partners" is an example for a partnership approach to promote joint ventures in developing countries.

<u>21</u>/ Agreed Conclusions of the Second session of the Standing Committee on ECDC (contained in TD/B/41(2)/7, Annex I) and "Review of the Work Programme of the Standing Committee on ECDC with special emphasis on the preparations for UNCTAD IX". (TD/B/CN.3/15, chapter IV).

<u>22</u>/ "Regionalism and the World Trading System", WTO secretariat, Geneva, April 1995. See also "Regional integration and the multilateral trading system: synergy and divergence", OECD secretariat, 1995.

<u>23</u>/ For a more detailed review of the political implications of regional groupings for multilateral trade liberalization, see Jeffrey A. Frankel and Shang Jin Wei, "The New Regionalism on the Emerging Global Trading Environment and Developing Asia, Asian Development Bank, Manila, May 1995; and Bhagwati Jagdish, "Regionalism and Multilateralism: An Overview" and J. de Melo and A. Panagariza, "New Dimensions in Regional Integration", New York, Cambridge University Press, 1993.

<u>24</u>/ The UNCTAD report on the "Identification of New Trading Opportunities Arising from the Implementation of the Uruguay Round Agreements in Selected Sectors and Markets" provides a detailed account of the accomplishments and limitations (TD/B/WG.8/2).

25/ However, the TRIMs Agreement is more stringent than certain provisions of NAFTA.

26/ TDB Conclusions 408 (XL): Economic spaces and regional integration processes.

27/ Ibid.

28/ Ibid.