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Regional Economic Integration: Selected Issues

Paper prepared for the Special Session On Integration Processes in the OSCE Region of the 12th OSCE Economic Forum (Prague, 31 May - June 4, 2004)

Regional integration is above all a co-operation exercise for the sake of peace and prosperity:

"I am now going to say something that will astonish you. The first step in the re-creation of the European Family must be a partnership between France and Germany… The structure of the United States of Europe, if well and truly built, will be such as to make the material strength of a single state less important. Small nations will count as much as large ones and gain their honour by their contribution to the common cause."
Winston Churchill's speech excerpt, Zurich University, 19-9-1946.

"The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States."
Article 2 of the TREATY ESTABLISHING THE EUROPEAN COMMUNITY, as amended by Article G(2) TEU.

The Commonwealth of Independent States is formed on the basis of sovereign equality of all its members. Member states are independent and equal subjects of the international law. The CIS serves the further development and strengthening of relations of friendship, good neighbourhood, inter-ethnic accord, trust and mutual understanding and co-operation between states.
CIS Secretariat web-site. http://www.cis.minsk.by/

"The Government of Canada, the Government of the United Mexican States and the Government of the United States of America, [are] resolved to:
STRENGTHEN the special bonds of friendship and co-operation among their nations;
CONTRIBUTE to the harmonious development and expansion of world trade and provide a catalyst to broader international co-operation; […]
CREATE new employment opportunities and improve working conditions and living standards in their respective territories."
North American Free Trade Agreement, Preamble.

Regional Economic Integration: Selected Issues

Abbreviations and acronyms

ASEAN	Association of Southeast Asian Nations
BSEC	Black Sea Economic Cooperation
CACO	Central Asian Cooperation Organization
CEFTA	Central European Free Trade Agreement
CEE	Central Eastern Europe
CES	Common Economic Space
CIS	Commonwealth of Independent States
CBSS	Council of the Baltic Sea States
EAEC	EurAsian Economic Community
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ECO	Economic Cooperation Organization
ECSC	The European Coal & Steel Community
EEA	European Economic Area
EEC	European Economic Community
EFTA	European Free Trade Association
EMU	European Monetary Union
ENP	European Neighbourhood Policy
EU	European Union
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	The General Agreement on Tariffs and Trade
GCC	Gulf Co-operation Council
GUUAM	A trade treaty with Georgia, Ukraine, Uzbekistan, Azerbaijan, and Moldova
Mercosur	Treaty of Asuncion signed by Brazil, Argentina, Paraguay and Uruguay
NAFTA	North American Free Trade Agreement
REI	Regional Economic Integration
SCO	Shanghai Cooperation Organization, also known as Shanghai Six
TACIS	EU’s development program for CIS countries
UNCLA	United Nations Commission for Latin America
UNCTAD	United Nations Conference for Trade and Development
UNECE	United Nations Economic Commission for Europe
WCO	World Customs Organization
WTO	World Trade Organization

Summary (Key-issues)

- The world economy is characterised by two tendencies: globalisation and regional integration.
- The number of regional economic integration schemes has grown fast over the last ten years.
- The scope of REI agreements is quite large, with different levels of depth and size.
- The economic analysis of REI addresses many dimensions. Trade creation and trade diversion effects are widely used concepts when assessing the impact of REI / trade liberalisation schemes. They allow the assessment of welfare changes.
- REI benefits and loses are not evenly distributed within (and between) countries, which may indicate a need for income compensation and redistribution policies.
- Within the OSCE region, there are several REI experiences, notably among transition countries.
- As the most advanced regional integration scheme, the EU has gained unique and far-reaching experience.
- EU integration is supported by various institutions and specialised bodies that implement a wide range of common policies and actions.
- The EU is both deepening and enlarging.
- Deepening means widening the scope of existing policies and/or adopting new ones.
- The EU went through 5 waves of enlargement. Considering its importance, the May 2004 enlargement is seen as the most challenging.
- EU enlargements have impacts on third countries such as trade diversion and creation effects and more competition.
- Following the historical 2004 EU enlargement, EU external relations envision new relationships with neighbouring countries, which can foster trade and economic relations.
- Free trade agreements are more limited in scope than the EU. However, as indicated by NAFTA, they might have significant impacts on trade, growth and employment, particularly for developing countries (e.g. Mexico).
- Following the termination of old structures, transition countries have promoted various regional integration scheme.
- The CIS aims *inter alea* at improving trade and economic links among members. It has been followed by sub-regional initiatives such as the Belarus Russia Union, GUUAM, the CES, etc. It is too early to evaluate their impact. Nevertheless, mutual compatibility should be carefully assessed as countries belong to several schemes.
- Regional integration agreements must be compatible with WTO rules. They also require measures to facilitate trade. Even in the absence of effective integration, WTO membership and trade facilitation should be priorities, taking into account the development needs of the countries.

Introduction

All OSCE countries are engaged in various regional integration schemes, with a focus on trade promotion and economic co-operation matters.

One of the most ambitious and advanced regional economic integration (REI) schemes is the EU integration process that started with the creation of the European Steel and Coal Community by 6 states in 1951. The Founding Fathers of the European integration process aimed it at assuring post-war reconciliation and political stability through economic co-operation. They also shared fundamental common values in terms of democracy, political and economic freedoms and rights. Their initiative proved to be successful. The reduction and then the elimination of tariff and non-tariff trade barriers among member states contributed to the expansion of their economies and, as a result, their peoples could enjoy high standards of living. The European integration project evolved into what is now the European Union of 25 members. Bulgaria and Romania will join in 2007 and other countries are preparing themselves for the next waves of accession. By the end of the current decade most of Europe will belong to the same economic space and apply common visions and policies. Besides, the concept of “New Neighbourhood” is being elaborated to strengthen ties with non-member countries in the East and South.

Following the momentum created by the EU, other countries initiated similar experiences. EFTA is one of them. More recently NAFTA was created, allowing for a huge free trade area between the US, Canada and Mexico. Transition countries are also engaged in regional integration schemes such as the CIS and other sub-regional integration schemes within the CIS (e.g. the Russian-Belarus State Union, the Eurasian Economic Community, GUUAM, the Common Economic Space, etc.) to promote development, trade and economic co-operation.

In some REI instances, despite political declarations and formal commitments, progress can be slow, which underlines the importance of the WTO framework for trade liberalisation and the need for effective trade facilitation measures.

This short note presents some of the main ideas and analytical tools on regional economic integration. It reviews the main REI experience, namely the EU, with a focus on relations with third countries and the impact of enlargement. It considers other REI cases in the OSCE region (NAFTA, CIS, GUUAM, the Common Economic Space, etc.) as well as REI among developing countries. In a last section, the importance of WTO rules and trade facilitation is underlined.

This document is based on selective information and data, aiming at identifying key-issues and stimulating further discussions. Considering the large amount of material available, the complexity and, in some instances, the controversial nature of the issues of regional integration, this document does not claim to be exhaustive.

I. Generalities on REI schemes

1. History and recent trends

Historical precedents

REI Agreements are not new. "Customs unions have existed since the seventeenth century, but until the establishment of the GATT system in 1947, customs unions tended to cluster around one hegemonic state."[1] Historically, one famous regional integration scheme is the German "Zollverein" promoted by Prussia 180 years ago (see Box 1).[2] The Austro-Hungarian Empire was also a customs union that had to be renegotiated every 10 years, etc.

Box 1: The German Zollverein

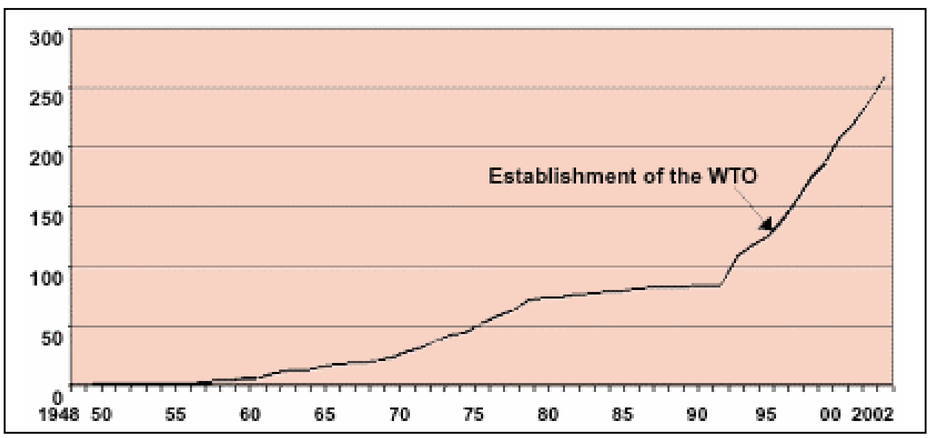
Germany's 19th-century Zollverein, or customs union, was built up gradually during the 19th century with the aim of increasing trade, and thus political unity, between the fragmented states of the German Confederation. Starting in 1818 with the North German Zollverein, more countries joined in 1834 and in 1866. This was followed by a series of acts to standardize the disparate systems of coinage, weights and measures used across the area. The Zollverein proved to be a success and helped to secure the political unification of Germany in 1871, at the end of the Franco-Prussian war.

Source: "A History of Currency Union", *Guardian Unlimited*, December 10, 2001.
http://www.guardian.co.uk/euro/story/0,11306,616567,00.html

A growing trend

According to Bhagwati and Panagariya, regional trade agreements came in two waves, the first one dates from 1958 to 1970 and was initiated by the Rome Treaty that established the European Community; the second wave began in the mid-1980s (and accelerated in the 1990s), principally with the Single European Act.[3]

Figure 1: Regional Trade Agreements in the World, 1948-2002



Source: WTO Secretariat.

By May 2003, over 265 agreements had been notified to the WTO (and its predecessor, GATT). Of these, 138 were notified after the WTO was created in January 1995. Over 190 are currently in force; another 60 are believed to be operational although not yet notified.

[1] E. Mahant, "Regional Economic Integration—Bringing Values Back In," in: *Globalization and the Political Economy of Trade Policy*, ed. by C. Parakevopoulos *et al*., The APF Press, Toronto, 2000, p. 42.

[2] During the reign of Frederick William I in the eighteenth century, Prussia itself went through fundamental administrative reforms, building up what was then perceived as a modern and model state.

[3] J. Bhagwati and A. Panagariya, "Preferential Trading Areas and Multilateralism," in: *The Economics of Preferential Trade Agreements*, J. Bhagwati and A. Panagariya Editors, AEI Press, Washington, 1996, pp. 1-78.

According to WTO, the total number of regional trade agreements could reach 300 by the end of 2005. A list of regional trade agreements (proposed by the WTO) is provided in Annex II.

2. Reference categories and concepts

Categorizing trade blocs

Box 2: Bela Balassa, 1928-1991

With Jacob Viner, the Hungarian born American economist Bela Balassa stimulated pioneering works on regional integration. In 1961, he published a famous book: *The Theory of Economic Integration.*

According to Balassa, regional integration agreements generally aim at removing discrimination between foreign and domestic goods, services, and factors of production.

As indicated in Table 1, which proposes a particular classification of trade blocs, regional economic integration is a complex phenomenon that relates to different situations. Broadly speaking, it corresponds to growing trade and economic relations within a group of countries, faster than with the rest of world. Such a process might be the result of a formal agreement between partners.[4]

Proximity also makes countries natural partners. The sharing of a common border should normally be an incentive for exchanging goods and services, and traveling between countries, even in the absence of a formal agreement. Distance is often seen as an impediment for trade. Moreover, the existence of a formal agreement does not imply that it is effectively enforced.

Table 1: Categorising trade blocs

Informal	*Large and/or growing trade* *Absence of agreement*
Formal	*Agreement between partners* - *Effective* - *Ineffective*
Natural	*Proximity, neighbors*
"Unnatural"	*Distant partners; natural obstacles*
Open	*Accept new members*
Closed	*Do not accept new members*
Balanced	*Members have about the same weight*
Unbalanced	*Some members are more influential than others*

Source: D. Linotte and L. Aune, "The GUUAM July 2002 Free Trade Agreement: A Preliminary Assessment", *Central Asia and the Caucasus,* Center for Social and Political Studies (Sweden), No. 1 (19), 2003.

Level/intensity of regional integration

[4] For the distinction between formal and informal trade blocs, see: *Trade Blocs? The Future of Regional Integration*, edited by V. Cable and D. Henderson, Royal Institute of International Affairs, London, 1994.

Considering formal regionalism, different levels of integration can be distinguished. A tentative list is provided in Table 2. The lowest level is a preferential trade agreement between at least two countries. In that case, mutual import tariffs are made lower than those against the "rest of the world." The next stage is the complete elimination of tariffs between partner countries—that corresponds to a free trade area, in which member countries retain national tariff levels on imports from outside the area. In a customs union, member countries adopt common external tariffs, which requires negotiating and agreeing on their levels (and not contradicting WTO rules for REI contracting parties members of the organization). The highest stage of integration is the creation of a common political entity. It may require monetary, economic and commercial institutions, within a federal, confederation-type or centralized political system.

Table 2: Levels of economic and commercial regional integration

Preferential trade agreement	*Lowering of tariff barriers between contracting parties*
Free Trade Area (FTA)	*Elimination of tariff barriers (and non-tariff-barriers)*
Customs Union (CU)	*FTA + Adoption of a common external tariff*
Common Market (CM)	*CU + free movement of labor and capital*
Monetary Union (MU)	*CM + adoption of a common currency*
Economic and Monetary Union (EMU)	*MU + Centralized public finances*
Political Union (PU)	*Single political entity with corresponding economic and commercial institutions*

Source: See Table 1.

3. REI and economic analysis

The economic analysis of REI is far from simple and straightforward. It requires complex analytical tools and computed models that often rely on specific assumptions that do not necessarily correspond to realities.[5] Nevertheless, these instruments may provide some insight and quantification about the consequence of trade liberalization and the impact of other policy measures. Whenever possible, policy makers should try to base their decision on such evaluations. For that purpose, building up adequate expertise and institutions is also essential.

Table 3 presents key-concepts and essential aspects of REI that should be considered when assessing the scope and the benefits and costs of REI. Some of them are commented.

[5] It should be noted that different schools of thought compete in the field of econometric modelling. Adopting a particular methodology may lead to very specific outcomes. In other words, one has to be cautious when referring to quantified outcomes. See David F. Hendry, "Econometrics: Alchemy or Science? - Essays in Econometric Methodology", Oxford University Press, 2000.

Table 3: Reference concepts and aspects of REI schemes

Trade creation and diversion	Import duties
Competition	Bargaining power
Barriers to entry	Terms of trade
Economies of scale	Public finance
Natural monopolies	Taxation
Building / stumbling blocs	Levels of economic development
Domino effect	Cost-benefit analysis
Compensation schemes	

Trade creation and trade diversion

Following the seminal work of J. Viner, that was stimulated by the Benelux experience (see Box 3), the economic analysis of regional integration agreements first concentrated on their gains and losses from a static perspective (ignoring dynamic aspects), particularly for countries that are involved in such schemes.[6]

There is trade creation in a REI framework when low costs imports replace high-cost ones. Such a situation implies welfare gains for importers and/or consumers because they pay less. In the case of trade diversion, as a result of a regional trade agreement, a costly source of imports replaces a cheap one, which causes a loss in the importing country.

In the real world, trade creation and trade diversion effects are often combined. For some markets, there are gains, for other markets there are losses. Gains and losses are also unevenly distributed among countries, people, consumers and producers.

Overall, a country benefits from a REI agreement when trade creation effects are larger than trade diversion effects. A country may lose from such an agreement when trade diversion effects are quite large. In welfare terms, this implies that trade liberalization within a REI framework could eventually lead to welfare losses and might not be a so-called "first-best option"—whereas, as indicated by economic theory at least, full unilateral liberalization leads to net welfare gains, particularly for small countries.[7]

Box 3: Benelux

Co-operation between Belgium, the Netherlands and Luxembourg started in 1944, during WWII. The main goal was the elimination of obstacles to the movement of people and trade in goods and services among the three countries, and includes political and administrative co-operation. Benelux also supports European integration. The creation of Benelux can be seen as the first concrete step that led to the broader project of European integration. To some extent, integration among Benelux countries is still ahead of the EU process.

Source: Benelux web-site.

[6] See: J. Viner, *The Customs Union Issue*, Carnegie Endowment for International Peace, New York, 1950.

[7] From an economic perspective, a small country cannot alter its terms of trade.
(ToT = price of exports / price of imports).

Cost-benefit analysis (CBA)

A CBA of regional trade agreements should consider all goods (and services) to be fully conclusive about their welfare implication—a complex task indeed. Relying on aggregated data, so-called "Computable General Equilibrium Models" (CGEMs) are used for simulation and studying the impacts of different trade policy regimes on social welfare. They rely on restrictive assumptions about the preferences and behaviours of economic agents. They help identify losers and winners.

Compensation schemes

Compensatory transfer (or income redistribution) schemes could be envisaged to compensate the losers of REI. Several compensation criteria were suggested, reflecting different perspectives, giving importance either to losers or winners, or combining both. The names of Kaldor, Hicks and Scitovsky are often referred to when discussing social welfare, collective choices and compensation transfers. Compensation criteria are based on potential actions that could eventually be implemented, depending on many factors, including the good will of politicians/policy makers and the bargaining strength of potential losers and winners. The fact that in some countries the unemployed workers receive unemployment benefits indicates that compensation schemes for losers can be implemented when resources are made available.[8]

Competition and economies of scale effects

Two key-dynamic effects of REI are competition and economies of scale. By eliminating their mutual tariff and non-tariff barriers, the members of a REI scheme completely merge their markets. As a result, competition may increase. Moreover, bigger markets may allow for economies of scale when long-term average costs of production decline as a result of enlarging production capacities, etc. Consumers should benefit from such changes.

Public finance aspects

The elimination of tariff barriers has immediate negative impacts on tax collection, which may alter the financial base of the state and, subsequently, lead to downward adjustments of public expenditures or additional borrowings and debts. That is true of countries that have limited direct and indirect (turnover or value-added) taxes, which is particularly the case for transition countries characterized by a large shadow economy and limited institutional capacity for tax collection.[9]

Terms of trade implications

The creation of a regional trade bloc can also impact on the terms of trade of the region vis-à-vis the rest of the world. As the trade bloc may represent a big entity on international markets, one may assume that it can, in some cases, modify world prices and improve its terms of trade. For small countries, by definition, the terms-of-trade argument does not apply.

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[8] See: M. Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups*, Harvard University Press, Cambridge, Mass., 1971.

[9] See: Y. Eilat and C. Zinnes, *The Shadow Economy in Transition Countries: Friend or Foe?*, mimeo., Harvard University, 18 December, 2000.

“Building blocs” versus “stumbling blocs”

Following the work of Bhagwati on REI, a distinction is made between “building blocs” and “stumbling blocs.”[10] These concepts should help to answer the question: does a trade bloc enhance the welfare of all countries and not only of those belonging to the bloc? A building bloc increases the welfare of all countries, “in” and “out.” A stumbling bloc has positive effects only for countries that are “in” and is detrimental to others.

Levels of development

The evidence seems to indicate that developing countries may benefit more from a “north-south” than from a “south-south” free trade agreement. Moreover, integration between low-income countries often leads to divergence between countries within the regional bloc, which does not seem to be the case for trade blocs between rich counties.[11]

Domino effect

Another aspect of REI is the so-called “domino effect,” which implies that when a trade bloc exists there is a tendency for outsiders to try to join the club because of the benefits of membership and the costs of staying out, especially when confronted with a large trade bloc.[12]

4. REI within the OSCE region

Considering the OSCE region, as indicated by Table 4, there are various REI schemes; some of them are *de jure* and *de facto* more ambitious, effective and advanced than others. Several REI schemes among transition countries were initiated after the collapse of the former regime. Some of these schemes involve non-OSCE states. Some OSCE participating states belong to several REI arrangements, which may raise compatibility and credibility issues.

II. The European Union

5. Historical background

European integration was above all motivated by the desire to avoid the repetition of war and promote co-operation among the nation-states of Europe, particularly between France and Germany. On May 9, 1950 the French foreign minister Robert Schuman presented a proposal to integrate the coal and steel industries of Western Europe which led to the creation of the European Coal and Steel Community (ECSC) by six founding members: Belgium, West Germany, France, Italy, Luxembourg and the Netherlands.[13] This first step was followed by

[10] See: J. Bhagwati, *The World Trading System at Risk*, Princeton University Press, Princeton, 1991.

[11] A.J. Venables, “Winners and Losers from Regional Integration Agreements,” *Discussion Paper 2528*, Center for Economic Policy Research, London, August 2000.

[12] See: R. Baldwin, “A Domino Effect of Regionalism,” *NBER Working Paper No. 4465*, Cambridge, Mass., 1993.

[13] Another famous declaration was the Winston Churchill' speech at Zurich University on September 19, 1946, calling for a "United States of Europe", which contributed to the creation of the Council of Europe.

another successful initiative: the Rome Treaty of 1957 that established the European Economic Community.

Table 4: Selected regional integration / trade liberalisation / trade facilitation agreements (or initiatives) within the OSCE region

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North America

NAFTA

Canada, Mexico, US

(Western) Europe

European Union (15 + 10)

Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, The Netherlands, Luxembourg, Portugal, Spain, Sweden, UK
Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia, Slovakia

EFTA

Iceland, Liechtenstein, Norway, Switzerland

European Economic Area

EU + EFTA (without Switzerland)

Baltic region, Central and Eastern Europe

Baltic Co-operation: Estonia, Latvia and Lithuania

Council of the Baltic Sea States

Denmark, Estonia, Finland, Iceland, Germany, Latvia, Lithuania, Norway, Poland, Russia, Sweden

CEFTA

Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia, Slovenia

South Eastern Europe / Balkans

Stability Pact

Albania, Bosnia-Herzegovina, Bulgaria, Croatia, FYROM, Moldova, Romania, Serbia & Montenegro

Former Soviet Republics (with the exception of the Baltic States)

Commonwealth of Independent States

All former Soviet Republics without the three Baltic States

Belarus - Russia Union

GUUAM

Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova

EurAsian Economic Community

Belarus, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan

Central Asian Co-operation Organisation

Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan

Common Economic Space

Belarus, Kazakhstan, Russia, Ukraine

Others

Black Sea Economic Co-operation

Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, Ukraine

Economic Co-operation Organisation

Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan

Shanghai Co-operation Organisation

China, Kazakhstan, Kyrgyz Republic, Russia, Tajikistan and Uzbekistan

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The European Economic Community purpose was the formation of a common market among the 6 members based on the so-called "four freedoms" of movement: of goods, services, capital and people. The European Atomic Energy Community was also created to pool non-military nuclear resources of the member states. Since, the European project evolved by enlarging and deepening.

Box 4: European integration as a complex political process

The political economy of European integration

European integration is a complex process for which negotiation, concession and compromise are essential. Bargaining takes place between and within countries. Public authorities, political parties, business associations and trade unions are all involved, reflecting the plurality and the complexity of democratic systems. For instance, considering the adoption of the Euro, low-inflation prone countries were clashing with the higher-inflation prone countries. Considering the latter, central bankers seeking monetary stability would also oppose those who would advocate expansionary policies to reduce unemployment, etc.

Schools of thoughts

Most political phenomena promote new ideas and lead to controversies. Considering the European integration process, there are different schools, concepts and ideas, often conflicting: "rational choice", "functionalism", "neo-functionalism", "federalism", "historical institutionalism", "multi-level governance". These schools of thoughts propose answers to questions such as: what determines decisions regarding the EU process? Do EU institutions reflect the preferences of the larger states? What does the independence of the Commission mean in practice? Etc.

The concept of subsidiarity

"Subsidiarity" is an interesting concept that was promoted by the EC President Jacques Delors. Subsidiarity implies that any issue should not be addressed by large and complex organisations at the EU or national levels if it can be addressed by small and simple organisations at more local levels.

Other treaties were concluded after 1957. The last one is the Treaty of Nice. These documents constitute the constitutional basis of the European Union.

Table 5: EC/EU Treaties

Date	Acronym	Name	Feature(s)
1951	ESCC	The ***Paris Treaty*** on the European Steel and Coal Community	Sectorial co-operation
1957		***Rome Treaties***	
	EEC	- European Economic Community	The four freedoms Common policies
	EURATOM	- European Atomic Energy Community	Sectorial co-operation
1986		***Single European Act***	Single market Eliminating internal barriers
1992		***Maastricht Treaty*** on the European Union	EMU / Euro
1997		***Amsterdam Treaty***	Enhancing democracy

2001	***Treaty of Nice***	New constitutional basis Enlargement Voting rules Seats in Parliament
200?	***EU Constitution***	

Box 5: The EU constitution

After two years of work, an EU constitution is being discussed and several EU countries have decided to vote it in referenda. Such a document is seen as essential to facilitate the functioning and the decision process of an organisation that includes 25 member states.

The proposed document introduces new features such as a 2.5 years elected Presidency for the European Council, a bigger role for the European Parliament, a Charter of Fundamental Rights, leaving the EU, etc. In other words, the constitution would provide more strength to the integration process, make it more democratic and better protect the citizens.

What is not mentioned is also important. For instance, tax harmonisation is excluded from the document despite the wish of some member States eager to reduce the scope for fiscal heavens, tax evasion and money laundering within the EU.

Source: See BBC, http://news.bbc.co.uk/1/hi/world/europe/2950276.stm

6. Main institutions

The EU is run by a series of interrelated institutions, for which checks and balances matter. The most important ones are:

- European Parliament,
- Council of the EU,
- Commission,
- European Court of Justice
- Court of Auditors.

The European Parliament

It is an elected body by the citizens of the member states. Elections take place every five years. Only 20% are women. It can influence policies but it can not introduce them.

The Parliament main roles are as follows:

- Examination and adoption of EU legislation, a power shared with the Council of Ministers,
- Approve or reject the annual budget of the EU,
- Assent international agreements (such as accession / enlargement ones),
- It can also dismiss the European Commission, etc.

The Council of the EU / Council of Ministers

It brings together representatives of the member states governments. It discusses and sets the rules for all the activities of the EU bodies. It adopts common policies that are developed by national civil servants and the Commission.

Before 1986, policies could still be vetoed. In 1986, a qualified majority voting was introduced, implying that the making of economic policy belongs to both EU and national levels. Unanimity is required for matters such as enlargement and fiscal harmonisation.

The European Commission

It is a body assisted by about 24,000 civil servants. It proposes policies and draft legislation. It ensures that Treaties and related decisions are properly fully implemented, etc.

The governments of the EU chose the President of the EU. Other members are nominated by their respective governments. The Commission is appointed for 5 years and can be dismissed by the Parliament. The Commission is expected to act independently of the governments of the member states.

The European Court of Justice

It interprets EU laws and its rulings are binding. It ensures that European legislation is understood the same way everywhere in the EU. It settles disputes on law interpretation. Individuals can bring proceedings against EU institution before the Court.

The European Court of Auditors

Auditors ensure that EU funds are properly used, legally and for the intended purpose.

Other important institutions/bodies are the European Economic and Social Committee, the Committee of the Regions, the European Investment Bank, etc.

7. Policies

Regional integration implies the adoption and the implementation of common policies at national and EU levels. In the early days of the European co-operation and integration process, there was only a common commercial policy regarding coal and steal. Others were added over time. As indicated by Table 6, the range of EU common actions and policies is quite large and, considering past experience, it could still grow. Some policies have also changed their aims and broaden their scope. For instance, in the case of the agricultural policy, environmental protection is now taken into account. In fact, environmental matters are high priorities on the EU agenda.

Table 6: EU policies and fields of action

Agriculture	External Relations
Audiovisual	External Trade
Budget	Fraud
Competition	Fisheries
Consumers	Food Safety
Culture	Foreign and Security Policy
Customs	Humanitarian aid
Development	Information society
Economic and Monetary Affairs	Internal market
Education, Training, Youth	Justice and Home Affairs
Employment and Social Affairs	Public health

Energy	Regional policy
Enlargement	Research and Innovation
Enterprise	Taxation
Environment	Transport

Source: EU web-site.

8. EU trade

Policy issues

Trade policy relates to the use of policy instruments and measures that aim at influencing the level, the direction and the composition of trade, i.e. exports and imports of goods and services. In the EU case, the creation of the "common market" (including the customs union) meant the early adoption of common tariffs on imports of goods and other instruments to protect the member states economies, particularly agriculture.

Considering tariffs, there were progressively reduced within the framework of GATT. Moreover, special preferential agreements were concluded under GSP (general system of preferences) schemes. Free trade agreements were also concluded. Over time, other matters were added to the negotiation package during the Uruguay Round and within the WTO. These new fields include agriculture, services, intellectual property rights and investment related measures. The European Commission and the Council are both responsible for trade policy. Lobbying is a feature of the informal and formal trade policy process.

Box 6: The cost of global protectionism

"Britain will tell the world this week that protectionism is costing the global economy $500 billion a year, as it calls for a speedy revival of stalled global trade talks.

Government sources told Reuters on Tuesday that Trade and Industry Secretary Patricia Hewitt is getting very worried that there is hardly any time left to agree to a new framework to relaunch the Doha trade round after talks collapsed in Cancun, Mexico, last year."

Source: Sumeet Desai, "UK to say protectionism costs world $500 bln", Reuters, 19 May 2004.

Merchandise trade flows

Considering Annex II Tables, in 2002, about two thirds (67.3%) of West European (that combines EU and EFTA countries) merchandise trade was internal; for the EU itself the corresponding figure is about 60%. Such high proportions are typical features of West European and EU trade relations, as they are reported by WTO statistics. These facts reflect the depth and the duration of regional economic integration in Western Europe. Geographical (and cultural) distances between Western European countries are small and transportation infrastructures are well developed, which favour intense exchanges of goods and services.

9. Deepening

The "Single Market" and the Euro illustrate the deepening of the integration process.

"Deepening versus enlargement?"

It should be noted that the debate about "widening versus deepening" the European Union persisted for many years. In the 1990s, the idea that both strategies could be pursued simultaneously gained more support allowing for more flexibility. In that context, so-called "closer co-operation" expresses the idea that some EU member States may want to move ahead with the integration process without reaching consensus within the EU.[14]

The "Single Market"

The adoption of a customs union by European states meant *inter alea* the elimination of tariff barriers among member countries. However, that did not lead automatically to a genuine common internal market when non-tariff barriers and other impediments to the four freedoms remain in place. The Single Market was initiated to improve the situation.

To make the Single Market happen, EU institutions and the member countries worked for seven years from 1985. They drafted and adopted hundreds of directives needed to sweep away the technical, regulatory, legal, bureaucratic and protectionist barriers that stifled free trade and free movement within the Union.

The Single Market was formally completed by the end of 1992 even if progress is till needed in some areas (e.g. pensions).

The Euro

The establishment of the internal market brought a new stimulus to the idea of a single currency because maintaining national currencies implies conversion costs and exchange rate fluctuations that constrain trade and FDIs.

In June 1988, the Hanover European Council concluded that "in adopting the Single Act, the Member States of the Community confirmed the objective of progressive realisation of economic and monetary union." A committee was set up under the chairmanship of Commission President Jacques Delors with "the task of studying and proposing concrete steps leading towards this union."

The Delors Report set out a plan to introduce EMU over three stages, including an institutional framework to allow policy to be decided and executed at the Community level.

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[14] "In his speech at the Humboldt University in Berlin, 12 May 2000, Joschka Fischer described the expansion of "reinforced cooperation" as a necessary first stage to Europe´s further development. He pointed out that, with the tool of closer cooperation, those states desiring to cooperate more closely than other member states of the European Union could make progress in many areas… In his comment on Foreign Minister Fischer's speech, Italy's Prime Minister Giuliano Amato takes up this thesis and confirms the importance of expansion of reinforced cooperation. Amato states that, in the face of EU enlargement, establishment of a central core of the European Union is undoubtedly necessary to prevent a reduction of the European Union to a mere economic area. He refers to the fact that the six founding Members of the Community have the right and the duty to re-launch the debate and the initiative on the Union's political objectives and that there has always been a sort of "engine" or "vanguard" for the promulgation of European doctrine and policy (especially the so-called 'Paris-Bonn axis')."
Timo Tohidipur, "Expansion of Closer Co-operation as Contra-Indication to the Idea of European Integration: A Critique of Joschka Fischer's Speech and Giuliano Amato's Comment Thereon*, *German Law Journal*, No. 14 (01 September 2001) - Special Edition.

Following the establishment of the European Monetary Institute, the European Central Bank was created and Euro notes and coins were finally introduced in 12 EU countries on 1 January 2002.

10. Enlargement

Box 7: Public opinion, leaders and enlargement

According to a March 2004 opinion poll:

- 42 percent of Poles are convinced the enlargement will benefit their country, while 33 percent remain unconvinced of the advantages.
- Germans are rather more critical, with 47 percent sceptical of the enlargement and 20 percent supporting it.

Czechs "must do everything we can so we are not lost in the EU, so that our unique existence over 1,000 years will not crumble and be lost." (Czech President Vaclav Klaus, 22 April 2004)

Source: "Analysis: EU Welcomes New Members, But Where Is The Enthusiasm?"
By Ulrich Buechsenschuetz, Radio Free Europe, 29 April 2004.

The EU went through 5 successive enlargement. According to some experts, the 2004 enlargement poses a formidable challenge, "since it is without precedent in terms of scope and diversity: the number of candidates, the area (increase of 34%) and population (increase of 105 million), the wealth of different histories and cultures."[15] There are also concerns about financial implications and international migrations.

Table 7: Successive enlargements

Year	Countries
1973	Denmark, Ireland and the United Kingdom
1981	Greece
1986	Portugal and Spain
1995	Austria, Finland and Sweden
2004	Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovak Republic, Slovenia
2007	Bulgaria and Romania

Box 8: EU enlargement, economic disparities and migrations

According to the EU Commission's second progress report on economic and social cohesion, EU enlargement will be accompanied by increased regional disparities between the regions of the EU. Thus, in the regions containing the most prosperous 10% of EU population compared with the regions with the poorest 10%, the ratio of income per head will be 1:6 in a 27-member EU, up from 1:2.6 in the EU15. Will such disparities provoke large-scale migrations?

"A series of studies of likely immigration from Central and Eastern Europe suggests that it will be on a limited scale, and mostly confined to regions bordering the new member states. The more economic growth is secured in those countries, the less attractive it will be for workers to seek employment in the other EU member states." (EU Commission web-site on enlargement)

[15] EU web-site. http://europa.eu.int/comm/enlargement/intro/index_en.htm

Moreover, there are imposed limitations on the movement of workers. A transition period has been negotiated with the acceding countries before the full liberalisation of labour markets. Besides, a "catching up" effect is expected, limiting the incentives to work abroad and the EU has instruments such as structural and cohesion funds to improve economic and social conditions in poor regions.

11. EU Enlargement and Third Countries

USA

The EU and the United States are the world largest economies. They account together for about half the world economy. The EU and the US have also the world biggest bilateral trading and investment relationship. Transatlantic flows of trade and investment amount to around $1 billion a day, representing almost 40 % of world trade.

In 2002, exports of EU goods to the US amounted to €240 billion (24.2 % of total EU exports), while imports from the US amounted to €175 billion (17.7 % of total EU imports). Considering investments, total amount of 2-way investment represents over €1.1 trillion, with each partner employing about 4 million people in the other. The share of EU investment in the US amounted to more than 52% of EU Foreign Direct investment over the period 1998-2001 (€162.663 million a year in average). US investment in the EU amounted to more than 61% of EU FDI inflows over 1998-2001 (€72.041 million a year in average).[16]

De facto, US firms are major investors and traders with the candidate countries. As result, EU enlargement will simply strengthen EU-US ties. However, US firms might for a while suffer from stronger competition. Trade negotiations may also become harder across the Atlantic.

Russia

Box 9: Official Russia's View

“Russia views the EU’s enlargement as the manifestation of a natural integration process designed to meet the interests of all European countries. With all new countries of the EU, Russia enjoys traditional links and deep historical roots.” (Igor Ivanov, Russia’s Minister for Foreign Affairs at the Athens European Conference, April 2003.)

According to EU experts, Russia should benefit from the last EU enlargement. The EC estimate that the benefits for Russia from tariff decrease in new member states by about 325 million Euro a year. Enlargement will consolidate economic and political stability in Russia 's direct neighbourhood, which should have positive impact on economic and trade. The EU is Russia’s largest trade partner and the bilateral trade volume is expected to increase. EU enlargement will give Russia direct access to one large and harmonised market of some 450 million people. As a result, Russia will benefit from a single set of trade rules, a single tariff and a single set of administrative procedures, which will apply across the enlarged Union. This means that a Russian product meeting the requirements of the EU market can be sold anywhere on the EU market of 25 countries. Simplification will benefit particularly SMEs for which the costs of compliance with trade procedures are proportionately higher. Macroeconomic studies have concluded that Russia’s welfare will increase as a result of

[16] EC web-site: http://europa.eu.int/comm/trade/issues/bilateral/countries/usa/index_en.htm.

enlargement. Other independent studies show that the overall impact of EU enlargement will also be beneficial for Russia in terms of the level of import duties applied to Russian exports to the EU, which is expected to be lower after enlargement than duties in force in the candidate countries before enlargement.[17]

Considering the Russian enclave of Kaliningrad, European Commission President Romano Prodi said after the 22 April 2004 meeting with President Putin that most of the problems concerning Kaliningrad and EU enlargement have been solved. Even if some details have to be fixed, President Putin underscored that an agreement was reached "on the extension of the movement of our goods to Kaliningrad and the common EU customs procedures."[18] It is worth recalling that the European Commission has had an active assistance programme in the area for more than ten years to support regional economic development, enterprise restructuring, SME development and building up human resources.[19]

Despite the adoption of useful measures, the status of Russian-speaking minorities in the Baltic region and the visa regime for Russians wishing to travel to the EU are still seen as sensitive issues. Considering minorities, they could become bridging elements between the EU and the Russian Federation.

Ukraine

On 1 May 2004, Ukraine will share a common border with the EU. The short-term impact of the new situation could be negative because the effects of more stringent non-tariff barriers will prevail over lower tariffs. According to Ukrainian experts, in the worse possible scenario, short-term losses (combining antidumping measures, market losses and technical barriers) could reach USD 340 million per annum. In the medium term, more benefits will accrue especially if Ukraine joins the WTO.[20] It is interesting to notice that lower average EU tariffs will allow for trade creation and trade diversion effects. Ukrainians experts calculated that trade creation will be the highest with the Visegrad countries (i.e. Poland, followed by Hungary, Slovakia and the Czech Republic) and the lowest for the three Baltic states where, in fact, trade diversion should predominate.

“The European Commission expects possible short term losses to be overweighed by the positive effects of lower tariffs, and therefore the overall impact of enlargement on Ukraine to be positive.”

In the medium term, Ukraine should benefit from additional FDIs for at least three reasons:

1) The EU market will expand due to accelerated growth in acceding countries which will have a positive impact on Ukrainian exports,
2) labour costs in acceding countries will increase, stimulating firms to invest outside the EU,

[17] See http://www.eur.ru/en/cis_7.htm.

[18] RFE, 23 April 2004.

[19] See http://www.eur.ru/en/cis_8.htm.

[20] "Impact of EU Enlargement in 2004 on Ukraine Foreign Trade", Survey Report prepared by the International Centre for Policy Studies, Kyiv, October 2003.

3) when joining WTO, Ukraine will be able to improve its market access to the EU market.

Box 10: EU protectionism, CEE and the CIS

"The EU measures against CEE countries are persistently milder than for CIS countries. One example is antidumping measures. […] [Moreover], the duties imposed against the CIS countries were about **twice** as high as those levied on the CEE countries.

"EU agriculture is particularly well protected. While the single average tariff is estimated at 17.3 percent, the actual protection is often **prohibitive** for the CIS countries because of variable levies and technical standards."

Source: "THE ENLARGEMENT OF THE EUROPEAN UNION: Consequences for the CIS Countries", by Anders Åslund and Andrew Warner, Carnegie Endowment for International Peace, Working Paper No. 36, 2002.

Boosting trade between the EU and CIS countries does not only depend on lowering EU protection. A recent IMF study shows that fostering more market oriented reforms in CIS countries would have a positive impact on their external economic relations with third countries, including the EU.

"Lower than expected CIS openness results from both regional and country-specific factors, including slow progress in transition; restrictions to trade; geographic features; weak infrastructure; governance and corruption problems in customs and transport services; trade blockades; political conflicts; and restrictions to market access by trading partners. Trade openness could be expected to increase substantially if the CIS countries pursued market-oriented reforms more vigorously, with a likely positive impact on growth."

"Areas of reform that could be expected to have a positive impact on CIS trade include the reduction of official and unofficial trade barriers; improvements to infrastructure in order to reduce the costs of trade; the elimination of corruption in customs and transport services; and closer cooperation at the level of economic policy in order to overcome regional obstacles to trade."

Source: "Of Openness and Distance. Trade Development in the CIS 1993-2003", IMF Working Paper, WP/03/237.

However, the volume of trade affected by anti-dumping measures in Russia (and also Ukraine) is less than 1%. There are 11 such measures for Russia and around 7 for Ukraine. Approximately 25 measures in the new Member States against imports from these and other CIS countries were lifted on 1 May.

"One of the aims of the European Neighbourhood Policy is to encourage the convergence of economic legislation, and the continued reduction of trade barriers in order to stimulate investment and growth, and enable Ukraine (and the other ENP countries) to share the benefits of EU enlargement."

12. EU external relations

Overview

The EU is a global player in trade, finance, money and development aid, and has bilateral and multilateral agreements covering almost all countries and regions on five continents. Democracy, human rights, good governance and sustainable development as well as conflict prevention and post-conflict reconstruction are also parts of the EU international agenda and are supported by various assistance programmes.

Schematically, EU external affairs can divided between:
1) external relations *per se*,
2) foreign trade and
3) the special (development assistance and commercial) relations with "ACP (African, Caribbean and Pacific) countries" under the Cotonou Convention.

Considering the OSCE region, relations with the Western Balkans and CIS countries are particularly important because some of these countries are now direct neighbours of the EU and, in the South and Eastern Europe case, the Road Map for EU accession is being implemented.

Relations with South Eastern Europe

The EU's main aim for South Eastern Europe is to create conditions for permanent peace. For that purpose, the EU has been and is sill at the forefront of efforts to achieve this aim. In 1999, the EU promoted the *Stability Pact for South Eastern Europe* to encourage the States of the region in their efforts to foster peace, democracy, the respect of human rights and economic prosperity. EU relations with SEE are anchored within the framework of the so-called Stabilisation and Association Process (SAP) that prepares the integration of the countries of the region into EU structures. The 2000 Feira European Council stated that all countries covered by SAP are potential candidates for EU membership.

The EU is the single largest assistance donor to the Western Balkans with aid programmes such as Phare, Obnova and CARDS. EU countries are also present in Kosovo with more than 30,000 troops (80 per cent of the total international force) and hundreds of civilian police.

Partnership and Co-operation Agreements with CIS countries

Russia and former Soviet republics are building long-term relationships with the EU based on partnership and co-operation agreements (PCAs), covering trade, investment, co-operation in science, energy, transport, the environment and other sectors, as well as a political dialogue and joint action to combat crime, drugs and money laundering. EU technical assistance to these countries is delivered by the Tacis programme, launched in 1991. The Tacis budget for the period 2001-2006 is €3.14 billion.

Box 11: The PCA between EU and Russia

On April 27, 2004, the European Union (EU), and the Russian Federation, signed a protocol to the Partnership and Cooperation Agreement (PCA) between the EU and the Russian Federation, extending the agreement to the ten new Member States of the enlarged EU on 1 May 2004.

According to Commissioner Chris Patten: "The extension of the PCA to the enlarged EU ensures Russia will be able to benefit from all the opportunities for increased cooperation arising from EU enlargement. EU enlargement is good for the EU and for its neighbours, including Russia. Conditions for trade will improve, offering considerable potential for further growth. We expect the ratification of the protocol to follow rapidly on both sides."

Mediterranean Partners

The Conference of EU and Mediterranean Foreign Ministers in Barcelona (27-28 November 1995) marked the start into a new "partnership" phase of the relationship between the EU and its Mediterranean Partners.

The ***Barcelona Declaration*** expresses the partners' intention to:

- Establish a common Euro-Mediterranean area of peace and stability based on the respect for human rights and democracy,
- Create an area of shared prosperity through the progressive establishment of a free-trade area between the partners,
- Develop human resources and promote understanding between cultures, etc.

Box 12: Concrete contribution to the peace process

"EU supports historic energy agreement between Israel and Palestinian Authority"
IP/03/1645 - Brussels, 2 December 2003

An historic agreement on energy co-operation has been signed in Rome between Israel and the Palestinian Authority under the auspices of the European Union. The agreement aims at supporting projects to interconnect gas and electricity between Israel and Palestinian territories. It also promotes the use of renewable energy. This agreement should have a positive impact on the living conditions of Palestinian households.

"The European Neighbourhood Policy"

The May 2004 enlargement implies that countries became new neighbours of the EU. For that reason, it is essential not only to prevent the emergence of new dividing lines but also to enhance international relations within the new context. The European Neighbourhood Policy (ENP) is based on the conviction that EU's enlargement on 1 May 2004 represents an opportunity to strengthen co-operation and interdependence with the countries that are now new neighbours of the EU.

The ENP is distinct from the issue of potential membership. It offers a privileged relationship with neighbours, which will build on mutual commitment to common values principally within the fields of the rule of law, good governance, the respect for human rights, including minority rights, the promotion of good neighbourly relations, and the principles of market economy and sustainable development. The level of ambition of the EU's relationships with its neighbours will take into account the extent to which these values are effectively shared.

ENP seeks to make the full use of existing tools and introduces a new instrument, the European Neighbourhood Instrument to foster cross-border and transnational co-operation.

EU funded Neighbourhood Programmes shall address objectives such as:

- Promoting sustainable economic and social development in the border areas;
- Working together to address common challenges, in fields such as environment, public health, and the prevention of and fight against organised crime;
- Ensuring efficient and secure borders;
- Promoting local, "people-to-people" type actions, etc.

III. Other REI schemes

The EU experience stimulated other countries to create their own REI schemes. Some of them strictly concentrate on pure trade matters. Others are more ambitious and aim at the creation of common markets. Former command economies are expressing their will to improve economic ties that were severely affected by the transition process and, for that purpose, they foster new regional organisations.

13. Free Trade Agreements

REI schemes based on Free Trade Agreements have definitely less scope than the EU project. Nevertheless, they can be very effective instruments for promoting trade and export-led growth in member countries. They may also have side effects in terms of transparency and good governance, particularly in developing countries having FTAs with rich countries.

EFTA

The legal basis of EFTA was first the so-called "Stockholm Convention" that entered into force on 3 May, 1960; it was updated on 21 June, 2001 and the new version, referred as the Vaduz Convention, entered into force on 1 June, 2002.

The EFTA Convention proposes a framework with a set of rules on trade relations amongst member countries, namely Iceland, Liechtenstein, Norway and Switzerland. The provisions arrange for free trade of industrial goods. Most of the provisions relate to the abolition and prohibition of import duties and quantitative restrictions, and equivalent measures for both exports and imports. EFTA has supporting institutions, including a Secretariat that is based in Geneva, Switzerland, and is staffed by experts from member countries.

Box 13: The European Economic Area

The Agreement on the European Economic Area (EEA Agreement) entered into force on 1 January 1994. It presently applies between Iceland, Liechtenstein and Norway on the one side and the 25 Member States of the European Union on the other, forming together the 28 EEA States. The European Economic Community is also contracting party to the Agreement.

The aim of the EEA Agreement is to guarantee the free movement of goods, persons, services and capital, as well as equal conditions of competition and non-discrimination against individuals in all 28 EEA States. By removing barriers to trade and by opening new opportunities for 450 million Europeans, the EEA Agreement stimulates economic growth and adds to the international competitiveness of the EEA States.

Source: EFTA web-site.

NAFTA

On January 1, 1994, NAFTA entered into force. A key-objective is the elimination of tariffs on imports of goods between the three member countries: Canada, Mexico and the U.S. One key-aspect of NAFTA is the freeing of trade between high-income countries and a developing one.

The lowering and removal of tariffs takes into account countries' peculiarities, i.e. their levels of development. Mexico has until 2008 to remove import duties; the U.S. and Canada had to remove duties by the late 1990s. NAFTA also promotes fair competition, investments and the enforcement of intellectual property rights. The Agreement has eight parts that cover 22 chapters (See Annex I). The impacts of NAFTA are rather uneven.

Box 14: Impacts of NAFTA

- Using trade data and analysing survey post-NAFTA studies, a recent study concludes that both the U.S. and Mexico benefit from NAFTA, with much larger relative benefits for Mexico. NAFTA also has had little effect on the U.S. labour market. These results confirm the consensus opinion of economists. Finally, studies find that trade creation greatly exceeds trade diversion in the region under NAFTA, especially in intermediate goods.

Source: "The Impact of NAFTA on the United States", by Mary E. Burfisher, Sherman Robinson and Karen Thierfelder, *Journal of Economic Perspectives*, Vol. 15, Winter 2001, pp. 125-144.

- Between 1991 and 1998, the share of workers in salaried jobs with benefits fell sharply in Mexico. […] By 1998, the incomes of salaried workers had fallen 25%, while those of the self-employed had declined 40%. […] After seven years, NAFTA has not delivered the promised benefits to workers in Mexico, and few if any of the agreement’s stated goals has been attained.

Source: "The impact of NAFTA on wages and incomes in Mexico", by Carlos Salas, La Red de Investigadores y Sindicalistas Para Estudios Laborales (RISEL), EPI Briefing Paper, April 2001.

- The North American Free Trade Agreement has had a positive impact on Mexico's economy, although its benefits could have been greater if the government had spent more money on education, technology and infrastructure, says a report released by the World Bank two weeks ahead of the pact's 10th anniversary.

Source: "World Bank Says NAFTA Has Had Positive Impact On Mexico", Thursday, December 18, 2003, by Patricia Kowsmann, U.N. Wire.

[NB. Before NAFTA, the Mexican economy was characterised by a rather large, inefficient and very corrupted public sector. Joining NAFTA meant the restructuring and privatisation of state firms. That may indicate that postponing critical reforms raises economic and social costs of necessary adjustments.]

CEFTA

Former Czechoslovakia, Hungary and Poland signed the Central European Free Trade Agreement on 21 December, 1991. It became effective on 1 March, 1993. Slovenia joined in 1996 and was followed by Romania and Bulgaria in 1997 and 1999, respectively. Croatia also joined in 2004.

14. The Commonwealth of Independent States

The termination of the command economy system and related political and administrative structures led to serious economic crises in transition countries. New borders were also erected and, as a result, traditional economic and trade linkages virtually collapsed. The CIS was created to address these problems.

A 12-country organisation

The CIS was established by a treaty signed at Minsk, Belarus, on Dec. 8, 1991, by the Heads of State of Russia, Belarus, and Ukraine. The original signatories were joined by Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan and Uzbekistan. Presently, it has 12 members and its headquarter is in Minsk. The CIS is based on the principle of "sovereign equality" and serves the further development and strengthening of friendship, good neighbourhood, trust and mutual understanding and co-operation between states.

CIS institutions

The work of the CIS is accomplished through several institutions: the Council of the Heads of States, other Councils, Defence Ministers, Border Troops Commander, the Interparliamentary Assembly, the Executive Committee, etc. At present, there are 60 organs and committees to support sectorial co-operation; they meet regularly to discuss technical and implementation matters.

Economic and trade dimension

In September 1993, the CIS countries signed the Treaty on the Establishment of the Economic Union. Considering the promotion of trade, it first relied on a set of bilateral agreements signed in 1991-1993. In 1994, it was decided to move toward a multilateral framework establishing a free trade area with the adoption of an Agreement. The outcome of this Agreement was limited. As a result, a Protocol was adopted in 1999 to amend and supplement the free trade Agreement.

On 21 June 2000, the Council of the Heads of State also adopted a Plan for the realisation of actions to be achieved till 2005. It includes specific measures related to administrative and procedural matters, etc. Another Plan (of Measures for the Realisation of the Programme of Actions for the Development of the CIS) covers aspects of the free trade agreement such as the role of private business, specific kinds of products, economic projects and competition matters.

The establishment of a free trade zone for goods and services is seen as a pre-condition for the creation of a CIS common market and it encompasses several steps, including:

- the elimination of obstacles to the free movement of goods and services (with the elimination of customs duties and equivalent levies),
- the establishment of an effective system of accountancy and multilateral payments between member countries,
- co-operation in the conduct of trade and economic policy, particularly for implementing the Agreement in the fields of industry, agriculture, transport, finance, investment, social spheres, competition,
- promoting scientific and technical co-operation,
- harmonising legislation, etc.

Box 15: "A CIS Development Bank?"

"In the opinion of Alexander Lebedev, deputy chairman of the Russian State Duma's committee on CIS affairs, the Commonwealth's machinery is outdated in terms of personnel, structure and procedure. There is, for example, the CIS Development Bank. "Has anybody heard of it?" asked Lebedev, and replied himself: "No." But it has a status and money.

However, it has been doing nothing all these ten years since it was founded. It should be converted into a bank of regional co-operation to help promote regional projects."

Source: "Fradkov: Future radiant for CIS", *Pravda*, 2004-04-19.

15. Sub-regional integration within the CIS

For various (historical, cultural, political, economic and geographical) reasons CIS countries engaged themselves into sub-regional economic and trade integration schemes, at least formally. Such moves cannot yet be properly assessed because time, resources and institutions are needed to achieve concrete goals. It worth recalling that it took almost half a century to remove all internal barriers within the EU and the Euro was introduced only recently. Even within the EU, a multi-tier system seems to be the rule.

Belarus - Russia Union Treaty (1996)

As stated in the preamble of the Union Treaty, "The Russian Federation and the Republic of Belarus, proceeding from the spiritual affinity and community of the historic fates of their peoples, relying on their will for closer ties and striving to effectively use the material and intellectual potentialities of Russia and Belarus in the interests of their social and economic progress, acting in accordance with the fundamental principles of the constitutional systems of the Parties and universally recognised principles and norms of international law, basing themselves on the Treaty on the Formation of the Community of Russia and Belarus, which was signed on April 2, 1996, and developing its provisions with a view to achieving effective integration in the economic and other spheres of social life, have agreed upon the following:
Article 1: The Community of Russia and Belarus shall be transformed into a Union with the terms of reference stemming from its Charter. Each of the member countries of the Union shall retain its state sovereignty, independence, territorial integrity, etc."[21]

Considering economic matters, one key-step in the unification process is the adoption by both parties of a common currency. Originally, both sides agreed that the Russian rouble should become a common currency of the Union from January 1, 2005. That date is now seen as unrealistic as other economic matters should be resolved first.

Box 15: Conditions for adopting a common currency

- Russia and Belarus are a long way off from a single position on the switchover to the common currency, Pyotr Prokopovich, Chairman of the National Bank of Belarus, said today. "Currency integration should be the final stage of economic integration. […] We suggest that the decision on the introduction of the single rouble be made after all other issues connected with the creation of the single economic space have been solved," Prokopovich said.

Source: "Russia, Belarus long way off from currency integration", The Russian Journal, April 09, 2004.

- "On purely economic grounds, the [IMF] mission continues to feel that it is not possible at present to determine whether or not the proposed currency union with Russia will

[21] http://idc.cis.lead.org/idc/arboretum/belarus/bel-rus-union-doc.html

prove to be beneficial for Belarus in the long run. There are advantages such as lower transaction costs in trade with Russia and disadvantages such as a loss of competitiveness […] if the Russian rouble continues to appreciate in real terms."

Source: INTERNATIONAL MONETARY FUND: "Belarus 2004 Article IV Consultation. Concluding Statement of the mission", February 9, 2004.

Georgia-Ukraine-Uzbekistan-Azerbaijan-Moldova (1997)

The leaders of four countries (Georgia, Ukraine, Azerbaijan and Moldova) decided to create GUAM in 1997. In April 1999, GUAM was joined by Uzbekistan (and became GUUAM), which subsequently suspended its participation in the organization in June 2002.

From the beginning, GUUAM was seen as a political, economic and strategic alliance to strengthen national independence and full sovereignty. Economic matters were stressed in a joint 1997 communiqué with a focus on the so-called “Trans-Caucasus transportation corridor” and the “full utilization of existing economic possibilities.” A Free Trade Agreement was concluded at the GUUAM Yalta Summit of July 2002 with the creation of a Free Trade Area involving four countries: Georgia, Ukraine, Azerbaijan and Moldova. The future participation of Uzbekistan remains unclear.[22]

EurAsian Economic Community (2000)

On October 10, 2000, Belarus, Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan created a new international organisation, the “EurAsian Economic Community (EAEC)”. One of the aims of EAEC is the achievement of the objectives defined in the Customs Union’s agreements of 1995, the Agreement on the Deepening of Integration in the Economic and Humanitarian fields of 1996 and the 1999 Agreement on Customs Union and the Unified Economic Space.

Central Asian Co-operation Organisation (2002)

An agreement was signed between Kazakhstan, the Kyrgyz Republic, Tajikistan and Uzbekistan, on February 28, 2002, to establish the “The Central Asian Co-operation Organization”. The agenda of CACO is quite large and includes regional economic integration, trade expansion and the removal of obstacles and barriers impeding commercial and economic relationship between member-states.

Common Economic Space (2003)

On 18 September 2003, the Russian Federation, Ukraine, Kazakhstan and Belarus signed an agreement on the formation of the Common Economic Space (CES). The Treaty has been ratified by the Parliaments of the member countries.

The CES aim is the creation of a unified customs territory commonly regulated and allowing for the free movement of goods, service, capital and labour force. Such a space shall require

[22] For more details, see D. Linotte and L. Aune, "The GUUAM July 2002 Free Trade Agreement: A Preliminary Assessment", *Central Asia and the Caucasus*, Center for Social and Political Studies (Sweden), No. 1 (19), 2003.

competition rules and some degree of co-ordination in the field of macroeconomic policy, taxation and exchange rates. Trade and investments within the region shall be supported taking into account WTO rules. The adoption of a common currency was also mentioned.

The organisational structure shall reflect the integration needs. There will be a Council of the Heads of States and a Commission. The latter shall start its work with the formulation of a common tariff policy, which implies agreeing on and adopting a common tariff schedule.

To some extent, the CES project repeats what was envisioned for the CIS.

Other regional co-operation schemes involving CIS countries

CIS countries are also involved in regional co-operation organisations with third countries outside the OSCE region. Such schemes include the Shanghai Co-operation Organisation (SCO) and the Economic Co-operation Organisation (ECO). These organisations promote trade and economic linkages among members.

Box 16: "A far reaching organisation?"

"The prime ministers of China, Russia, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan also agreed on a SCO budget for 2004, which will be used to fund a Beijing secretariat and an anti-terrorism center in Tashkent from January 1.
"The six prime ministers signed a guiding document today on the long-term multilateral economic and trade cooperation of the SCO," Chinese Premier Wen Jiabao said.
"This is of far reaching significance as it has brought the economic cooperation of the SCO into a new era... To bring economic and trade cooperation into the SCO is the biggest achievement of this meeting."
Wen proposed setting up an SCO free trade zone to "promote the facilitation of trade and investment" within the group."

Source: "Shanghai Cooperation Organization shifts focus to economic cooperation", Agence France-Presse, 23-Sep-2003.

16. Developing countries REI examples

Mercosur

On March 26, 1991, the Treaty of Asuncion signed by Brazil, Argentina, Paraguay and Uruguay put the Southern Common Market into force. Its purpose is to promote free trade and movement of goods, services and peoples, skills and capital, between these countries. Bolivia and Chile have associate member status. Mercosur led to an expansion of trade within the region. However, the process of integration slowed down with the 2002 crisis in Argentina. Nevertheless, the newly elected leaders in Argentina and Brazil seem willing to go ahead with the integration agenda.

Box 17: The deep roots of regional (economic) integration in Latin America

"Latin America has historically tended towards regionalism. From Simon Bolivar to Raul Prebisch to modern day technocrats such as Fernando Henrique Cardoso, the wisdom has been that unity is better—although not always feasible. While most integration plans did not include the area north of the Rio Grande […] the idea of Pan-American union has [also] been batted around for ages, even in periods when protectionist policies dominated the daily agenda."

Source: "The Future of Regional Trading Arrangements in the Western Hemisphere", by Gary Clyde Hufbauer and Barbara Kotschwar, Paper for Michigan State University 10th Anniversary Conference "The US-Canada Free Trade Agreement", September 11-12, 1998.

[**Raul Prebisch**: Argentinian economist who worked at the United Nations Commission for Latin America (UNCLA) and became later the first Secretary-General of UNCTAD. He is a major contributor to the so-called "dependency" thesis of economic development theory. Prebisch argued that international trade had not been necessarily useful for economic development and advocated import substitution policies in developing countries. Such policies often led to costly failures because of heavily administrative controls, corruption and the lack of competition. Nevertheless, his ideas about boosting economic integration among developing countries to increase market size are still attractive.]

Gulf Co-operation Council

The Gulf Co-operation Council was set up in 1981. Its members are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates (UAE). The Gulf Co-operation Council seeks to strengthen co-operation in areas such as agriculture, industry, investment and trade among its members. Another major aim was to reduce outside intervention in the Gulf region.

GCC also established the Gulf Standards Organisation in November 1982 and the Gulf Investment Corporation in 1984. Yemen could soon join the Gulf Economic Council. In 2001 the GCC agreed to establish a customs union in 2003 and a broader economic union (including a single market and currency) by 2010.

Box 17: The EU and GCC

In 1989 the EC and the GCC concluded a Co-operation Agreement under which the EU and GCC Foreign ministers meet once a year at a Joint Council/Ministerial Meeting. The objective of this agreement is to facilitate trade relations, as well as more generally to contribute to strengthening stability in a strategic part of the world. Working groups have been established in the fields of industrial co-operation, energy and environment. In 1996, decentralised (university, business and media) co-operation was added to the agenda.

Economic Community of the Great Lakes Countries

Even the poorest countries are basing their economic development on regional integration. The *Communauté Economique des Pays des Grands Lacs* was established on 20 September 1976 with the aim to promote regional economic co-operation and integration between its 3 members, namely Burundi, the Democratic Republic of Congo and Rwanda.

Box 17: ASEAN MEMBERS AGREE TO DEEPEN INTEGRATION

The ten members of the Association of Southeast Asian Nations (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam) signed an ambitious accord on 7 October to establish an economic community similar to that of the EU. The agreement, called the "Bali Concord II," was signed during the ninth ASEAN Ministerial Summit held from 7-8 October in Bali, Indonesia. It aims to create a community in Southeast Asia based on three pillars: economic cooperation, political and security cooperation and socio-cultural cooperation. The ultimate goal of the agreement is to create a competitive region with a free flow of investment, goods, services, and skilled labour combined with a freer flow of capital, stable and equitable economic development, and reduced poverty and socio-economic disparities by the year 2020.

Source: BRIDGES Weekly, 15 October 2003.

Part IV: WTO membership and trade facilitation

17. Regional Trade Agreements and the WTO

The creation of REI schemes should not contradict WTO rules on regional trade agreements for countries that are already members of the WTO or are willing to become members. Non compliance with WTO rules can delay accession.

WTO rules on regionalism

Regional trade arrangements among WTO members have to be notified to the organization. In all, during the period from 1948-1994, 124 notifications were made. Some of these agreements are no longer in force, or they have been amended or superseded by redesigned agreements. Since 1995, over 100 new agreements were notified although not all of them are fully enforced.

For WTO members, regional trade agreements are permitted under specific conditions spelled in three sets of rules:

1) paragraphs 4 to 10 of the General Agreement on Tariffs and Trade (GATT) article XXIV, as clarified in the *Understanding on the Interpretation of Article XXIV of the GATT 1994,* provide for the formation of free trade areas and customs unions for trade in goods,
2) the so-called “Enabling Clause” for developing countries and
3) Article V of General Agreement on Trade in Services (GATS) that governs regional arrangements on trade in services.

FTAs and GATT

Paragraph 4 of GATT underlines “the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreement.” Moreover, “the purpose of a customs union or of a free trade agreement should be to facilitate trade between the constituent territories and not raise trade barriers of other contracting parties with such territories.”

Paragraph 5 states that the provision of this Agreement shall not prevent the formation of a free-trade area; *provided* that: (a) duties applied by the area shall not be higher or more restrictive; and (b) the formation of the free trade area shall be done within a reasonable length of time. 10 years is seen as a limit, unless exceptional cases for which a full explanation has to be provided. The parties of a free trade area have to notify WTO contracting parties about their mutual arrangement and provide them with adequate information. Compensations are also envisaged.

The 1994 *Understanding of the Interpretation of article XXIV of GATT* reaffirms “that the purpose of such [free trade] agreements should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other [WTO] Members with such territories; and that in their formation or enlargement the parties to them should to the greatest possible extent avoid creating adverse effects on the trade of other members.”

FTAs and GATS

Following the terms of GATS Article V, “this Agreement shall not prevent any of its Members from being a party to or entering into an agreement liberalizing trade in services between or among the parties to such an agreement, provided that such an agreement: (a) has substantial coverage [in terms of number of sectors, volume of trade affected and modes of supply] and (b) provides for the absence or elimination of substantially all discrimination … between or among the parties…”

Transition economies and the WTO

Not all OSCE participating states are members of the WTO. Considering CIS countries, only Armenia, Georgia, Kyrgyzstan and Moldova have joined the organisation. With the exception of Turkmenistan, all other countries are engaged in negotiations to become members of the WTO. Furthermore, when REI schemes are not effective, joining the WTO is also important because it will improve market access to most countries, including the richest ones.

18. The importance of trade facilitation

REI schemes cannot work well when the customs do not process formalities properly and quickly. Streamlining the crossing of borders has positive impacts on both trade and security.

The meaning of trade facilitation

Trade Facilitation is often defined as "the simplification and harmonisation of international trade procedures" with trade procedures being the "activities, practice and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade". This definition relates to a wide range of activities such as import and export procedures (e.g. customs or licensing procedures); transport formalities; and payments, insurance, and other financial requirements. Work in the area has been carried out by organisations such as UNCTAD, UNECE or the WCO for several decades.

UNECE and trade facilitation

UNECE plays a major role as the organisation that has developed standards for trade facilitation for more than 40 years: the UN Layout Key for trade documents; guidelines for national trade facilitation bodies; codes for locations (LOCODE), trade data elements (UN/TDED) and other codes; the only global standard for electronic data interchange (UN/EDIFACT), as well as key–expertise on trade facilitation.

The Kyoto Convention

The World Customs Organisation 1973 "Kyoto Convention" is an international instrument on the harmonisation of customs techniques covering all aspects of customs legislation. Since 1973, the growth in international cargo, developments in information technology and a highly competitive international business environment, have created conflicts with traditional customs methods and procedures. WCO has therefore revised and adopted a new Kyoto Convention in 1999 to ensure that it meets the current demands of international trade.

Trade facilitation and the OSCE region

The adoption and the implementation of trade facilitation measures is essential for boosting trade with and among transition countries. For instance, BSEC and SEE give a high priority to such measures. There are also proposals to foster trade facilitation and improve transportation in Central Asia.[23] GUUAM countries are also developing national strategies for trade facilitation measures, which is seen as a major step for the further integration of their economies.

ANNEXES

I. The Chapters of NAFTA

II. WTO information

[A] List of regional trade arrangements

[B1] Intra- and inter-regional merchandise trade, 2002

[B2] Merchandise trade of selected regional integration arrangements, 2002

[23] See Prianka N. Senevirame, "Transportation and Trade Facilitation Strategy for Central Asia", Asian Development Bank, 2003.

ANNEX I
The Chapters of NAFTA

PART ONE: GENERAL PART

Chapter One: Objectives
Chapter Two: General Definitions

PART TWO: TRADE IN GOODS

Chapter Three: National Treatment and Market Access for Goods

Annex 300-A: Trade and Investment in the Automotive Sector
Annex 300-B: Textile and Apparel Goods

Chapter Four: Rules of Origin
Chapter Five: Customs Procedures
Chapter Six: Energy and Basic Petrochemicals
Chapter Seven: Agriculture and Sanitary and Phytosanitary Measures
Chapter Eight: Emergency Action

PART THREE: TECHNICAL BARRIERS TO TRADE

Chapter Nine: Standards-Related Measures

PART FOUR: GOVERNMENT PROCUREMENT

Chapter Ten: Government Procurement

PART FIVE: INVESTMENT, SERVICES AND RELATED MATTERS

Chapter Eleven: Investment
Chapter Twelve: Cross-Border Trade in Services
Chapter Thirteen: Telecommunications
Chapter Fourteen: Financial Services
Chapter Fifteen: Competition Policy, Monopolies and State Enterprises
Chapter Sixteen: Temporary Entry for Business Persons

PART SIX: INTELLECTUAL PROPERTY

Regional trade agreements

AFTA	**ASEAN Free Trade Area**	Brunei Darussalam Cambodia Indonesia Laos Malaysia Myanmar Philippines Singapore Thailand Vietnam
ASEAN	**Association of South East Asian Nations**	Brunei Darussalam Cambodia Indonesia Laos Malaysia Myanmar Philippines Singapore Thailand Vietnam
BAFTA	**Baltic Free-Trade Area**	Estonia Latvia Lithuania
BANGKOK	**Bangkok Agreement**	Bangladesh China India Republic of Korea Laos Sri Lanka
CAN	**Andean Community**	Bolivia Colombia Ecuador Peru Venezuela
CARICOM	**Caribbean Community and Common Market**	Antigua & Barbuda Bahamas Barbados Belize Dominica Grenada Guyana Haiti Jamaica Monserrat Trinidad & Tobago St. Kitts & Nevis St. Lucia St. Vincent & the Grenadines Surinam
CACM	**Central American Common Market**	Costa Rica El Salvador Guatemala Honduras Nicaragua
CEFTA	**Central European Free Trade Agreement**	Bulgaria Czech Republic Hungary Poland Romania Slovak Republic Slovenia
CEMAC	**Economic and Monetary Community of Central Africa**	Cameroon Central African Republic Chad Congo Equatorial Guinea Gabon
CER	**Closer Trade Relations Trade Agreement**	Australia New Zealand
CIS	**Commonwealth of Independent States**	Azerbaijan Armenia Belarus Georgia Moldova Kazakhstan Russian Federation Ukraine Uzbekistan Tajikistan Kyrgyz Republic
COMESA	**Common Market for Eastern and Southern Africa**	Angola Burundi Comoros Democratic Republic of Congo Djibouti Egypt Eritrea Ethiopia Kenya Madagascar Malawi Mauritius Namibia Rwanda Seychelles Sudan Swaziland Uganda Zambia Zimbabwe
EAC	**East African Cooperation**	Kenya Tanzania Uganda
EAEC	**Eurasian Economic Community**	Belarus Kazakhstan Kyrgyz Republic Russian Federation Tajikistan
EC	**European Communities**	Austria Belgium Denmark Finland France Germany Greece Ireland Italy Luxembourg Netherlands Portugal Spain Sweden United Kingdom
ECO	**Economic Cooperation Organization**	Afghanistan Azerbaijan Iran Kazakhstan Kyrgyz Republic Pakistan Tajikistan Turkey Turkmenistan Uzbekistan
EEA	**European Economic Area**	EC Iceland Liechtenstein Norway

EFTA	**European Free Trade Association**	Iceland Liechtenstein Norway Switzerland
GCC	**Gulf Cooperation Council**	Bahrain Kuwait Oman Qatar Saudi Arabia United Arab Emirates
GSTP	**General System of Trade Preferences among Developing Countries**	Algeria Argentina Bangladesh Benin Bolivia Brazil Cameroon Chile Colombia Cuba Democratic People's Republic of Korea Ecuador Egypt Ghana Guinea Guyana India Indonesia Islamic Republic of Iran Iraq Libya Malaysia Mexico Morocco Mozambique Myanmar Nicaragua Nigeria Pakistan Peru Philippines Republic of Korea Romania Singapore Sri Lanka Sudan Thailand Trinidad and Tobago Tunisia United Republic of Tanzania Venezuela Vietnam Yugoslavia Zimbabwe
LAIA	**Latin American Integration Association**	Argentina Bolivia Brazil Chile Colombia Cuba Ecuador Mexico Paraguay Peru Uruguay Venezuela
MERCOSUR	**Southern Common Market**	Argentina Brazil Paraguay Uruguay
MSG	**Melanesian Spearhead Group**	Fiji Papua New Guinea Solomon Islands Vanuatu
NAFTA	**North American Free Trade Agreement**	Canada Mexico United States
OCT	**Overseas Countries and Territories**	Greenland New Caledonia French Polynesia French Southern and Antarctic Territories Wallis and Futuna Islands Mayotte Saint Pierre and Miquelon Aruba Netherlands Antilles Anguilla Cayman Islands Falkland Islands South Georgia and South Sandwich Islands Montserrat Pitcairn Saint Helena Ascension Island Tristan da Cunha Turks and Caicos Islands British Antarctic Territory British Indian Ocean Territory British Virgin Islands
PATCRA	**Agreement on Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea**	Australia, Papua New Guinea
PTN	**Protocol relating to Trade Negotiations among Developing Countries**	Bangladesh Brazil Chile Egypt Israel Mexico Pakistan Paraguay Peru Philippines Republic of Korea Romania Tunisia Turkey Uruguay Yugoslavia
SAPTA	**South Asian Preferential Trade Arrangement**	Bangladesh Bhutan India Maldives Nepal Pakistan Sri Lanka
SPARTECA	**South Pacific Regional Trade and Economic Cooperation Agreement**	Australia New Zealand Cook Islands Fiji Kiribati Marshall Islands Micronesia Nauru Niue Papua New Guinea Solomon Islands Tonga Tuvalu Vanuatu Western Samoa
TRIPARTITE	**Tripartite Agreement**	Egypt India Yugoslavia
UEMOA WAEMU	**West African Economic and Monetary Union**	Benin Burkina Faso Côte d'Ivoire Guinea Bissau Mali Niger Senegal Togo

Table III.3

Intra- and inter-regional merchandise trade, 2002

(Billion dollars and percentage)

Origin / Destination	North America	Latin America	Western Europe	C./E. Europe/ Baltic States/CIS	Africa	Middle East	Asia	World
Value								
North America	382	152	170	7	12	20	204	946
Latin America	215	54	44	3	4	5	23	350
Western Europe	270	55	1787	168	66	68	208	2657
C./E. Europe/Baltic States/CIS	14	6	176	80	4	7	24	314
Africa	24	5	71	1	11	3	24	140
Middle East	38	3	40	2	9	17	116	244
Asia	394	39	260	21	26	48	792	1620
World	1336	315	2549	282	133	169	1391	6272
Share of inter-regional trade flows in each region's total merchandise exports								
North America	40.3	16.1	17.9	0.7	1.2	2.1	21.5	100.0
Latin America	61.3	15.4	12.6	1.0	1.2	1.3	6.7	100.0
Western Europe	10.2	2.1	67.3	6.3	2.5	2.6	7.8	100.0
C./E. Europe/Baltic States/CIS	4.5	1.9	56.2	25.5	1.2	2.4	7.7	100.0
Africa	17.0	3.3	50.9	0.7	8.1	2.3	16.8	100.0
Middle East	15.5	1.4	16.4	0.8	3.8	7.1	47.4	100.0
Asia	24.3	2.4	16.0	1.3	1.6	3.0	48.9	100.0
World	21.3	5.0	40.6	4.5	2.1	2.7	22.2	100.0
Share of regional trade flows in world merchandise exports								
North America	6.1	2.4	2.7	0.1	0.2	0.3	3.2	15.1
Latin America	3.4	0.9	0.7	0.1	0.1	0.1	0.4	5.6
Western Europe	4.3	0.9	28.5	2.7	1.1	1.1	3.3	42.4
C./E. Europe/Baltic States/CIS	0.2	0.1	2.8	1.3	0.1	0.1	0.4	5.0
Africa	0.4	0.1	1.1	0.0	0.2	0.1	0.4	2.2
Middle East	0.6	0.1	0.6	0.0	0.1	0.3	1.8	3.9
Asia	6.3	0.6	4.1	0.3	0.4	0.8	12.6	25.8
World	21.3	5.0	40.6	4.5	2.1	2.7	22.2	100.0

Table I.9

Merchandise trade of selected regional integration arrangements, 2002

(Billion dollars and percentage)

	Value	Share in total exports/imports				Annual percentage change		
	2002	1990	1995	2000	2002	1995-00	2001	2002
APEC (21)								
Total exports	2779	100.0	100.0	100.0	100.0	6	-8	3
Intra-exports	2023	67.5	72.4	72.7	72.8	6	-9	4
Extra-exports	756	32.5	27.6	27.3	27.2	6	-5	-1
Total imports a	3068	100.0	100.0	100.0	100.0	7	-7	4
Intra-imports	2148	65.4	71.7	71.2	70.0	7	-8	4
Extra-imports	920	34.6	28.3	28.8	30.0	7	-2	3
EU (15)								
Total exports	2449	100.0	100.0	100.0	100.0	2	0	6
Intra-exports	1509	64.9	64.0	62.4	61.6	2	-1	5
Extra-exports	940	35.1	36.0	37.6	38.4	3	1	6
Total imports	2447	100.0	100.0	100.0	100.0	3	-2	4
Intra-imports	1514	63.0	65.2	60.3	61.9	2	-1	5
Extra-imports	933	37.0	34.8	39.7	38.1	6	-4	1
NAFTA (3)								
Total exports	1107	100.0	100.0	100.0	100.0	7	-6	-4
Intra-exports	626	42.6	46.0	55.7	56.5	12	-6	-2
Extra-exports	481	57.4	54.0	44.3	43.5	3	-6	-6
Total imports b	1599	100.0	100.0	100.0	100.0	11	-6	2
Intra-imports	609	34.4	37.7	39.6	38.1	12	-7	-2
Extra-imports	990	65.6	62.3	60.4	61.9	10	-6	4
ASEAN (10)								
Total exports	405	100.0	100.0	100.0	100.0	6	-10	5
Intra-exports	97	20.1	25.5	24.0	24.0	5	-12	8
Extra-exports	308	79.9	74.5	76.0	76.0	6	-9	4
Total imports	353	100.0	100.0	100.0	100.0	1	-8	5
Intra-imports	83	16.2	18.8	23.7	23.6	5	-12	9
Extra-imports	270	83.8	81.2	76.3	76.4	-1	-7	4
CEFTA (7)								
Total exports	157	-	100.0	100.0	100.0	7	11	14
Intra-exports	19	-	14.6	12.1	12.2	3	14	12
Extra-exports	138	-	85.4	87.9	87.8	8	11	14
Total imports	187	-	100.0	100.0	100.0	8	8	11
Intra-imports	19	-	11.3	9.6	10.2	5	13	13
Extra-imports	168	-	88.7	90.4	89.8	9	7	11
MERCOSUR (4)								
Total exports	89	100.0	100.0	100.0	100.0	4	4	1
Intra-exports	10	8.9	20.5	21.0	11.5	4	-14	-33
Extra-exports	78	91.1	79.5	79.0	88.5	4	9	8
Total imports	62	100.0	100.0	100.0	100.0	2	-6	-26
Intra-imports	11	14.5	18.1	19.8	17.0	4	-11	-33
Extra-imports	52	85.5	81.9	80.2	83.0	2	-5	-24
ANDEAN (5)								
Total exports	53	100.0	100.0	100.0	100.0	8	-9	0
Intra-exports	5	4.2	12.3	8.9	10.2	1	12	-7
Extra-exports	48	95.8	87.7	91.1	89.8	9	-11	1
Total imports c	39	100.0	100.0	100.0	100.0	1	12	-10
Intra-imports	5	7.7	12.9	13.8	13.9	2	8	-6
Extra-imports	34	92.3	87.1	86.2	86.1	0	12	-11

a Imports of Canada, Mexico and Australia are valued f.o.b.

b Imports of Canada and Mexico are valued f.o.b.

c Imports of Venezuela are valued f.o.b.

Note: The figures are not fully adjusted for differences in the way members of the arrangements in this table record their merchandise trade.