

**REGIONAL BANKS AND REGIONALISM:  
A NEW FRONTIER FOR DEVELOPMENT FINANCING\***  
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## **Introduction**

The 1990s witnessed the parallel forces of globalization and regionalization strongly at work. While seemingly contradictory, they are in fact complementary dimensions of market development. This background paper will focus on the latter, and its special dimension of regionalism; i.e., policy driven regional cooperation. Particular attention will be given to the recent advances and challenges in two crucial dimensions of regionalism: regional trade and financial cooperation. The other important area of concern of the paper is how regional development banks are supporting regional initiatives and identifying emerging issues which they should be preparing to deal with.

The first section clarifies some basic concepts and the underlying development objectives of the regionalism emerging out of the 1990s. This is followed by a review of advances in regional integration and other forms of regional cooperation in Africa, Asia and Latin America and the Caribbean. After this, there is a review of the emerging new challenges in regional integration and the role of regional development banks in supporting the processes. The last section formulates conclusions and some basic questions about the preparedness of the banks to respond to members' demands for support of their regional initiatives.

## **I. Regional Integration and Development**

### **a. The Concept of regional integration.<sup>1</sup>**

Regional integration occurs naturally, albeit very unevenly, during the course of the development of private markets. "Natural" market integration is a process characterized by progressive convergence of economic and social parameters between locals and regions and increasing degrees of interdependence.

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<sup>1</sup> This section draws substantially on Devlin, Estevadeordal and Krivonos (2002).

Regional integration also can be driven by policy-induced regional cooperation, or regionalism. This is the area of concern of the present paper. Formal policy-induced integration can emerge in the economic, social, political spheres. In many developing countries there is a particularly extensive Post-War experience with economic integration. The most typical starting point of economic integration has been creation of free trade areas or customs unions, often with the objective of deepening into a common market or community.

Regional Cooperation between two or more countries also can take place without pretensions of regional integration as such (Belassa, 1961). This more “functional” regional cooperation involves an adjustment of policies and activities between countries to achieve outcomes that the parties prefer to the status quo. Mutually beneficial functional regional cooperation is possible in practically any field of public policy, ranging from security matters to environment, disaster management, epidemiological issues, etc. While functional regional cooperation can and does emerge independently of formal integration processes, it also can constitute a parallel track to a formal regional integration process, or through time contribute to the emergence of such a formal process.

Reciprocal preferential trade agreements are very often the point of departure for formal regional integration for several reasons. First, trade usually attracts support from the relatively well organized and financed private business communities. Second, unlike many other economic arrangements, the mutual benefits of trade agreements and their distribution can be reasonably assessed ex-ante by participants and monitored and enforced ex-post as they usually contain very precise legal clauses, while the institutions for negotiating cross-border agreements and administering them are to some extent already in place. Third, trade agreements accommodate nationalistic sentiments of society as they can be designed in ways that initially involve little concession of national sovereignty, as in the case of free trade areas. Fourth, these trade agreements are subject to certain multilateral rules and procedures in the WTO. On the other hand, the difficulty of negotiating non-trade issues is related to the very nature of such issues: whereas preferential trade arrangements, the typical starting point of formal economic integration, are concerned with *removal* among partners of distorting policies, integration in other economic areas as well as in social and political fields often requires *introduction* of additional policies, which can be more difficult to deal with. Moreover, non-trade areas often have less installed institutional cross-border capacities than the area of trade. Finally, a critical mass of regional trade among partners acts as a “hanger” on which other areas of regional cooperation can be draped.

Indeed, as mentioned earlier, growing and mutually beneficial economic interdependence among partners typically induces demands for additional regional economic cooperation to exploit more fully the revealed advantages of a maturing regional market. Moreover, demands for non-economic and even political cooperation arise from the social externalities generated by closer economic ties. In effect, the centripetal forces of trade among partners can be an effective handmaiden of deeper formal integration whether planned or not. There is the contemporary example of Western Europe where growing interdependence through trade has served to drive forward a political agenda of certain partners of the agreement for very deep integration and broad-based cooperation. In

effect, regional market opening became functional to widening the scope of cooperation, or in the words of Garcia and Glocker (2000), to “integration by stealth”.

Policy-induced financial integration is complex and usually lags integration of goods markets. It involves liberalization/harmonization of money and capital markets to facilitate payments and provide a primary source for medium to long-term securities and debt-instruments, which are essential for investments. As a whole, it includes all capital markets’ institutions, such as commercial banks, private financial institutions, investment funds, insurance companies, etc. (UN, 2001) <sup>2</sup>

While experience has demonstrated that liberalization of goods and services trade is a vital strategic instrumental force in regional integration processes, other forms of regional cooperation can effectively bring countries closer together as well.

### **b. The New Regionalism<sup>3</sup>**

The 1990s witnessed a wave of New Regionalism (Ethier, 1998). The New Regionalism of the 1990s was led by trade agreements with objectives of creating free trade areas or common markets. The big defining difference between the New Regionalism and earlier Post-War experiences was the policy environment. The policy framework encircling the “old” Post-War regionalism in developing countries involved an inward-looking and protectionist/state-led import substitution strategy (often in the context of authoritarian regimes). Meanwhile, the New Regionalism is inserted into a framework of policy reform that promotes open and competitive private market-based economies in a modern democratic institutional setting. Indeed, the New Regionalism is an extension of that very policy reform process.

But perhaps the most dramatic change in character was the gradual shift during the 1990s from the traditional intra-regional focus for integration (“South-South”) to growing interest in interregional (“North-South”) agreements, which link up commercially with industrialized countries in reciprocal free trade (in contrast to the traditional non-reciprocal relationships), often in conjunction with ambitious functional cooperation programs. This is something that would have been politically inconceivable before the new policy framework. This trend is seen in Mexico joining NAFTA; Canadian free trade areas with Costa Rica and Chile; Chilean negotiations for a free trade area with the U.S.; EU FTA/Cooperation agreements with Mexico and South Africa and on-going negotiations with MERCOSUR, Chile and the CARICOM countries; the Western Hemisphere’s Summit Process and Free Trade Area of the Americas (FTAA) negotiations, APEC and Japan’s recent FTA with Singapore.

#### *(i) The Objectives of the New Regionalism*

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<sup>2</sup> Financial integration also can be driven by market forces. Foreign direct investment, the internationalization of financial systems, in particular the banking sector, might generate a “non-institutionalized financial integration” among different economies. As an example, during the 1990s in Latin American and the Caribbean the increasing participation of foreign banks and investment funds has driven a *de facto* integration of financial markets across the region. (Zahler and Budnevich, 1999)

<sup>3</sup> This section draws substantially on Devlin and Estevadeordal (2001)

Developing countries' interest in pursuing regional integration agreements involves more than securing stable access to markets. The broader motive is to strengthen structural reform and the capacity to participate in globalization. This can be seen by examining some of the objectives of the new regional integration.

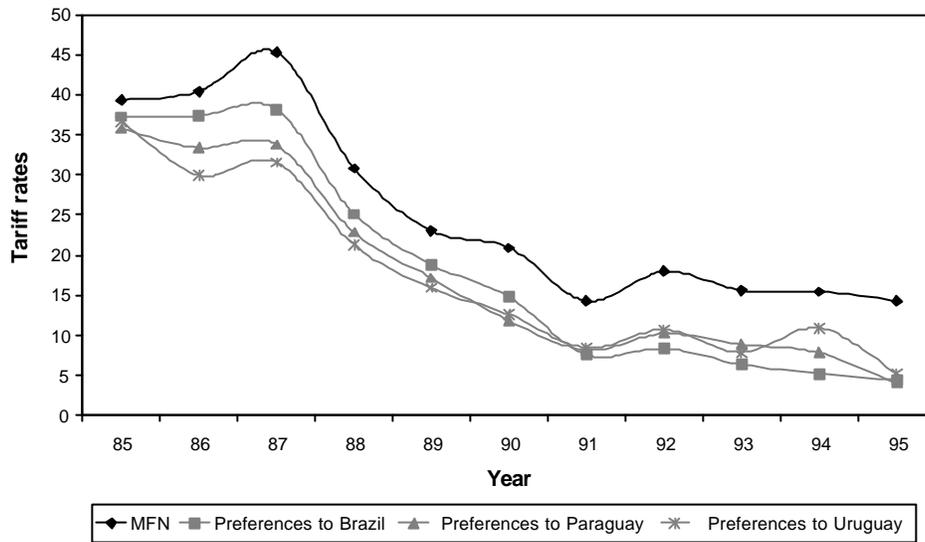
- ?? **Trade Liberalization.** The clearest link to the structural reform process is enhancement of commitments to trade liberalization, which has been a central feature of many developing countries' development strategy. In effect, regional economic integration has become the third tier of a three tier process, with the first two being unilateral and multilateral opening. Moreover, the regional opening is facilitated by political economy considerations: full reciprocity, binding rules-based commitments, and the possibility of signaling liberalizing commitments to the private sector, especially when it is not feasible to pursue unilateral or multilateral opening. The three tiers have worked in tandem to mutually reinforce each other (e.g., see MERCOSUR's Brazil and Argentina in Figure 1). The regional opening goes beyond what can be achieved through the unilateral and multilateral approach, lowers average levels of protection and raises competition. Meanwhile, the commitment to unilateral and multilateral opening gives credibility to the commitments to liberalize more ambitiously at the regional level<sup>4</sup>.
  
- ?? **Institutional modernization.** Regional trade agreements, especially those with deep objectives, or the so-called "second generation" free trade areas which go beyond traditional market access in goods, encourage modernization of institutions directly through the disciplines they introduce and indirectly through the increased demands brought about through regional competition.
  
- ?? **Lock-in.** Regional agreements establish disciplines in a framework of legal rights and obligations and hence are more difficult to retract than unilateral commitments (Fernandez, 1997).
  
- ?? **Export growth and diversification.** Reciprocal opening, guarantees of market access, preferences, etc., provide new opportunities for export and diversification. Regional markets also serve as an outlet to an important array of products like textiles, dairy, meat, food processing, etc., which confront very high levels of international protection.

Figure 1

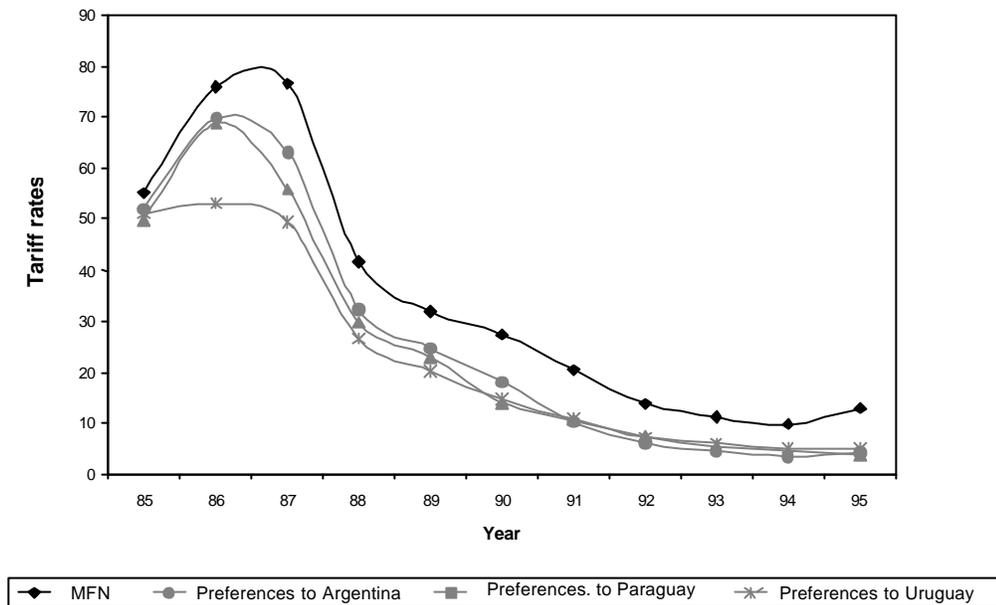
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<sup>4</sup> In Latin America during the 1960s, it was the strong overall commitment to high levels of protection that eroded the credibility of programs to liberalize regionally.

## ARGENTINA (1985-1995)



## BRAZIL (1985-1995)



Source: Estevadeordal, Goto and Saez (2000)

- ?? **Economic transformation.** The New Regionalism is designed to create trade. But regional integration builds on longer term strategic considerations arising from imperfect and incomplete markets at home and abroad, which handicap the spread of efficiency gains in certain sectors and the development of new productive patterns with progressively higher degrees of value-added. (Devlin and French-Davis, 1999). In effect, dynamic transformation effects are sought through the catalyst provided by access to a secure enlarged market, more specific information flows and defined market competition and identifiable export opportunities, all of which can induce investment, greater specialization via economies of scale, product differentiation, increased productivity, competitiveness, employment and growth. In the process, regional integration also can contribute to completing markets in labor, finance, technology, etc.
- ?? **Attraction of Foreign Direct Investment (FDI).** As Ethier (1998) has pointed out, there is now a world-wide competition in developing countries to attract FDI for its potential contribution in areas of export networks, technological and know-how spillovers and institutional modernization. A regional agreement, through the creation of a larger liberalized rules-based regional market, can serve to distinguish member countries and help them compete for, and attract, FDI. (Bloomstrom and Kokko, 1997). Moreover, FDI tends to cluster, so initial success in this area can lead to more.
- ?? **Geopolitics.** A group of like-minded countries can use their regional scheme to, among other things, establish a security network for fragile democracies, promote disarmament and peace among neighbors, and enhance bargaining power in international fora.
- ?? **Functional Regional Cooperation.** The New Regionalism also reflects itself in increased interest in functional regional cooperation in economic, social and political areas to deal with externalities arising from increasing interdependencies in regional and world markets.

The reason developing countries are showing increasing interest in “North-South” agreements is the perception that an agreement anchored by a credible industrialized country will magnify the benefits outlined above.

*(ii) The Potential Costs of the New Regionalism<sup>5</sup>*

Regional integration agreements (RIA) are part of the reform process; they, like any other structural reform, require adjustments which bear costs for the participating countries.

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<sup>5</sup> This section draws substantially on Devlin and French-Davis (1999).

These costs should be minimized where possible. Some of the costs that typically emerge for the participating countries are:

- ?? **Trade diversion.** Preferences (and rules of origin) in regional trade agreements can potentially divert trade away from more efficient locations in non-member countries (Bhagwati and Panagariya, 1996; Yeats, 1996). Some trade diversion is inevitable in preferential arrangements, which has costs for domestic consumers and non-members. This must be weighed against trade creation and the potential for the trade diversion to evolve into cost-reducing and welfare enhancing dynamic transformation effects (Corden, 1972; French-Davis, 1980). Some analysts point out that “North-South” RIAs present less risks of trade diversion than “South-South” arrangements (Venables, 2002).
- ?? **Redistributive effects.** When there are serious asymmetries in the average tariff levels between partners of an economic integration agreement, the loss of tariff revenue in the high tariff country can have a serious redistributive impact between partners (Panagariya, 1996). In effect, part of what would have been realized as tariff revenue on imports from the partner country prior to the agreement is transferred to the partner’s producers as tariffs are eliminated.
- ?? **Asymmetric Impact.** In the absence of corrective mechanisms, the benefits of regional integration are often asymmetrically distributed among partners with concentration in some partners, while others are dependent on uncertain spillovers (Puga and Venables, 1997).

Regional integration also presents risk for third parties:

- ?? An explosion of economic integration agreements with preferences creates a “spaghetti bowl” of different trade and investment rules which reduce transparency and raise administrative costs in world trade (Wonnacott and Wonnacott, 1995).
- ?? While enlarged regional markets and preferences can attract FDI, they potentially could divert FDI from more efficient locations (Winters, 1997).
- ?? The emergence of agreements can create a “gang effect” which leaves outside countries with little option but to join the agreement (Winters, 2001).
- ?? Regional integration could distract attention from, and hence weaken, the multilateral system (Winters, 2001).

An RIA is not an end in itself but an instrument to achieve an objective. Hence an evaluation of the benefits of an RIA, and weighing those benefits against the costs, is the only way to determine whether an agreement makes sense for the participating countries and the rest of the world. Unfortunately empirical evaluation is inherently difficult due to extremely serious gaps in data availability, the complex causality of dynamic productive

transformation effects (where one expects the big numbers to lie) and the methodological difficulties in generating plausible conclusions from “broad” counterfactual analysis.

## II. Trends in Regional Integration

### a. Regional Integration in Africa<sup>6</sup>

Regional integration has been present in Africa’s development strategies for most of the Post-War period. In part as result of the de-colonization process, the number of regional integration initiatives boomed in the 1960s. Today, as reflected in the Treaty establishing the African Economic Community (1994), integration remains a key strategy for overcoming African problems of poverty and scale and promoting economic growth. Nonetheless, most of the earlier regional groupings from the 1960s do not exist today and the record of contemporary agreements in terms of effective economic integration has been, according to the U.N., at best, unsatisfactory.<sup>7</sup>

The current integration landscape of the region consists of a wide array of RIAs of varying design, scope and objectives. There are five subregional integration arrangements that encompass all of the countries of Africa. These are:

- ?? Arab Maghreb Union (AMU) whose five members include all of North Africa<sup>8</sup>,
- ?? The Common Market of Eastern and Southern Africa (COMESA), which includes all but one country of Eastern Africa and parts of Southern Africa<sup>9</sup>,
- ?? The Economic Community of Central African States (ECCAS) whose 10 members encompass all of Central Africa<sup>10</sup>,
- ?? The Economic Community of West African States (ECOWAS), which covers all of West Africa<sup>11</sup>, and
- ?? The Southern African Development Community (SADC) whose 14 members encompass all of Southern Africa<sup>12</sup>.

In addition, there are eight other RIAs that are subsets or part of large RIAs. They include the Central African Economic and Monetary Community (CEMAC), a group of six countries of ECCAS; the Great Lakes River Basin (CEPGL), consisting of three members of ECCAS; the East African Community of COMESA, members Kenya and Uganda and SADC member Tanzania; the Indian Ocean Commission (IOC) grouping 5 countries, 4 of which are in COMESA and one of which (Reunion) is a dependency of France. Others

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<sup>6</sup> This section is based on U.N. (2001).

<sup>7</sup> Many of the problems in Africa seem to reflect the shortcoming of Latin America’s Latin American Integration Association (ALADI): preferences are not universal, only partial and lack permanency.

<sup>8</sup> Algeria, Libya, Mauritania, Morocco, and Tunisia.

<sup>9</sup> Angola; Burundi; Comoros; Democratic Republic of Congo; Djibouti; Egypt; Eritrea; Ethiopia; Kenya; Madagascar; Malawi; Mauritius; Namibia; Rwanda; Seychelles; Sudan; Swaziland; United Republic of Tanzania; Uganda; Zambia; Botswana; South-Africa and Zimbabwe.

<sup>10</sup> Angola; Burundi; Cameroon; Central African Republic; Chad; Congo; Democratic Republic of Congo; Equatorial Guinea; Gabon; Rwanda; and Sao Tome and Principe

<sup>11</sup> Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo.

<sup>12</sup> Angola; Botswana ; D.R.C.; Lesotho; Malawi; Mauritius; Mozambique; Namibia; South Africa; Seychelles; Swaziland; Tanzania; Zambia; and Zimbabwe.

are the Intergovernmental Authority for Development (IGAD) embracing seven countries in the Horn of Africa and the northern part of East Africa; the Mano River Union (MRU) with three countries all of which are members of ECOWAS; the West Africa Economic and Monetary Union (UEMOA) encompassing eight members of ECOWAS; and the Southern African Customs Union (SACU), consisting of five member countries of SADC.

(i) Trade

After decades of market integration policies and experimentation, levels of intra-African trade remain extremely low. On average, trade within African regional agreements has reached only around 8% of their total trade in the last decade. Table 1 indicates that EAC is ranked first among all the RIAs in the proportion of its total trade within the regional arrangement. Africa's most sluggish trade performers are IOC, CILSS and NBI. At the same time, the pattern and direction of commerce continues to be largely oriented towards trading partners in the Western countries, mostly European. On average, African exports to the European Union represented around 43% of their total exports, in contrast with only around 10% for intra-region exports. (IMF, 2001)

Table 1: Africa Intra-regional Trade as percentage of Total Trade, 1989-1999

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	95-98 Average	1999
<b>Africa</b>	6.64 %	7.58 %	7.45 %	7.88 %	8.26 %	8.97 %	9.74 %	10.36 %	10.66 %	10.06 %	10.20 %	<b>10.21</b> %	10.20 %
<b>CEM AC</b>	N.A.	N.A.	N.A.	N.A.	0.78 %	1.91 %	2.57 %	1.79 %	N.A.	N.A.	N.A.	<b>N.A.</b>	N.A.
<b>EAC</b>	N.A.	N.A.	N.A.	N.A.	N.A.	34.69 %	18.06 %	24.55 %	10.74 %	19.97 %	19.27 %	<b>18.33</b> %	19.27 %
<b>ECO WAS</b>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	17.83 %	10.46 %	7.50 %	7.09 %	4.09 %	<b>10.72</b> %	4.09 %
<b>WAE MU</b>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3.47 %	8.59 %	19.83 %	12.59 %	11.99 %	<b>11.12</b> %	11.99 %
<b>SADC</b>	N.A.	45.10 %	47.78 %	1.70 %	2.94 %	4.74 %	8.31 %	4.67 %	3.84 %	3.05 %	3.20 %	<b>4.97</b> %	3.20 %
<b>CBI- RIFF</b>	N.A.	6.63 %	4.93 %	2.38 %	3.18 %	10.65 %	7.38 %	10.80 %	5.28 %	11.08 %	10.73 %	<b>8.64</b> %	10.73 %
<b>CILSS</b>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	1.76 %	0.75 %	2.96 %	5.32 %	1.52 %	<b>2.70</b> %	1.52 %
<b>ECCA S</b>	N.A.	N.A.	N.A.	N.A.	0.92 %	2.13 %	2.82 %	1.86 %	N.A.	N.A.	N.A.	<b>N.A.</b>	N.A.

<b>NBI</b>	N.A.	N.A.	N.A.	0.62	N.A.	3.58	4.79	4.35	2.16	3.94	3.59	<b>3.81%</b>	3.59
				%		%	%	%	%	%	%		%
<b>IGAD</b>	N.A.	N.A.	N.A.	0.52	N.A.	33.70	11.80	18.80	3.49	14.86	31.96	<b>12.24</b>	31.96
				%		%	%	%	%	%	%	%	%
<b>IOC</b>	N.A.	0.85	0.34	1.15	1.51	0.87	1.17	1.35	1.63	1.76	1.33	<b>1.48%</b>	1.33
		%	%	%	%	%	%	%	%	%	%		%
<b>MRU</b>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	0.14	0.06	0.04	N.A.	N.A.	<b>N.A.</b>	N.A.
							%	%	%				
<b>COM</b>		6.55	4.87	2.01	3.12	4.25	4.68	4.25	2.54	3.95	3.43	<b>3.86%</b>	3.43
<b>ESA</b>		%	%	%	%	%	%	%	%	%	%		%
<b>SACU</b>	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	<b>N.A.</b>	N.A.

*Nomenclature: HS6 1992-*

96

Intra regional trade = [(Intra regional imports) x 2] <sup>(1)</sup> (/ [Total exports + Total imports])

*Source: UN (2000)*

<sup>(1)</sup> Calculation in light of data shortcomings on exports.

It is important to note other key features of Africa's intra-trade (Yeats, 1998):

?? The relative importance of intra-regional trade experiences changes frequently due to unstable political conditions, volatile commodity prices and natural disasters. Extreme trade instability has had a negative impact on the prospects for industrialization and growth derived from intra-African commerce.

?? African intra-regional trade is also highly concentrated within sub-regional groups with almost no trade taking place between East and West Africa as well as South and North Africa. That seems to indicate that transportation and cultural barriers are important obstacles to intra-African trade.

?? Intra-regional trade is driven by a few primary commodities; for example, petroleum alone accounts for about one-third of this exchange and cotton, live animals, maize and cocoa add a further 18 percent. In contrast, African intra-regional trade in machinery and transport equipment accounts for less than 4 per cent of this exchange.

?? Almost no intra-industry trade occurs among African countries, or between Africa and developed countries.

A main factor underlying the deceptive history of African trade integration is that the elimination of barriers to intra-regional trade has been, in most of the RIAs, slow and incomplete. As an example, the average rate of actual tariff reduction in COMESA by the end of 2000 was only 66.5% of the agreed tariff reduction plan. Moreover, overall restrictiveness of African trade regimes remains high. The simple average of MFN tariffs in 2000 was 19 percent in SSA, compared to 12 percent in Asia and Latin America. In addition, NTBs in the region have been especially pervasive.

Moreover, Africa displays a real ‘spaghetti bowl’ of regional arrangements, with its multiple and overlapping membership of integration groupings. In fact, eleven African countries are members of at least two regional agreements. Yet at the same time the integration has not generated much trade, diversification or intra-industry specialization.

In addition, many African governments rely heavily on tariffs and other trade taxes for their tax revenues and therefore are reluctant to pursue further trade liberalization. These are the typical difficulties associated with regional integration agreements among small-economies, where losses from tariff revenue elimination offset gains from trade volume increases (Schiff, 1996). Moreover, all the RIAs in the region, with the exception of the EU-ACP, and EU-South Africa, are South-South arrangements.

Finally, apart from the trade-related factors listed above, recurrent domestic political and economic disturbances have seriously hampered trade among African countries.

### *(ii) Financial and Monetary Cooperation*

In spite of the fact that several African agreements have made provisions for macroeconomic policy harmonization and other similar measures, Africa’s prevailing economic conditions have made implementation an extremely complex and difficult task.

High levels of international indebtedness, largely underdeveloped financial markets, and large budget deficits are common features in most of the African economies. These difficulties are only aggravated by economies at different levels of development and liberalization. There is one stock exchange of regional dimension, the BRVM.

Overall, the record of African regional arrangements in terms of financial integration has been mixed. Full monetary and financial integration has been achieved in the monetary unions (CEMAC and UEMOA) as this was part of their structure from the outset. Also, monetary and financial harmonization occurs in the CMA countries through official links between the Reserve Bank of South Africa and monetary authorities of the other members. Other regional groupings, such as COMESA and ECOWAS, have established criteria for macroeconomic harmonization with a view to achieving an economic and financial union. They also have established clearing houses, and regional development banks. COMESA, in particular, has developed guidelines for harmonization of procedures in the capital and money markets. However, it is clear that most of the countries involved in the implementation of convergence criteria implementation are still far from completing some of the targets. As an example, in COMESA almost half of the members were unable to meet the inflationary and external debt targets. A similar poor record can be observed in other regional arrangements. Other RIAs have not yet established such convergence criteria.

## **b. Regional Integration in Asia**

The number and depth of RIAs in Asia is less than other regions. Most of the Asian RIAs are partial preferential trade agreements, or at best, free trade areas. There is no example of customs or monetary unions. Political differences, economic disparities and a past plagued by conflict and war have historically hampered regional cooperation. In East

Asia, in particular, intra-regional trade traditionally advanced by means of a “market-led integration” not as consequence of regional protection (Hosono, 2001).

However, in part as a response to the worldwide wave of RIAs and the negative impact of a common financial crisis, efforts towards regional economic cooperation received new impetus by the mid-1990s. Two East Asian RIAs have dominated the integration efforts in Asia during the last decade: the Asia-Pacific Economic Cooperation (APEC) and the Association of South East Asian Nations (ASEAN). In other Asian subregions, regional integration initiatives have been by far less successful. For example, in South Asia, the South Asian Association for Regional Cooperation (SAARC) has been seriously hampered since its beginnings by the Indo-Pakistani conflict and competing country members’ exports.

*(i) Trade*

The Association of South East Asian Nations (ASEAN) comprises today all the South East Asia countries, Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Even though it was created in 1967, this preferential trade agreement has only started to show some results on trade liberalization since the 1990s. Today, ASEAN is considered as the most important and promising RIA in Asia.

In January 1992, the ASEAN Free Trade Area (AFTA) was established during the fourth ASEAN Summit meeting in Singapore. The original goal of AFTA was to reduce tariff rates on intra-ASEAN trade to between zero and 5 percent within 15 years beginning in January 1993, through the adoption of a Common Effective Preferential Tariff (CEPT) scheme. Later, in September 1994 the planned tariff liberalization was accelerated and expanded by reducing the initial period of 15 years to 10. Vietnam, which joined ASEAN in 1995 and AFTA in 1996, was granted a ten-year implementation period ending in 2006.

Driven by these renewed trade liberalization efforts, intra-ASEAN trade has reached significant levels through the 1990s. On average intra-regional trade has represented around 21% of total ASEAN trade between 1993 and 2000. The importance of the region in ASEAN’s total trade varies across countries, ranging from 35% in the case of Brunei Darussalam to 13% in the case of Philippines.

**Table 2: Asia Intra-regional Exports as percentage of Total Exports**

<b>Intraregional Trade (%)</b>									
<i>% of Total Exports</i>	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
APE	57.8	57.9	67.7	68.3	71.9	72.1	71.8	69.7	71.9

C									
ASE	22.9	18.7	19.8	19.8	25.4	25.4	25	21.7	22.2
AN									
SAA	3.2	4.8	4.5	3.2	4.4	4.3	4	5.3	4.7
RC									

APEC= Australia, Brunei Darussalam, Canada, Chile, People's Republic of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, USA and Vietnam.

ASEA Brunei D., Singapore, Thailand, Malaysia, Indonesia, Philippines, Cambodia.

N= Lao P.D.R, Myanmar, Vietnam

SAARC= Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka

*Source: World Bank (2001)*

Extra-ASEAN exchange is mostly concentrated in developed countries, in particular the United States and Japan. In fact, according ASEAN (2001), trade with the U.S. represented around 18% of total ASEAN trade in 1993-2000. Again, the importance of the U.S. market as destination ranges from only around 7% in Brunei's total trade to around 25% in Malaysia's total trade. Japan closely follows the U.S. as ASEAN's principal trade partner, with around 17% of total trade. The European Union is the third most important partner for the ASEAN countries, comprising around 14% of their total trade. Among developing countries, China has recently acquired an increasing share of ASEAN trade, from around 2% in 1993 to around 8% in 2000 (ASEAN, 2001).

The Asia-Pacific Economic Cooperation (APEC) initiative was launched in 1993 with the goal to promote the free exchange of goods, services and investment among its members as a tool for sustainable economic growth and development. APEC belongs to the new wave of interregional "North-South" RIAs, which link up commercially developing and industrialized countries. Free trade was placed on the APEC agenda in 1994, setting up the very ambitious objective of free trade in the region by 2010 for developed countries and 2020 for developing ones. In 1995, the Osaka Action Agenda established the practical mechanism to achieve that goal: the Individual Action Plans (IAP). The mechanism is quite unique for an RIA in as much as the IAPs are voluntary agreements for unilateral MFN liberalization (i.e., not preferential) in trade and investment. The main criticisms have been that IAPs do not provide liberalization beyond WTO disciplines or already determined domestic liberalization schedules (Bergsten, 1997; Aggarwal and Morrison, 1993).

Combined with national unilateral programs, this regional liberalization effort has resulted in an important reduction in protection levels. In fact, the APEC average unweighted tariff reduction was around 50 percent between 1988 and 1998, from 15.4% to 7.6% (Lee, 1999)<sup>13</sup>. APEC intra-trade levels increased explosively through the first part of the 1990s, but have been hindered by the financial crisis of 1997. Moreover, trade

<sup>13</sup> This must be interpreted with care since the average is affected by extra APEC commitments: the Canada-US FTA, NAFTA, the Uruguay Round liberalization, etc. Thanks to Jaime Zabludovsky for this observation.

liberalization progress has been scant in certain sectors, in particular the so-called “sensitive industries” such as fishing and wood (Feinberg, 2000).

The APEC defines and funds at each year’s Ministerial Meeting work programs for three committees, one sub-committee, ten working groups and other APEC forums. The committees are the Committee on Trade and Investment (CTI), Economic Committee (EC) and Budget and Management Committee (BMC). The CTI aims to create an APEC perspective on trade and investment issues and to pursue liberalization and facilitation initiatives. The CTI is responsible for implementation of the Osaka Action Agenda (OAA), including work on tariffs, non-tariff measures, services, deregulation, dispute mediation, implementation of WTO obligations, investment, customs procedures, standards and conformance, mobility of business people, intellectual property rights, competition policy, government procurement and rules of origin. The core activity of CTI is implementation and enhancement of the Collective Action Plans (CAPs) which are the main vehicle for advancing APEC’s agenda on trade and investment facilitation. The main function of the EC is to analyze economic trends and issues in support of APEC’s trade and investment liberalization and economic and technical cooperation agendas.

In South Asia, attempts also have been made to encourage regional trade under the aegis of the South Asian Association for Regional Cooperation (SAARC), established in 1985. In 1993 a South Asian Preferential Trade Agreement (SAPTA) was drawn up, providing for bilateral reduction in tariff and no-tariff barriers on specified commodities on a reciprocal basis, but with special provisions given to the least developed countries. The ultimate but failed goal for SAPTA was to be realized by 2001 in a South Asian Free Trade Area (SAFTA), based on multilateral tariff reductions. As noted by CSIS (1999), “although tariff concessions have not been negligible, they have been introduced on items that represent no more than 1 percent of the total” of this regional grouping. In sum, the achievements of SAARC and SAPTA in terms of trade liberalization have been modest.

Finally, a new North-South RIA emerged recently when Japan signed its first FTA, with Singapore, and another one may be forthcoming if a Chinese proposal for a Pan-Asian FTA prospers. These new RIAs belong to a recent wave of new bilateral free trade areas and subregional arrangements across the region, in particular among the East Asian countries (Hosono, 2001). In fact, by now there are at least 20 new preferential initiatives at various stages of negotiation, planning and study<sup>14</sup>.

#### *(ii) Financial and Monetary Cooperation<sup>15</sup>*

The financial crisis that affected all the region’s countries has propelled monetary and financial regional cooperation initiatives among the Asian countries. In the immediate aftermath of 1997’s Asian crisis several proposals were advanced in order to strengthen cooperation in those areas. These efforts have been focused on three topics:

**a) Information Exchange and Surveillance:** three initiatives have been taken in this area. First, the Manila Framework Group was established in November 1997. It meets

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<sup>14</sup> See Scollay and Gilbert (2000) for a list of the initiatives as of 2000.

<sup>15</sup> This section draws in large part on ADB(2002).

annually with the presence of deputies from central banks and finance ministries from 14 countries and different international and regional financial organizations in order to provide surveillance reports. Second, the ASEAN Surveillance Process was established in 1998 to monitor policymaking in economics and social issues, and includes provisions for capacity building and institutional strengthening. Finally, the ASEAN+3 Surveillance Process was formalized in November 1999. Finance ministers of 13 countries and the ASEAN Secretary General meet twice a year for policy coordination. Under its framework some provisions have been taken to monitor private capital flows and to establish a regional early warning system.

- b) Resource Provision Mechanism:** Although the original Japanese proposal of a \$100 billion Asian Monetary Fund (AMF), was strongly resisted by countries within the region, the experience of the 1997 financial crisis and its consequences have brought new impetus to the idea of a regional stabilization fund. Recently, in May 2000, the ASEAN+3 launched what is known as the *Chiang Mai Initiative (CMI)*. The CMI has been considered as a potential “first step toward the setting up of a Framework for Regional Monetary Stabilization (FMRS)”<sup>16</sup>, in the way of the initial AMF idea. The Initiative’s main goal is to establish a regional financing arrangement to supplement existing international facilities. Some progress has been made under the CMI Framework. An ASEAN Swap Arrangement was setup, covering all ASEAN members and with funds of around US\$ 1 billion. In addition, a network of Bilateral Swaps and Repurchase Agreements (or BSA) was enacted, including also this time, China, Japan and the Republic of Korea. The BSA’s main goal is to provide short-term liquidity assistance in the form of dollar denominated swaps. Seven BSAs are now in place out of 30 possible. However, it is worth noting that the amounts involved in these initiatives are small compared to total cross-border capital flows. Finally, there are also provisions within the CMI framework to establish repo agreements to provide liquidity through securities trade, among other initiatives.(Sussangkarn, 2000a. and 2000b.)
- c) Regional Exchange Rate Agreements:** in this area, progress has been slower than in the two previous ones. Efforts have been focused more on conducting some detailed studies on implementing concrete steps towards macroeconomic and exchange rate policy harmonization. For example, an ASEAN Task Force on “Currency and Exchange Rate Mechanisms” was established in March 2001. Other regional projects are exploring the potential of monetary and financial cooperation within the region. The Kobe Research Project is an initiative of Asia-Europe finance ministers to promote monetary cooperation in East Asia. Among other studies in the project are those concerned with (i) information exchange, surveillance, regional financing facilities; and (ii) regional exchange rate arrangements and coordination mechanisms. The projects’ ultimate goal is development of a road map for ASEAN+3 cooperation in this area.
- d) Monetary Union:** The primary emphasis of the countries is financial and monetary cooperation; however there are expressions of interest in undertaking some initiating

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<sup>16</sup> Sussangkarn (2000a.)

actions on the issue of a common currency, which in any event is a long term proposition if Europe offers any lessons in this regard.

*(iii) Other Cooperation*

ASEAN and APEC have an extensive array of other regional cooperation programs (See table 3)

**Table 3: Regional Cooperation Programs in Asia**

		Areas of Cooperation					
Agreement Name	Trade-related Cooperation	Non-trade Cooperation					
		Economic	Political	Social and Cultural	Environment	Human Resources and Science & technology	Other
APEC	Deregulation, dispute mediation, implementation of WTO obligations, customs procedures, standards and conformance, intellectual property rights, competition policy, government procurement and rules of origin	Macroeconomic policy, financial stability, structural reforms, economic infrastructure, business facilitation, financial systems, free movement of investments, mobility of business people, capital markets, energy, tourism, fisheries, transportation, telecommunications,	Political dialogue through Ministerial Meetings	Social safety, social development and gender integration	Environmental protection and marine resource conservation	Industrial science and technology, human resources development, knowledge and skills development, information and communications technology and electronic commerce	Emergency preparedness

**Table 3: Regional Cooperation Programs in Asia**

		Areas of Cooperation					
Agreement Name	Trade-related Cooperation	Non-trade Cooperation					
		Economic	Political	Social and Cultural	Environment	Human Resources and Science & technology	Other
ASEAN	Customs, dispute settlement, standards and conformance	small and medium enterprises, agriculture, rural infrastructure, food production and biotechnology Macroeconomic and financial stability, freeing movement of capital, investment facilitation, industrial development, infrastructure, food, agriculture and rural development, forestry, mining, energy, tourism, transport and communication	Political and security cooperation	Human and social development, poverty reduction, women and youth issues, cultural cooperation	Environment	Science and technology, human resources development, information and communications technology and electronic commerce	Combating the abuse and traffic in narcotics and drugs and transnational crime

*Source: Devlin, Estevadeordal, Krivonos, 2002*

### c. Regional Integration in Latin America and the Caribbean

#### (i) Trade

Since 1990 Latin America and the Caribbean has launched more than 20 free trade areas or customs unions with pretensions of becoming a common market or community (See table 4). Initially these agreements were intraregional, but beginning with Mexico's entry into an agreement with the U.S. and Canada, there emerged a wave of interest in North-South type agreements.

**TABLE 4 : LAC BILATERAL AND PLURILATERAL PREFERENTIAL TRADE AGREEMENTS IN THE AMERICAS AND BEYOND**

AGREEMENT	ENTRY INTO FORCE
<i>First Generation Agreements</i>	
Chile-Mexico (ALADI model)	
1992	
Chile-Venezuela	1993
Bolivia-Chile	1993
Colombia-Chile	1994
Chile-Ecuador	1995
<i>Hybrid Agreements</i>	
Chile-Mercosur	1996
Bolivia-Mercosur	1997
Chile-Peru	1998
<i>Second Generation Agreements</i>	
North American Free Trade Agreement (NAFTA)	
1994	
Costa Rica-Mexico	1995
Group of Three (G-3) (Colombia, Mexico, Venezuela)	
1995	
Bolivia-Mexico	1995
Canada-Chile	1997
Mexico-Nicaragua	1998
Chile-Mexico (NAFTA model)	
1999	
Mexico-European Union	2000
Mexico-Israel	2000
CACM-Dominican Republic*	
2001	
Caricom-Dominican Republic*	
2001	
CACM-Chile*	2001
Mexico-El Salvador/Guatemala/Honduras	
2001	
Mexico-European Free Trade Association	
2001	

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\*Pending full legislative approval

Source: IDB (2000)

The major intraregional blocs are MERCOSUR<sup>17</sup>, the Central American Common Market (CACM)<sup>18</sup>, the Andean Community<sup>19</sup>, CARICOM<sup>20</sup> and NAFTA<sup>21</sup>. The CACM, the Andean Community and CARICOM have their origins in early Post-War initiatives and underwent renewal in the 1990s. MERCOSUR and NAFTA were launched in the 1990s. All have objectives of common markets or communities, except NAFTA, which is an ambitious second generation free trade area.

The change in the global policy framework in the region contributed to a fundamental change in the modalities and instruments of regional integration. Liberalization of the regional market paralleled a dramatic reduction of third party external protection as average MFN tariffs declined from an average of more than 40% in the mid-1980s to 12% in the mid-1990s. Moreover, the traditional laborious positive lists for regional trade liberalization were abandoned for more automatic schedules that liberalize the bulk of trade within 10 years, generally with a very limited number of negative lists (Devlin and Estevadeordal, 2001). Meanwhile, free trade objectives began to go beyond traditional goods liberalization to incorporate so-called new issues such as services, investment, government procurement, intellectual property, etc.

As can be seen in Table 5, parallel to the emergence of these agreements, intraregional trade grew considerably faster than extraregional trade, creating commercial and economic interdependencies among many of the countries for the first time in their history. Nevertheless, the U.S. remains the major market for most countries, with the E.U.'s importance increasing the further South one goes (see Table 6). Asia is an important market only for a few countries, but especially Chile.

**Table 5 : Latin America Exports as percentage of Total Exports**

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<b>Intra-regional trade (%)</b>									
	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
MERCOSUR	9.4	11.6	5.5	8.9	20.3	22.7	27.8	25	20.5
Andean	1.8	3.8	3.2	4.1	12	10.3	11.8	13.9	9.3

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<sup>17</sup> Argentina, Brazil, Paraguay and Uruguay, with Chile and Bolivia as free trade associates.

<sup>18</sup> Guatemala, Costa Rica, El Salvador, Nicaragua and Honduras.

<sup>19</sup> Venezuela, Colombia, Ecuador, Peru and Bolivia

<sup>20</sup> Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago and Montserrat

<sup>21</sup> U.S., Canada and Mexico.

**Table 5 : Latin America Exports as percentage of Total Exports**

<b>Intra-regional trade (%)</b>									
	<b>1970</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>
Community									
CARICOM	4.2	5.3	6.3	8.1	4.6	13.3	14.4	17.3	15.3
CACM	26	24.4	14.4	15.4	21.7	22	18.1	15.6	11.6
NAFTA	36	33.6	43.9	41.4	46.23	47.6	49.1	51.7	54.6
G-3	1.1	1.8	1.3	2	3.2	2.4	2.8	2.7	1.8

MERCOSUR: Argentina, Brazil, Paraguay and Uruguay

Andean Community = Ecuador, Peru, Colombia and Venezuela

CARICOM = Antigua and Barbuda, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago and Montserrat

CACM = Guatemala, Costa Rica, El Salvador, Nicaragua and Honduras

NAFTA = USA, Canada and Mexico

G-3= Colombia, Mexico and Venezuela

*Source: World Bank (2001)*

**Table 6: US Market Participation in LAC Trade (%)**

<b>Country</b>	<b>Exports</b>	<b>Imports</b>	<b>Total Trade</b>	
Honduras		88.7	73.1	80.7
Mexico		88.7	73.1	80.7
Venezuela		52.4	37.6	47.5
Colombia		49.8	40.2	45.3
Costa Rica		49.1	50.9	50.0
Nicaragua		37.9	24.2	27.9
Ecuador		36.4	26.0	32.0
Guatemala		36.0	39.6	38.3
Peru	27.4		23.4	25.3
Bolivia	24.0		22.0	22.9
Brazil	23.9		23.1	23.5
El Salvador	23.7		34.2	31.5
Chile	16.5		19.8	19.1
Argentina		11.8	18.7	15.2
Uruguay		7.8	9.7	9.0
Paraguay		3.9	7.2	6.2

*Source: IDB, Integration and Regional Programs Department*

Some of the specific characteristics of the intraregional trade are worth noting:

- ?? The opening up process during the 1990s brought a flood of imports to LAC. Had intraregional trade not grow as fast as it did, there could have been balance of payments problems and more protectionist pressures in the region (IDB, 2000)
- ?? More than half of Latin America and the Caribbean's(LAC) exports of manufactures not based on natural resources go to intraregional LAC markets( IDB, 1998). Hence regional integration is serving as a basis for diversification into more value-added products.
- ?? Excluding NAFTA, there is very little regional trade between the major subregions.
- ?? The array of agreements does create a "Spaghetti Bowl", although this is slightly mitigated by common "frameworks" which encase many of the agreements. There is the NAFTA framework around the Mexican bilaterals, and the ALADI framework around the South American agreements.
- ?? Available empirical studies suggest no evidence of systematic trade diversion (Devlin and Estevadeordal, 2001). But there is limited evidence to suggest that regional markets have provided sectors with opportunities for efficiency gains. Indeed, interindustry trade appears to be a significant dimension of intraregional trade (Integration and Trade, 1999; INTAL, 2000; Taccone and Nogueira, 2001; Echavarria, 1998; Giordano, 2001).
- ?? Except in NAFTA, services trade liberalization in the region has not undergone much liberalization at all. However, the extensive network of Mexican bilaterals does include services, usually in the form of "standstills" and subject to important exceptions.
- ?? The four major LAC subregions (MERCOSUR, CACM, CARICOM, the Andean Community) all have objectives of deep integration and were launched with the formation of a customs union. All have a relatively free circulation of goods, but the common external tariff (CET) is in varying degrees of incompleteness and tariff revenue is still in the national domain. The most advanced customs union is the Andean Community, while Mercosur's CET is in serious disarray.
- ?? The old nemesis of macroeconomic instability has upset some of the integration processes of the 1990s. This instability reflects incompleteness, or gaps, in the structural reform process and shortcomings in the international financial architecture.
- ?? Unilateral action, as opposed to rules-based dispute settlement/compensation, was a characteristic of the old Post War integration and, except in NAFTA-inspired agreements, remains a problem in the New Regionalism.

There are other dimensions of the Latin American experience worth noting:

- ?? MERCOSUR, the Andean Community and CARICOM countries began in the 1990s to negotiate jointly trade agreements with third parties. MERCOSUR and the Andean Community also have worked together to stave off threats to democracy in their respective regions.
- ?? With the exception of Mexico in NAFTA (see below), Latin American and Caribbean attraction of FDI seems to have been primarily driven by national dynamics, including privatizations (ECLAC, 1998). It is still to be determined what the exact power of regional integration has been, but it clearly has been secondary.<sup>22</sup>
- ?? Integration schemes in Latin America and the Caribbean generally have weak institutions and personnel and unstable budgetary support.
- ?? Notwithstanding propensities for unilateral action, and without any hard empirical proof, the authors suspect that regional schemes and collective peer pressure, particularly where there is some form of customs union disciplines, have restrained backtracking on liberalizing commitments.
- ?? Mexico's experience with NAFTA has pointed to potential advantages of North-South agreements and certainly influenced other countries' interest in this type of strategy. Since 1993, goods exports have more than tripled to in excess of \$100 billion, more than 85% directed at NAFTA partners. Mexico's exports also display strong structural change, evolving from petroleum to machines, including growing intraindustry trade with NAFTA partners (Perry, 2001). Trade diversion does not seem to be an issue (Krueger, 1999 and 2000) and risks may have been further reduced by Mexico's FTA with the EU. Foreign direct investment flows jumped from 1 percent of GDP in 1987-1993 to 3 percent in the post-NAFTA period, with little presence of privatization in the latter (López Córdova, 2001). There was some fear that Mexico diverted FDI from the Caribbean Basin, but this was mitigated by the U.S.'s granting of "NAFTA parity" to the area. Redistribution of tariff revenue does seem to have occurred (Panagariya, 1999), although this may be interpreted as payment of "dues" for more secure entry into the North American market. Lock-in effects are evident as NAFTA partners have been spared from some Mexican MFN tariff increases. Meanwhile, the effects of NAFTA have been asymmetrically distributed in favor of the Northern part of the country (Perry, 2001).
- ?? The FTAA process has advanced steadily since its launch in 1995 and is on track<sup>23</sup>. Even though the FTAA is not scheduled to finish negotiations until 2005, it has generated a number of very positive externalities for LAC in terms of capacity building and for the rest of the world in the areas of transparency and customs facilitation (Iglesias, 1999).

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<sup>22</sup> IDB/INTAL is currently supporting studies in this area.

<sup>23</sup> For a detailed analysis of the process see Schott (2001).

?? Regionalism has not diminished interest in the multilateral system. LAC countries were active in DOHA and some were quite instrumental in the launch of a new round. Chile almost was the site of the last WTO ministerial and Mexico will be the site of the next ministerial. Moreover, some trade initiatives such as the FTAA and MERCOSUR-EU will depend on WTO negotiations to complete their agendas.

### *(ii) Monetary and Financial Cooperation*

Advances in formal processes have been very limited. With the exception of NAFTA, there has not been much progress in regional financial services liberalization beyond approval of protocols. The major subregional agreements, all of which have goals of a common market or deeper, are in very incipient stages of macroeconomic coordination and monetary cooperation even though levels of economic interdependence among certain partners is quite significant and there are risks of contagion in relations with international capital markets. CARICOM and the CACM have a regional mechanism to monitor macro and monetary convergence indicators. Meanwhile, MERCOSUR (including free trade associates, Bolivia and Chile) and the Andean Community have established formal targets for fiscal deficits, foreign public debt and inflation. The governments in MERCOSUR also have committed to a review process should a partner fail to comply with the targets. The small islands of the Association of Eastern Caribbean States (part of CARICOM) have a long functioning common currency and central bank.

Other areas of financial cooperation include subregional development banks in Central America (BCIE), the Andean area (CAF) and in CARICOM (CDB) and a Latin American Reserve Fund which provides forms of balance of payments support to the Andean Community Countries.<sup>24</sup> Meanwhile, ALADI has a reciprocal payments system to finance trade among members<sup>25</sup>. The system, designed to overcome foreign exchange obstacles to trade, recently facilitated a \$1.7 billion payment from Brazil to Argentina. More extensive monetary cooperation is hindered by the fact that no LAC country has a hard currency or an abundance of reserves.

### *(iii) Other Cooperation*

One interesting development is the emergence of important intersubregional and interregional functional cooperation. The South American countries have joined together in a South American Regional Infrastructure Initiative (IIRSA) to coordinate and finance environmentally sustainable and development-oriented regional infrastructure projects. Mexico and Central America have joined together in the Puebla-Panama Plan, which is a comprehensive initiative to cooperate in the development of regional infrastructure and tourism, and pursue functional cooperation in the preservation of the environment, natural disaster control, and human resource development.

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<sup>24</sup> The CAF and the Reserve Fund have recently extended membership to countries outside the Andean subregion.

<sup>25</sup> Latin countries in South America, Mexico and Cuba.

The four major subregions have functional cooperation mechanisms in the economic, social and political areas. The network of mechanisms is quite extensive in CARICOM and the CACM, and in all cases these mechanisms are of highly varying intensity and effectiveness.

Ambitious North-South functional regional cooperation initiatives have also become prominent: the Western Hemisphere Summit Process, the EU-Latin American and Caribbean Initiatives, and APEC each involve more than 20 areas of functional regional cooperation among participating countries (Examples are presented in tables 7 and 8 of Cooperation in the Hemisphere and with the E.U.)

Table 7: **MIAMI SUMMIT AREAS OF ACTION**

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<u>PRESERVING DEMOCRACY</u>
Protecting Human Rights
Invigorating Community Participation
Promoting Cultural Values
Combating Corruption
Combating Illegal Drugs Crime
Eliminating Threat of Terrorism
Building Mutual Confidence

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<u>ECONOMIC INTEGRATION AND FREE TRADE</u>
Free Trade of the Americas
Capital Markets Development and Liberalization
Hemispheric Infrastructure
Energy Cooperation
Telecommunications and Information Infrastructure
Cooperation in Science and Technology
Tourism

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<u>ERADICATING POVERTY</u>
Universal Access to Education
Equitable Access to Basic Health Services
Strengthening Role of Women in Society
Encouraging Microenterprise and Small Business
Creation of an Emerging Development Corps

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<u>SUSTAINABLE DEVELOPMENT</u>
Sustainable Energy Use
Partnership for Biodiversity
Partnership for Pollution Prevention

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*Source: Devlin (2000)*

**Table 8: Mercosur-EU Interregional Association Agreement  
Areas of Negotiation**

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Political Dialogue including:

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Peace and Stability  
Confidence and Security Building Measures  
Protection of Human Rights, Democracy and Rule of Law  
Sustainable Development  
Action on Drug Traffic, Arms Traffic, Organized Crime and Terrorism

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COOPERATION

---

*Economic*

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Industrial Cooperation  
Technical Regulations and Conformity Assessment  
Services  
Investment Promotion  
Macroeconomic Policy  
Scientific and Technological Cooperation  
Energy Cooperation  
Transport  
Telecommunications  
Agriculture  
Fisheries  
Customs Procedures  
Statistics  
Environment  
Consumer Protection  
Data Protection

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*Social and Cultural Cooperation*

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Social Cooperation  
Education and Training  
Social Dialogue  
Drugs and Organized Crime

**Table 8: Mercosur-EU Interregional Association Agreement  
Areas of Negotiation (contd.)**

Culture

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*Financial and Technical*

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Public Administration Modernization

Inter-institutional Cooperation  
Cooperation on Regional Integration

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*Trade*

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Group 1 Market Access (broadly deferred)  
Group 2 Services, Intellectual Property, Investment  
Group 3 Government Procurement, Competition and Dispute Settlement

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*Source :Devlin (2000)*

### **III. On the Frontier of Regional Integration: Future Challenges**

Notwithstanding the encouraging instrumental focus of the New Regionalism, and some important advances in the 1990s, at the beginning of the 21<sup>st</sup> Century many developing countries find themselves in the shadow of major challenges in trade and regional integration, challenges that will define the rules of the game in commercial, economic and even political relations with their neighbors and the rest of the world over the coming decades. Also, growing externalities due to regional and international market integration have raised demands for cooperation in non-trade areas. Confronting these challenges successfully will create many opportunities for enhanced economic growth, development and poverty reduction, while failure to do so would have significant negative economic and political repercussions.

The challenges are formidable in both scope and depth. This is best expressed by reviewing the multiple fronts in which countries are undertaking initiatives

#### **a. The Strategic Fronts of Activity**

##### *(i) South-South Integration Initiatives*

Many South-South RIAs and their member countries are engaged in an effort to preserve their hard won gains in regional trade liberalization in the face of protectionist pressures at home on account of domestic economic/political problems and a world economic recession abroad. Macroeconomic political instability in domestic economies is a major enemy of regional integration—above all in early stages—as it turns attention away from collective purpose to more narrow domestic problems (Machinea, 2002). Many RIAs are struggling to consolidate common external tariffs on the road to developing real customs unions, this latter promising to, inter alia, facilitate trade and complete a necessary stage for achieving the goal of a common market or community<sup>26</sup>. Credibility regarding the rule of regional law is another fundamental challenge because without it investment in the regional market will be below potential and skewed to the larger market members at

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<sup>26</sup> The benefits of a customs union is clear, but the institutional hurdles are formidable: a common customs and tariff collection/distribution system with a regional authority able to administer the system.

the expense of balance, equity and ultimately the stability of the pact. Then there is the need to greatly strengthen the regional institutions, their personnel and finance, and local counterparts to support these objectives. Finally, political sensitivities concerning the potential benefits of regional integration must be raised in regions like Asia that have a limited tradition in the practice of regionalism (ADB, 2002).

The above are all quite basic foundations for economic integration which many RIAs are still grappling with. However, superimposing itself on the fundamental challenges is a new emerging agenda for deepening that is becoming increasingly relevant for harvesting fuller benefits from existing commitments and increasing the socio-economic returns from regional integration. Moreover, this future road to regional integration is much more challenging because it involves complex multisectoral and multidisciplinary regional cooperation with increased institutional and political demands:

- ?? Overcoming the limited coordination in the development of regional infrastructure as well as border development<sup>27</sup> is essential for the competitiveness of the regional market, and to maximize the benefits and distribute them more equitably among the population.
- ?? Eliminating non-tariff barriers and dysfunctional regulatory asymmetries in regional markets will significantly enhance the development effects of integration, but are very difficult measures to pursue as these impinge directly on domestic policy.
- ?? While regional integration is designed to attract FDI, without harmonization of fiscal incentives costly “investment promotion wars” can sour collective commitments.
- ?? Advancing in financial services integration is especially important for development of regional capital markets. However, financial markets, even more than goods markets, can be an important transmission mechanism of external shocks, or contagion, among a region’s economies. Therefore, financial integration demands a set of essential pre-conditions or requirements. (Machinea, 2002; Zahler and Budnevich, 2000; and Zahler, 2001). Especially important is strengthening and eventually harmonizing regulations of the financial system. This should include convergence to world class disciplines with similar capital and liquidity requirements among partners as well as minimum time mismatches between assets and liabilities as a way to constrain short term borrowing by banks. Different regulations in an integrated financial market would result in changing locations of financial institutions within the region (Machinea, 2002).
- ?? Cooperating in the area of macro economic policy also is difficult, but increasingly necessary where partners have attained a significant degree of economic interdependence through trade, investment and risks of financial contagion. One of the major threats to regional integration is macroeconomic instability in partner countries. Macroeconomic stability is a national responsibility. However this can be encouraged through collective commitments. Developing relevant convergence targets (inflation, fiscal deficits, external debt, external current account deficits, etc.)

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<sup>27</sup> Border development is an important, but often overlooked strategic component of regional integration. Borders often encompass a mini “subregion”, the development of which is truncated by a national border divide which houses dysfunctional regulatory asymmetries and creates coordination problems between authorities on each side of that divide. This is unfortunate since border areas are primary channels for trade and often represent serious pockets of poverty (See Pardo, 2001, for the example of the Andean area).

and corresponding collective data bases, realistic systems to provide surveillance and incentives for compliance all are new areas of work. Regional payments systems for trade and balance of payments cooperation also are instruments that can contribute to stability (Machinea, 2002).

?? While currency unions are usually considered only appropriate for conditions of optimal currency areas, experience also shows that unions can endogenously drive integration processes. Hence, perfecting these unions where they exist, or building a strategic road map for eventual currency union, can also have a place in RIA's with deep objectives.

Functional cooperation, which may or may not be encased in a formal South-South RIA, is a growing area of interest in the world of New Regionalism and should not be overlooked. In view of the integrating forces of the world economy and externalities it creates among countries, functional cooperation can be expected to be a growth industry even among countries without formal integration objectives. An especially ripe area in volatile developing economies is functional cooperation in the macro finance and monetary areas.

#### *(ii) North-South Initiatives*

As mentioned, developing countries have shown increasing disposition to link up with industrialized country markets in free trade areas. As mentioned earlier, countries are undertaking the challenge of integrating with industrialized countries in order to, *inter alia*, secure access to major export markets, anchor economies and attract foreign direct investment as well as to "import" institutional modernization. Indeed, just focusing on market access, models suggest that agreements such as the FTAA or E.U.-MERCOSUR would provide significant export and growth opportunities (Watanuki and Montegudo, 2001). However, compared to South-South RIAs, trade liberalization in these agreements' have much stronger implications for competition, redundant capital and labor and fiscal revenue loss; they also invariably push the envelope on some of the so-called new second generation trade issues and politically sensitive areas such as labor and environmental standards.

Another complex dimension of these agreements is that they often have a comprehensive multidisciplinary functional cooperation agenda parallel to the FTA . In principle this is an extremely useful complement given the strong asymmetry in levels of development. However, as mentioned, functional cooperation has much less cross-border experience than trade negotiations. Successful regional cooperation requires an effective architecture involving clear objectives, work programs and defined outputs; monitoring and follow-up as well as effective mechanisms of evaluation; and adequate financial and technical support. All this has proven elusive in many cases, eroding the credibility of the trade and cooperation nexus that the initiatives promise to construct (Devlin, 2000; Devlin Estevadeordal and Krivonos, 2002)

#### *(iii) Multilateral Initiatives*

As mentioned, trade is usually a core component of regional integration. RIA's are subject to multilateral rules and those rules attempt to enhance regionalism's articulation with the rest of the world. Doha launched a new round in the WTO, which is ambitious in scope and content. It also includes negotiations on regional issues. This is the third front that must be attended to.

Another complexity, cross-cutting in nature, is that many of these initiatives have their own strong *raison d'être* and moreover are vital complements, making it strategically difficult to focus on one at the expense of the other. Since regional agreements are by definition WTO+ and apply to a limited group of like-minded countries, they are a separate product from that which is produced in the multilateral system, involving more than 140 countries. Yet the two processes have strong positive synergies. For instance, the Doha launch will help regional initiatives like the FTAA and the various EU-Latin America and Caribbean negotiations to complete certain negotiation items. An example is reduction of distortions in agricultural trade which would be difficult or impossible to do without negotiations at the multilateral level. Moreover, since the WTO is the baseline for regionalism, the strengthening of the multilateral system and its rules spills over to create stronger regional arrangements. Meanwhile, as was witnessed in the NAFTA negotiations, ambitious regional agendas are catalysts for advancing the scope and depth of multilateral negotiations. Indeed, innovations in regional negotiations often serve as a laboratory for the multilateral system.

Just as regionalism and the multilateral system are not substitutes, nor are many of the regional agreements. For example, the FTAA is a major opportunity for Latin America and the Caribbean, but it is not a substitute for deepening of subregional integration. The subregional schemes have deeper common market objectives and are driven by more than business. Indeed, a subregional agreement can attend to local interests and opportunities which could not be easily replicated by a hemispheric "hypermarket" such as the FTAA. Moreover, moving beyond free trade to a common market would allow member countries to combine their factors of production more effectively to compete in the FTAA. Likewise, the FTAA and the EU negotiations are not substitutes since each offers vital market access and involves a unique trade-cooperation nexus with major market and political partners.

The challenges of the multiple initiatives emerging out of the New Regionalism encompass: (i) preparedness for negotiations; (ii) implementation of agreements and (iii) adjustments both at the macro and sectoral levels.

Good and sustainable agreements require good negotiations. As developing countries pursue multiple agreements with industrialized countries, many of them find themselves in an asymmetric position regarding capacity to negotiate, both in terms of the skill and numbers of negotiators vis-à-vis agenda items and their complexity, as well as in terms of information and support services of a logistical and technical nature. Moreover, as governments are operating in democratic settings, there are urgent demands to develop formal mechanisms of consultation with civil society during the course of negotiations. Given that many countries are negotiating in subregional blocs, all these demands can involve a degree of intergovernmental coordination not seen before. In Latin America and the Caribbean, for example, many trade ministries operate in an institutional milieu

more reflective of an era when trade was not so central to the region's development strategy and those trade negotiations that did take place were with neighbors of a roughly similar capacity.

Second, it is one thing to negotiate an agreement and another is to implement. Developing countries have displayed institutional weaknesses in implementation at the regional and multilateral levels. The new issues of the multilateral system go beyond the traditional area of tariffs to affect domestic policy, legislation and institutions. Agreeing to disciplines but not effectively implementing them can lead to under-exploitation of opportunities, trade and investment disputes and even political problems. Countries also have witnessed difficulties in implementing intraregional agreements in those areas that go beyond trade in goods, which has stalled agendas for deepening and created loss of momentum and even backtracking. For countries to successfully implement there is need to augment available national resources for this purpose, strengthen regional institutions and their national counterparts and train personnel. .

Third, integration and trade agreements create demands for adjustment. These adjustments are magnified when involving large industrialized countries because very different levels of development bring about marked changes in competition and relative prices. Countries need to confront macro adjustments such as efficient substitution of tariff revenue for other sources of fiscal income and protect against surges of capital flows *cum* overvaluation of exchange rates in order to maintain macroeconomic stability and competitiveness. At the micro level firms and sectors need a supportive environment to compete and labor markets will need social protection networks and retraining<sup>28</sup>. All these adjustments , of course, complicate the on-going structural adjustment process, which , as mentioned earlier, is in many cases very incomplete and already the cause of serious vulnerability on the external front.

#### **IV. The Role of Regional Development Banks**

Regional integration and functional cooperation are a type of impure public good<sup>29</sup> that can be coined a "regional good". In a pure market environment the production of regional goods is inherently difficult and suboptimal. This is because from an individual, or national, point of view benefits are to a significant degree non-exclusive and indivisible (not fully internalized). Moreover, there are coordination, or collective action, problems among actors arising from informational asymmetries and political and institutional limitations on establishing certainty regarding commitments (Devlin, Estevadeordal and Krivonos, 2002)

It is the public goods dimension of regional integration and functional cooperation that makes support action of regional institutions so vital.

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<sup>28</sup> Schott (2001) analyses readiness and adjustment issues for Latin America and the Caribbean's entry into the FTAA.

<sup>29</sup> A pure public good is non-exclusive and indivisible, while an impure public good is only partially so (Sandler, 1992).

Regional Development Banks traditionally have had national rather than regional focuses for their financial and non-financial products. The **Inter-American Development Bank** (IDB) has had a mandate to support regional integration since its inception. Its 8<sup>th</sup> Replenishment restated regional integration as a primary objective and regional integration is one of the 4 pillars of the Bank's new Corporate Strategy. The Bank has always had a unit in Headquarters dedicated to the issue of regional integration and since 1995 an entire Department. That unit has had the task of preparing regional programming (regional support strategies) for the Bank and has been markedly reinforced since 1995. Since 1965 the Bank also has had an institute in Buenos Aires (INTAL) dedicated to supporting training, research and more recently regional technical cooperation projects. Notwithstanding its special attention to regionalism, IDB activity is overwhelmingly nationally oriented. Loans for regionalism are about 2% of nearly US\$ 8 billion of authorizations and non-reimbursable Regional Technical Cooperation is about US\$ 12 million annually.<sup>30</sup>

During the 1990s the Bank's support of subregional integration strategically centered on consolidating market access issues, an essential first step in the formation of regional markets, and supporting functional cooperation in diverse areas of the structural reform agenda. Country lending has also been supportive, especially in the areas of infrastructure and structural reform programs. The Multilateral Investment Fund (MIF) has had extensive programs supporting convergence to modern regulatory frameworks.

Since the mid-1990s the IDB has developed a new niche in the support of regional cooperation. With the emergence of the Hemispheric Summit Process in 1995 governments requested that the Bank provide technical and financial support. In the case of the FTAA this was carried out along with the OAS and ECLAC (the three institutions have a Tripartite Committee). The novelty is that not only did the Bank contribute resources through a traditional regional technical cooperation project, but it directly executed the projects out of Headquarters and complemented that with direct expert staff support as well. The Bank's "FTAA team", working in the context of the Tripartite Committee, has provided well received direct technical support to the negotiation tables as well as the FTAA 's temporary Administrative Secretariat (which it helps finance). These services have leveled the playing field by ensuring homogeneous support to governments with very different institutional capacities, and has contributed to the remarkably steady pace of progress since the launch in 1995. When the Bank received requests from governments to support the South American Regional Infrastructure Initiative and the Puebla-Panama Plan, it borrowed from its FTAA experience to provide somewhat similar modalities of support services(collaborating with CAF and FONPLATA in the former and ECLAC and BCIE in the latter). By establishing priorities for support of functional cooperation programs in the Hemispheric Summit Process (IDB, 2001), the Bank also indirectly signaled the need for the Process to do so as well.

Among other innovations are:

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<sup>30</sup> The second figure is an underestimate because it does not include national loans which facilitate integration, e.g., roads. In the mid-90 available Regional Technical Cooperation was US\$ 50 million annually. These resources fell off sharply after the HIPIC.

- ?? The establishment of a Special Loan Facility to allow for wholesale modernization of national trade-related ministries,
- ?? An agreement with the WTO Secretariat to finance their training courses throughout the region,
- ?? Establishment of Regional Policy Dialogues in 7 areas<sup>31</sup> whereby twice a year high level policy makers deliberate in Headquarters on national and regional issues with the Bank covering the cost of technical and logistical support.
- ?? A program of high profile visiting scholars in the Bank to explore policy responses to many of the challenges listed above.
- ?? Special attention to border development issues and identification of projects.
- ?? Creation of a Japan Program designed to bring Asia and LAC closer.

The **Asian Development Bank (ADB)** is a multilateral development finance institution for Asia and the Pacific, established in 1966. The ADB is mandated to promote regional cooperation by its Charter, which provides that ADB should give priority to regional, subregional, and national programs and projects that contribute most effectively to harmonious economic growth of the region. The ADB's *Long-Term Strategic Framework for 2001-2015* identifies support to regional cooperation and integration for development as one of three cross-cutting themes that will both broaden and deepen the core areas of ADB's intervention.

Specifically, ADB's support to regional cooperation and integration for development reflects the need to: a) support the development of ADB's developing member countries through cooperation, b) provide wider development options through greater access to resources and markets; c) address shared problems that stretch across borders; and d) take advantage of opportunities for sharing knowledge and information.

ADB supports a number of broad-based regional and subregional cooperation initiatives to accelerate the development of participating countries. The Greater Mekong Subregion initiative, however, is the most prominent example. ADB has also led regional cooperation efforts in South Asia and Central Asian Republics. Under its policy supporting regional cooperation, the ADB has provided considerable support through regional technical assistance and complementary project investment in national infrastructure to promote and realize cooperation among its DMCs. Regional Technical Cooperation funding is about US\$ 12 billion annually. Recently, ADB's Regional Economic Monitoring Unit initiated the process of regional economic monitoring to complement economic and financial surveillance at national and global levels. This ADB Unit is also supporting the ASEAN Surveillance Process. A number of the macroeconomic and monetary cooperation initiatives outlined in the earlier section on Asia also received ADB support.

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<sup>31</sup> Trade and Integration, Macroeconomic Policy, Poverty and Social Protection Networks, Education and Human Resources, Transparency and Public Policy Management, Management of National Disasters and Environment.

The promotion of economic cooperation and regional integration has been an integral part of the activities and goal of the **African Development Bank (ADB)** since its inception<sup>32</sup>. Recently, the ADB has strengthened this commitment in its strategic operational document “A Re-Invigorated Bank: An Agenda for Moving Forward”, which emphasizes regional integration as one of the focal points of the Institution. In pursuit of this renewed mandate, the Bank has collaborated with other regional and international institutions, financed regional integration studies, and supported financing for regional projects and programs. In cooperation with other institutions, the ADB has supported the creation of a joint ADB/ECA/OAU Secretariat, which coordinates those organizations’ development efforts and initiatives. In addition, the ADB has financed several studies aimed at facilitating regional integration. One of the most important initiatives recently launched by the Bank has been the Cross Border Initiative (CBI). Together with the World Bank, the IMF and the European Union, the ADB is creating a program aimed at promoting trade liberalization and investment and encouraging policy harmonization among the 14 participating countries in Eastern and Southern Africa and the Indian Ocean. The ADB also has played a key role in the establishment of regional institutions, such as the Shelter Afrique, the Africa Project Development Facility (APDF), the African Management Services Company (AMSCO), among others. In addition, the Bank also established the Association of African Finance Associations (AAFFA) to foster cooperation among national financial institutions on a regional basis. Finally, the ADB has assisted in the development of regional infrastructure projects.

## V. Conclusions and Questions

Since the early 1990s there has been an important renewal of integration processes in developing countries. Even areas like Asia, which traditionally has not shown great interest in formal regional integration, have pursued important collective initiatives. Moreover, this New Regionalism generally is being approached in a way that is instrumental to structural reform and a more effective insertion into a globalizing world economy.

Latin America and the Caribbean seems to be the most advanced in these processes; Africa has many initiatives, but unsatisfactory results, while Asia has lurched forward with ambitious initiatives and appears to be the most advanced in financial and monetary cooperation. How far this latter cooperation can go without deeper reciprocal commitments to free trade is a matter that remains to be seen, although indications are that this may advance as well.

While overall progress is encouraging, many of the fundamental first steps of a regional integration process exhibit serious shortcomings at a time when growing interdependence in the regional and world economies has created demands for more complex forms of regional cooperation such as those in the monetary and financial areas. The new North-South initiatives such as the FTAA are placing great demands on the countries due to the complexity of the issues, the magnitude of the external opening that will be demanded, and the fragility of many of the economies in a period of slow world economic growth

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<sup>32</sup> This description of activities is based on ADB and ADF (2000).

and restrictions on access to private credit for emerging markets. Furthermore, in November 2001 the comprehensive Doha negotiation has been added to every countries trade agenda.

In many cases the regional, North-South and Doha agendas all have their *raison d'être* and moreover exhibit positive synergies, making it difficult, if not impossible, to pick and choose among them. The agenda will clearly tax capacities in negotiation and implementation and require important adjustments at the macro and micro level.

How prepared are regional banks to support countries?

- ?? A starting point for successful regional integration is pursuit of structural reform at the national level. How successful have regional development banks been in supporting consolidation of structural reforms and macroeconomic stability and growth in their member countries? Have national programs and bank policies assisted countries' preparation for regional integration, especially the North-South type? For example, have national programs tackled emerging regional issues such as transparency in government procurement and strong prudential regulation in financial markets?
- ?? Has each regional bank developed a comprehensive vision of the role of regional integration and functional cooperation in the development of their respective geographical areas? Given the broad spectrum of possible areas of support, have they established strategic priority actions?
- ?? Are the internal structures of the banks appropriate for providing support? Regionalism clearly is still a boutique activity in regional banks and can easily fall between the cracks of large nationally-based support programs. The IDB, in order to nurture and mainstream support for regionalism, has established a special Department to serve as a focal point for identifying support of regional initiatives.
- ?? Do the banks have a regional programming/ support strategy exercise similar to the programming that is typically developed for national activities? Are regional and national support strategies sufficiently articulated to maximize synergies and consistency between national and regional programs?
- ?? Is regional integration, trade and functional cooperation mainstreamed in the banks' national programs? Have the banks created forums for national dialogues on regional policy issues in a way that is traditionally done for national policy? Are the banks proactive or reactive to the demands of regional integration?
- ?? Given the public goods nature of regional integration, non-reimbursable funding can be an important tool to "grease" incipient collective initiatives. How adequate are these resources -especially after HIPIC- in view of the greatly enhanced interest in regional integration?
- ?? In the face of the debate over regionalism and the real costs that can emerge when it goes array: do the banks have an internal capacity to evaluate the impact of regional processes and effective methodologies to evaluate the impact of specific regional integration projects, particularly non-reimbursable regional technical cooperation?
- ?? Do the banks need new financial products for regional integration, e.g., a regional lending instrument?
- ?? Are the banks developing new non-financial products to support regional integration?

- ?? Are the banks sufficiently coordinated with other donors supporting regional initiatives? In view of the scarcity of non-reimbursable resources, can and should the regional banks assume a leadership role in coordinating other donors interested in supporting regionalism?
- ?? In view of the need to maintain a complementary relationship between regionalism and the multilateral system, do regional banks have a working relationship with the WTO Secretariat? Should regional banks be in the Integrated Framework and what is their potential value-added to that Initiative?
- ?? Can and should the regional banks condition support for certain national programs by compliance with regional commitments? Alternatively, can banks encourage regional commitments by linking them to “additionally” in the national loan pipeline?
- ?? Do the regional banks have a systematic way of regularly exchanging experiences and best practices in the art of supporting regional integration?
- ?? Can the regional banks help the IMF generate a view of regional dynamics and be better informed and sensitive to regional programs/objectives in the design of their national stabilization programs.? Can regional banks play a supportive role with the IMF in regions that are pursuing systems of macroeconomic coordination and monetary cooperation?

[See comment on this paper by Gary Hufbauer](#) <link to comments on 1>

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