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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 items 3, 4 & 5

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

REGIONALISM AND THE MULTILATERAL TRADING SYSTEM

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

Chairman's summary

1. The Seminar attracted great interest and wide participation from all regions, with the attendance of numerous experts from capitals. The debate was lively and benefited from the experiences presented by a number of participants, including many delegates from capitals, and secretariats of integrations groupings, as well as from the comprehensive documentation prepared by the UNCTAD secretariat and several experts. The various agenda items were introduced and the discussions on them were guided by four experts, including two authors of expert studies. Participants expressed their gratitude to the Government of Japan for its financial support for the seminar. This is a summary of some of the issues discussed during the debate.

2. The Seminar, which had been convened by the Trade and Development Board, constituted the follow-up to the deliberations, conclusions and recommendations of the Board at its fortieth session on the evolution and consequences of economic spaces and regional integration processes. Board conclusions 408(XL) had reflected a broad convergence of views on the evaluation of the new features and dynamic

expansion of large economic spaces and their effects on third countries, in particular developing countries. The Board had set out certain broad policy principles and guidelines to ensure that regional integration supported the multilateral trading system, took account of its effects on third countries and assumed special responsibility with regard to its development implications.

3. It was noted that integration groupings have rapidly expanded to new countries and new policy areas, even after the successful conclusion of the Uruguay Round. The reasons for this dynamism include the fact that regional arrangements are able to complement and go beyond what had been possible at the multilateral level. Economic spaces are no longer limited to the removal of tariffs, but have become multifaceted and multi-sectoral, covering a wide range of policies with a bearing on international trade, investment and development. Further driving forces include business-sector interest in gaining better market access and enhanced investment opportunities, as well as fast technological change which requires vast markets to be cost-efficient.

4. The existing large economic spaces and regional integration arrangements are very different in their nature, scope and depth. Such arrangements can have negative trade and investment diversion effects for third countries, but may also stimulate growth of member States and thus create higher demand for imports from outside the grouping. It was noted that estimates of the impact of regional integration arrangements had shown limited net effects on third countries as a whole. Doubts were however raised about the possibility of isolating the effects of integration from other determinants of trade such as exchange rates. It would be important although difficult to identify what the effects on third countries had actually been.

5. Large economic spaces can have positive development effects for developing-country members. But fears were expressed about possible adverse effects on trade and investment of developing countries outside such groupings, as preferential access is a big advantage on the world's largest consumer markets. These risks are particularly pronounced for those developing countries and regions which do not belong to any such large groupings. Some of them belong to the poorest among the developing countries.

6. The Seminar considered various options as to how developing countries could deal with such situations. Strengthening multilateral liberalization was considered to be important. Membership in regional or subregional groupings among developing countries does not provide benefits comparable to those of large economic spaces, but can facilitate access to them. Problems encountered by integration efforts among

developing countries relate to distribution of costs and benefits, scarcity of resources, and political factors such as loss of sovereignty at an early stage. On the other hand, large integration groupings have been instrumental in encouraging subregional integration among developing countries through financial and technical cooperation or the extension of cumulative treatment to groupings under their rules of origin.

7. Joining large economic spaces may constitute an effective policy option, provided that conditions for acceptance and competitiveness can be met. Conditions of reciprocity may be difficult to meet in the short run, even if it is recognized that the donor-recipient type of relations will not be the method for integration in the future. Concrete experiences with cooperation between smaller developing countries and large economic spaces indicate that positive measures taken, such as the GSP and technical and financial cooperation, are not necessarily reflected in increased trade, FDI or industrialization.

8. With regard to weaker trading nations, the importance of strengthening national policies to increase competitiveness and the capacity to respond to the challenges of regionalism was emphasized. Development poles within regional groupings can provide a significant impetus to economic linkages within groupings and to development, provided that appropriate arrangements are made to achieve a better distribution of costs and benefits within the groupings.

9. One expert proposed that groupings taking new steps towards integration should pass on at least part of the mutual preferences to developing countries which are not members in order to mitigate trade diversion effects on them. One way of implementing such a concept would be to improve the GSP. Exports of LDCs should be given duty-free treatment in all sectors. Additional advantages should also be granted to lower-income IDA - eligible developing countries. It was also suggested that the GSP should be made durable in order to provide stability for investment decisions. He further proposed that consideration should be given to providing more rights to non-member countries under GATT. Paragraph 5 of Article XXIV of GATT spells out conditions to be met by customs unions and free trade areas. One of the major restraints is the requirement that trade measures at the time of the formation of a customs union should not be more restrictive than those imposed prior to its formation. The change in duties faced by non-members as compared to members should be taken into account. On the other hand, it was stressed that more rights for non-member countries beyond those already accorded under Article XXIV of GATT would imply a modification of this provision.

10. Several delegations pointed out that large economic spaces are increasingly expanding into new sectors which have substantial implications for third countries and the multilateral trading system. They stated that the spread into non-trade areas brings about a situation where existing multilateral rules focusing on tariffs and trade are not sufficient to regulate groupings' activities and protect third-country interests. In cases where new areas are not covered by multilateral discipline, there is no defense for a non-member in relation to what regional groupings can do. The multilateral system should be able to supervise what regional groupings do.

11. Labour standards, movement of labour, immigration rules and social standards were pointed out as areas where economic integration is progressing and indeed as essential components for reaching socially balanced results. Nonetheless, questions also arise concerning the extent to which integration in these areas may tighten conditions for access to regional labour markets by third countries. Furthermore, attention was drawn to the relevance of the results of the Copenhagen Conference in 1995 and to existing ILO conventions.

12. Regional integration places more and more emphasis on investment and technology. Regional arrangements may comprise preferential liberalization of mutual investments to the extent that this had not been accomplished previously under OECD. For third countries, there may be important risks of investment diversion arising from preferential liberalization or the incentives to invest in large regional markets. Such effects were considered particularly important with regard to the growth prospects of third developing countries. Further analysis is required to determine the extent to which major changes in investment flows to member countries of regional groupings can be attributed to integration or other reasons.

13. In groupings among developing countries, the importance of non-trade issues should be fully recognized. Smaller and least developed countries would gain from integration that pursues dynamic objectives, and cooperation in infrastructure, investment and human resource development can accelerate development. On the other hand, trade within developing-country groupings is a small percentage of total trade, largely because the economic operators are not fully aware of the existing trade and investment opportunities, and partly because of lack of marketing skills. A narrow production base and inadequate transportation and communication links also add to the problem of expanding intra-trade.

14. There was intensive debate about the relationship between regionalism and the multilateral trading system. Rapid progress in regionalism in spite of the successful conclusion of the Uruguay Round can be perceived as a paradox, as the

Uruguay Round had been expected to lessen the need and attractiveness of regional arrangements. A view was expressed that there is a dynamic interaction between regional liberalization and multilateral liberalization, ultimately increasing the degree of liberalization in trade and investment in the world economy, and that this dynamism should be utilized for further progress.

15. Some delegations felt that whether regional integration groupings are stumbling blocks or building blocks for the further development of the multilateral trading system depends on whether they are open and outward-oriented, but there is no guarantee that this will actually be the case.

16. Concerns were raised about the rapidly expanding network of various types of association arrangements with different layers of preferential advantages centred around major trading nations. In reply, it was pointed out that these arrangements imply a dynamic process of liberalization as they are extended progressively to a larger number of countries. This will ultimately facilitate multilateralization of advantages.

17. Many participants favoured a strengthening of the multilateral trading system and the effective application of its rules with regard to regional integration arrangements. It was considered that rules dealing only with tariffs and trade aspects are insufficient to capture the full dimension of such arrangements. Some participants believed that supervision of regional arrangements by the international community should be strengthened. Attention was also drawn to the IMF policy guidelines for regional arrangements: regional arrangements should be in accordance with WTO principles; unilateral liberalization should precede or accompany new arrangements, in particular if MFN tariffs are high; arrangements should remain open to the accession of new members on the basis of clearly defined rules; discipline in the use of anti-dumping and other contingency measures should be strengthened; there should be simple, transparent and liberal rules of origin; and arrangements should engage in deep integration across sectors.

18. It was stressed that regional arrangements must be WTO - consistent. Furthermore, it was proposed that Article XXIV of GATT needs to be further strengthened and reinterpreted in a dynamic manner. One delegation expressed the view that the present relevant WTO provisions are fully sufficient as far as trade is concerned. Existing multilateral commitments under Article XXIV of GATT, Article V of GATS, the Enabling Clause and Part IV of GATT should be observed.

19. Different forms of integration may imply different degrees of openness and outward orientation. One expert explained that APEC has developed a specific

approach to regional liberalization of trade and investment which will rely on such methods as advanced implementation of Uruguay Round commitments on an MFN basis and concerted national liberalization programmes subject to common monitoring. It is intended that APEC concessions will be extended to other developing countries without reciprocity. Sensitive sectors can be dealt with in future multilateral negotiations. APEC will either proceed on an unconditional MFN basis or form a free trade area compatible with WTO commitments. Doubts were expressed as to how far liberalization could progress within an informal and loose framework on a non-contractual basis. It was noted that trade facilitation measures of APEC are being pursued in an open manner which allows even non-APEC countries to participate. One expert expressed the view that, from a certain degree of integration onwards, it becomes difficult to practice the concept of open regionalism.

20. Some delegates held the view that integration in new areas needs to be brought under efficient multilateral discipline. Opportunities need to be provided to third countries to raise their concerns and engage in consultations.

21. The rules evolving within each individual grouping separately regarding investment, labour, the environment and other new areas may lead to discrepancies between them. It may become difficult to adjust them ex post, and some delegates noted that this underlines the importance of providing a multilateral basis for such rule-making at an early stage. On the other hand, regional groupings could be considered as "laboratories" for establishing new rules for application at the multilateral level on the basis of their operating experiences.

22. The issue of regionalism is continuing in nature and will stay on the international agenda. The international community should keep this issue under careful surveillance within the competent international organizations. Apart from WTO, UNCTAD has an important role to play in the continuation of the mandate of Cartagena and conclusions 408(XL) of the Trade and Development Board. Some participants in the Seminar proposed that UNCTAD IX should provide for continuing deliberations on the implications of regional arrangements.

23. It was suggested by some participants that further negotiations on multilateral liberalization and the extension of the scope of the multilateral trading system would substantially alleviate remaining concerns relating to regionalism. In this connexion, the Singapore Ministerial Meeting will provide an important avenue for strengthening the multilateral trading system. The fact that the General Assembly had assigned an important role to UNCTAD in the preparations for that meeting was welcomed.

24. Many delegations stressed the need for international cooperation and support to developing countries to respond to the challenges of regionalism, including measures to strengthen economic integration among them.

25. It was proposed by some participants that further studies should be undertaken to identify and evaluate the positive and negative consequences for members and non-members of new groupings and in particular of integration schemes regarding investment, services and other new areas. It was also suggested that studies should be undertaken of integration processes among economies in transition.

26. Certain participants suggested that support should further be extended to developing countries by integration groupings and competent international organizations in identifying new opportunities that may arise from regional integration and assisting them to make use of them.

27. It was further suggested by some participants that support in respect of evaluating various policy options for developing countries to adjust and respond to the new challenges of regional arrangements should be continued and expanded by UNCTAD.

28. The Seminar noted with interest the presentations by various delegations of national experiences with regional integration among developing countries and in particular the challenges facing developing countries in their integration efforts. The Seminar also benefited from the contribution of representatives from various regional groupings.

29. The need to support the strengthening of subregional and regional integration among developing countries was generally agreed upon. Groupings extended their appreciation for the support they received from developed countries' integration groupings, EU, other bilateral donors, UNCTAD, ITC and other international organizations.

30. In order to exploit the full potential of subregional and regional integration among developing countries, substantial further support is, however, required with regard to strengthening the economic capacities of member States and their ongoing economic and social reform processes and providing the necessary infrastructure for successful integration. Important further aspects where exchange of experience and cooperation are essential include such areas as strengthening the involvement of the private sector in the integration process and devising a satisfactory solution to the problem of distribution of costs and benefits amongst member States.

31. FDI home countries should wherever possible promote investment and joint ventures to strengthen the capacity and industrial base for diversifying production and export patterns, which are indispensable for low-income developing countries to integrate themselves into the regional and world economy.

32. The participants welcomed the extensive support programmes of the EU and Japan's Partners for Progress (PFP) scheme. They also expressed appreciation with regard to the potential residing in the partnership dialogue promoted by UNCTAD as a means of mobilizing support for medium-term programmes and projects in the field of ECDC and subregional integration among developing countries. It also provides an opportunity for enhanced cooperation and coordination of donor countries' activities.