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TRADE AND DEVELOPMENT BOARD  
Seminar on Regional Economic Arrangements  
and their Relationship with the  
Multilateral Trading System  
Geneva, 15 January 1996  
Agenda item 7

DRAFT REPORT OF THE SEMINAR ON REGIONAL ECONOMIC ARRANGEMENTS  
AND THEIR RELATIONSHIP WITH THE MULTILATERAL TRADING SYSTEM

Rapporteur: Ms. J. Stewart (Jamaica)

Speakers: Chairman  
Secretary-General of UNCTAD  
Officer-in-charge of Enlarged Economic Spaces Branch

Note for Delegations

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

Requests for amendments - to be submitted in English or French - should be communicated by Wednesday, 24 January 1996 at the latest to:

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## INTRODUCTION

1. The Seminar on Regional Economic Arrangements and their Relationship with the Multilateral Trading System was held at the Palais des Nations, Geneva, from 15 to 17 January 1996. In the course of the Seminar, there were ... formal meetings and ... informal meetings.

### Introductory statements

2. The Chairman said that UNCTAD VIII had requested the Trade and Development Board to review the implications of emerging regional free trade and economic integration agreements for developing countries and for the international trading system and to promote regional and subregional integration, particularly among developing countries, as a complementary way of strengthening the trade liberalization process in the world economy. In response to this request, the Board had decided to convene a Seminar on Regional Economic Arrangements and their Relationship with the Multilateral Trading System. The main purpose of the Seminar was therefore to evaluate the implications of growing regionalism for trade and development of developing countries, as well as for the multilateral trading system, and to explore possible criteria for dealing with them at the multilateral level.

3. Analysis of emerging regional integration and its impact on the developing economies was a most important task and one which UNCTAD should undertake. The view was taken by some that the issue of regional integration could be covered by WTO, but in WTO the issue of regional integration was examined in the context of the application of Article XXIV of GATT 1994 and Article 5 of the GATS, while the issues to be discussed in UNCTAD would be much wider in scope. In addition, the issue of economic integration among developing countries and analysis of the implications of regionalism were of the greatest importance for the developing economies, and UNCTAD was therefore an appropriate forum for examination of the issue of regionalism.

4. The Secretary-General of UNCTAD said that regionalism was here to stay, and that was paradoxical, since, during the Uruguay Round negotiations, there had been a very strong current of opinion that had considered regionalism more as a substitute for the possible failure of the multilateral negotiations than as an historic trend. However, despite the successful conclusion of the Round, despite the foundation of the WTO, and despite the fact that the conclusion of the Round had in some respects made regional integration more difficult than before, existing integration projects had been pursued and new projects had developed, some of them with potentially very far-reaching implications, such as APEC. This apparent contradiction between a multilateral and a regional

approach to trade liberalization thus gave rise to an apparent paradox which deserved consideration by the Seminar.

5. The issue before the Seminar was connected not only with liberalization, but also with the central trend of the world economy today - the trend towards globalization. In that connection, one possible definition of globalization was the trend towards the formation of a unified economic space, and it might therefore be asked whether it was not contradictory to try to create a unified economic space on a planetary level and at the same time to create regional economic spaces, unless those regional economic spaces were seen as building blocks and part of that bigger effort. The issue before the Seminar was not, therefore, only a matter of trade, but also a question of the world economy as a whole, involving investment, technology, money and finance.

6. The explanation for the interest in regionalism lay in a variety of factors, including the fact that integration groupings were an avenue for removing barriers to trade beyond what could be achieved in the Uruguay Round Agreements, as well as the fact that business-sector interest in gaining better market access and enhanced investment opportunities had also been an important force in stimulating Governments to seek new opportunities. But there was also an element of what could be called an insurance policy, i.e. countries were accepting the idea of joining a regional grouping for the first time because they thus felt surer of not being denied access to markets. Another possible reason was the "bicycle effect"; after very intensive trade negotiations, there was a risk of losing much of the accumulated energy or even some retrogression, and one way of keeping up the momentum was through regional initiatives. Beyond those considerations of a more traditional trade or economic nature, however, he also saw very powerful interests of a more political and strategic nature. For example, in the most successful attempt at integration so far, the European Union, powerful political and strategic factors had always been present. Finally, another possible explanation why the predictions that the conclusion of the Uruguay Round would bring about reduced interest in regionalism had not materialized lay in the change in the basic philosophy of the major trading nations regarding multilateralism, which was no longer viewed as the exclusive avenue towards trade liberalization. These nations had developed a more pragmatic approach, in which trading partners would pursue trade liberalization either through multilateralism or through regional approaches, depending on which of them appeared to offer better prospects in the short term.

7. The development of principles and criteria for the behaviour of regional integration arrangements would help to tie these arrangements more firmly to multilateral disciplines. Article XXIV of the GATT had not provided sufficient criteria for assessing the effects of regional integration arrangements on trade

and development, and although the final act of the Uruguay Round had provided a tighter interpretation, additional efforts would be needed in that respect. The same applied also to Article 5 of the General Agreement on Trade in Services. In that context, and with respect to development consciousness, integration groupings should bear a special responsibility regarding their implications for weaker trading partners, particularly developing countries.

8. With regard to regional economic integration among developing countries, he pointed out that this could be an important stepping stone towards the full integration of regional economies into the world economy. A regular partnership dialogue between developed and developing countries could be one promising avenue for identifying possible types of international support for such efforts, and for many developing countries, reaching accommodation within large regional groupings might be a pragmatic and realistic approach. Others might choose the easier option of negotiating bilateral agreements, while still others might be forced to stay outside and to risk marginalization, with a potentially harmful impact on their development prospects. Overall, however, it remained crucial to pursue further the route of multilateral negotiations.

9. In conclusion, he expressed his belief that the Seminar would stake out common ground for assessing and monitoring the implications of regional integration arrangements for trade and development and the mutual trading system and that a stimulating and thought-provoking outcome could prepare the ground for successful work on regional integration issues at UNCTAD IX.

Chapter I

**IMPLICATIONS OF THE DYNAMISM OF LARGE ECONOMIC SPACES:**

- (a) IMPLICATIONS FOR DEVELOPING COUNTRIES REGARDING  
TRADE AND INVESTMENT AND POSSIBLE POLICY RESPONSES;  
(b) EXPANSION INTO NEW SECTORS**

(Agenda item 3)

**REGIONALISM AND THE MULTILATERAL TRADING SYSTEM**

(Agenda item 4)

**SCOPE FOR INTERNATIONAL COOPERATION AND SUPPORT TO  
DEVELOPING COUNTRIES, INCLUDING MEASURES TO STRENGTHEN  
ECONOMIC INTEGRATION AMONG THEM**

(Agenda item 5)

10. For its consideration of these items, the Seminar had before it the following documentation:

"Major new developments in large economic spaces and regional integration processes and their implications: report by the UNCTAD secretariat" (TD/B/SEM.1/2 and Add.1);

"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: report by the UNCTAD secretariat" (TD/B/CN.3/14) (background document);

"The relationship between regionalism and the multilateral trading system" (UNCTAD/ITD/14) (background document);

"Regionalism and Africa's development" (UNCTAD/ITD/18) (background document);

"Rapidly emerging regional integration systems: implications for the Asian developing countries and possible policy responses" (UNCTAD/ITD/19) (background document);

"Large economic spaces: options for Latin America and the Caribbean" (UNCTAD/ITD/20) (background paper).

11. The Officer-in-charge of the Structural Adjustment, Economic Reforms and Enlarged Economic Spaces Branch, referring to the major new developments since 1993 in respect of large economic spaces and regional integration processes, said that potential risks of trade and investment diversion still existed, as high trade barriers remained for certain sectors and other highly important aspects of integration were not sufficiently covered by the WTO and other mechanisms. The secretariat document placed the main emphasis on the more specific implications of the dynamism of large economic spaces, in particular NAFTA and the EU, for developing countries, and the three regional papers elaborated on these implications, with a more specific focus on the perspective of countries in the respective regions.

12. Chapter III of the main secretariat report (TD/B/SEM.1/2), as well as the regional studies, looked into the question as to whether and how developing countries could cope with this new and lasting phenomenon. In this connection, the main recommendations to developing countries were: to rapidly upgrade their competitiveness; to strengthen their own subregional and regional integration groupings; to strengthen national policies for increasing competitiveness and diversifying export patterns towards the new and dynamic markets which frequently lay in other developing countries; and lastly to support prescheduled negotiations within WTO, which would be the most effective route.

13. Concerning agenda item 4, the conceptual issue of the compatibility of regionalism with true multilateralism could be looked at from the angle of an economic comparison of the advantages and limitations of both approaches, the role which integration groupings played in multilateral negotiations, the question of ensuring the consistency of regional arrangements with existing multilateral rules, and the areas where multilateral rules could benefit from clarification and improvement. In this context, the documentation before the Seminar put forward some ideas on how to ensure that groupings were in fact outward-oriented and identified some particular areas where it would be useful to explore the feasibility of clarifying or strengthening existing international rules, for example in respect of rules of origin, preferential government procurement, the conditions for the extension of anti-dumping, etc.

14. In conclusion, he expressed his conviction that the Seminar could make a valuable contribution to clarifying conceptual issues and his hope that it would be possible to suggest modalities for ensuring that regional integration imparted new dynamism to global growth, enhanced trade and development opportunities for all countries, and supported a strong multilateral trading system.

## Chapter II

### ORGANIZATIONAL MATTERS

#### A. Opening of the Seminar

15. The Seminar on Regional Economic Arrangements and their Relationship with the Multilateral Trading System was opened on 15 January 1996 at the Palais des Nations, Geneva, by Mr. R. Ricupero, Secretary-General of UNCTAD.

#### B. Election of officers

(Agenda item 1)

16. At its 1st (opening) plenary meeting, on Monday, 15 January 1996, the Seminar elected its officers, as follows:

Chairman: Mr. T. Tsunozaki (Japan)

Vice-Chairman-cum-  
Rapporteur: Ms. J. Stewart (Jamaica)

#### C. Adoption of the agenda and organization of work

(Agenda item 2)

17. Also at its opening plenary meeting, the Seminar adopted its provisional agenda (TD/B/SEM.1/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Implications of the dynamism of large economic spaces:
  - (a) Implications for developing countries regarding trade and investment and possible policy responses
  - (b) Expansion into new sectors
4. Regionalism and the multilateral trading system

5. Scope for international cooperation and support to developing countries, including measures to strengthen economic integration among them
6. Other business
7. Adoption of the report to the Trade and Development Board

**D. Other business**

(Agenda item 6)

[To be completed as appropriate]

**E. Adoption of the report to the Trade  
and Development Board**

(Agenda item 7)

[To be completed]