South–South Regionalism

There are virtually no developing countries that are not members of one or more regional groupings. Regional partnership among developing countries with a comparable economic situation is a widely followed strategy to overcome the limitations of small economic size and to acquire more bargaining power. So far, however, the success of most groupings has been limited. In many cases the initial high expectations have not been fulfilled.

There have been two waves of regionalism in developing countries (Bhagwati, 1993). The first wave followed the successful beginning of regional economic integration in Europe in the 1950s. For many developing countries, especially in Africa, this coincided with the immediate post-independence period. A second wave of regionalism started around the end of the 1980s and the beginning of the 1990s. This coincided with the preparation of the European single market programme that was completed at the end of 1992. In the developing world, the single market programme led to fears of a ‘fortress Europe’ that would become exclusive and inward-looking. The formation of NAFTA led to similar fears of exclusion in the Caribbean and Latin America. By making or strengthening their own groupings, developing countries felt that they could better cope with the groupings of industrial countries and with globalization. Some observers also link the second wave of regionalism to the disappointment with the GATT system that had been unable to counteract the rise of new forms of protectionism (for example ‘Voluntary Export Restraints’ and anti-dumping measures) and to the difficulties during the prolonged negotiations of the Uruguay Round.

There is a seemingly never-ending controversy on the merits of regional economic integration. Krugman (1991) speaks of a ‘fundamentally murky debate’, which is due to the inherent ambiguity of the welfare implications of integration arrangements. A complicating factor is that regional integration invariably has important political motives and objectives in addition to the economic ones.
This chapter assesses the merits and difficulties of regional integration as a strategy for small developing countries. Regional integration is not presented as a panacea, but rather as a way to complement what can and should be achieved through participation in the multilateral trading system and through unilateral action. Politicians often tend to overestimate the gains from regional integration and to underestimate the problems to be overcome. On the other hand, many trade economists (generally supported by the Bretton Woods institutions) look at regional integration with considerable suspicion, tending to see it as an obstacle on the road towards the ‘first best’ situation of worldwide free trade. In this view, unilateralism within the WTO framework is the best strategy and regional trading arrangements are an unnecessary and costly distraction. The section below on the outcomes of regional arrangements summarizes the key aspects of the debate. It maintains that regional integration should build on the multilateral system and should not deal with issues that are more effectively handled in a unilateral way. Even within these boundaries, a sizeable potential remains for regionalism to contribute to economic growth in small developing countries. However, for this contribution to be realized, developing countries should pay much more attention than in the past to the preconditions for successful regional integration, to institutional design and to effective implementation. These aspects are dealt with below. The discussion of these issues refers mainly to European experience, because this is relevant for an appreciation of some neglected aspects of the debate on regionalism among developing countries.\footnote{If certain preconditions are not fulfilled or if the institutional design is not suitable, regional integration among developing countries is likely to fail. Before addressing these topics, the next section will refresh some basic concepts.}

**Levels and types of integration**

The literature on economic integration usually distinguishes Free Trade Areas (FTAs), Customs Unions (CUs), Common Markets and Economic Unions (see for example Pelkmans, 1997). In FTAs, trade in goods is liberalized within the grouping, but the partner countries maintain a separate trade policy towards third countries. It is understood that FTAs also eliminate all quantitative constraints such as quotas and other non-tariff barriers, for example import licensing. Sometimes, reference is made to Preferential Trade Areas (PTAs), meaning that the tariffs are not (yet) fully eliminated between member states and only preferential treatment is given.\footnote{Usually PTAs are considered as interim arrangements towards FTAs. CUs are like FTAs, but with the establishment of a Common External Tariff (CET) towards third countries. In other words, CUs require a *common* trade policy. In a Common Market, free movement of pro-}