

# South-South Regional Integration Processes: Regionalism under Multiple Forms

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The acceleration of economic globalization since the early '80s followed by the collapse of the communist system have profoundly changed the international order established after the Second World War. The bipolar world of the post-war period has been replaced by a new international context marked by the end of the Cold War, the deepening of trade liberalization and the emergence of large economic blocs centred around the US, Japan and the European Union. In this increasingly globalised context, the proliferation of regional trade blocs has become one of the main features of international relations in recent years. Almost all developing countries are engaged in processes of regional integration whose forms range from sectoral cooperation to political unions with transfer of sovereignty.

This regionalism does not match the sequences defined by Bela Balassa, going from free trade to integration, and including customs unions, common markets and economic unions. It is both a complex process and the outcome of this process. It can be characterized alternatively or jointly by an intensification of trade movements and factors, coordination of economic or social policies, cooperation projects established by actors, interdependencies between economies leading to economic convergence and the establishment of regulations, or transfer of sovereignty equipped with institutional structures.

This regionalism takes many forms. It is more or less governed by institutions and by regional trade agreements: "de jure regionalism." However, there may also be practices of actors constituting business, financial,

cultural or technological networks in regional areas: "de facto regionalism" (as, for instance, East Asian network regionalization or African cross-border trade). There may likewise be global geographical fragmentation based on strategies of segmentation by transnational actors. The political component of regionalization significantly influences its nature. However, as pointed out by Bhagwati (1993), there are many examples where these arguments have not served as a source for the development of economic regionalization. The existence of additional relations between the States constituting a regional bloc inevitably influence trade flows. Regionalization does not become credible unless one of the two countries involved modifies its comparative advantages. In this case, and considering the effects of learning, the new supply source will be more expensive than the old. In practice, the distinction between de jure and de facto regionalization is far from obvious.

The observation on the multiple forms of regional integration processes requires clarification. It raises new issues for developing countries: Why have developing countries turned towards cooperation and regional integration at a certain point? How are regionalization processes different for each of them?

## **African Integration Processes: Multiple Memberships and Programme Overlap**

The importance of regional economic integration as a means for accelerating and consolidating economic and social development has long been recognized in Africa.<sup>1</sup> The objective of integration is thus deeply rooted in the history of Africa. As the challenges of globalization and interdependence

<sup>1</sup> The unity, cooperation and integration of Africa were long-standing aspirations of numerous African leaders such as George Patmore, W. E. B. Dubois or Marcus Garvey, as well as African nationalists such as Kwame Nkrumah who, in his book *Africa Must Unite*, called for African unity.

have made their impact felt on countries of the region, including the risk of marginalization of the African continent, the goal of integration has become an even greater priority.<sup>2</sup>

Regionalism in Africa has been motivated by two needs. The first is to strengthen Pan-African political unity. The second is to promote economic growth and development. Regionalism, in particular for market integration on the regional level, has served as a means to help African countries overcome the structural problems they face. Several sub-regional groupings in Africa have been formed. Though the phenomenon of regional integration is old, it is currently undergoing a yet fragile process of renewal. The Abuja Treaty signed in 1994 has largely contributed to the revival of regional issues in Sub-Saharan Africa. The treaty aims to establish, after a period of thirty-four years, an African economic community based on existing regional integration processes. It recommends the establishment of free trade areas first, to be followed by customs unions.

Regional integration processes in Africa face various problems, the most significant being membership multiplicity and programme overlap. This situation constitutes a serious problem in Africa. On average, 95% of members of each regional economic community belong to another community as well. Considering the problems that belonging to a variety of economic communities create, why do countries continue to join several communities? Half of the countries put forth political and strategic reasons to justify membership in one or another community. Economic interests lag far behind as reasons cited, accounting for only 35% of responses.<sup>3</sup> The implementation of similar programmes in different regional economic communities is another constraint weighing upon integration processes on the continent.

Of the twelve main programmes implemented by regional economic communities in West Africa, at least nine can also be found elsewhere. Programme duplication and overlapping memberships have negative effects on the integration process in Africa, especially considering the financial constraints of regional economic communities. On average, a third of member countries do not meet their statutory obliga-

tions and this proportion can rise to half of the members in some communities. The internal funding mechanisms of regional economic communities are under great strain. This situation can be ascribed to several factors, as follows.

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The established programmes are not implemented consistently. Streamlining the institutional framework is important for successful integration, but member countries are the primary stakeholders and have a decisive role to play in the national implementation of policies established by mutual agreement. However, implementation at the national level has not been systematic and few countries have established effective integration mechanisms.

Regional economic communities have made efforts to establish mechanisms to coordinate their activities, namely memoranda of understanding, periodic coordination meetings, regular information exchange, joint programming, programme reviews and joint implementation committees. The use of these mechanisms, however, remains limited.<sup>4</sup> The coordination mechanisms that do exist have no statutory basis and are not legally enforceable.

States have fallen into the “trap of transposition,” assuming that examples of regional integration among industrialized countries could also apply to less developed countries. This is why Sub-Saharan Africa’s results in the creation and maintenance of regional structures are generally very disappointing. Concrete results are meagre because in many cases, the countries concerned are also involved in a number of other programmes or communities often oriented towards mutually exclusive goals and strategies. Although relations among countries outside of formal

<sup>2</sup> The Organization for African Unity (OAU) was established in 1963 to integrate African economies, solve conflicts within and among African countries, bring development and improve the standard of living of Africans (OLUBOMEHIN and KAWONISHE, 2004).

<sup>3</sup> See the study by the African Union on integration in Africa. 2008.

<sup>4</sup> Approximately 40% of the economic communities of a single region use memoranda of understanding, less than 20% examine their joint programmes and less than 30% employ joint programming and carry out activities jointly.

structures are stronger than those established through the development of official trade relations, an “informal nature” is often maintained in official trade relations in order to meet the interests of specific groups that are able to take advantage of lax policies and weak institutional structures. For these interest groups, the maintenance of unsatisfactory formal institutional arrangements has become part of the status quo, even if the economies concerned suffer.

### **Latin America: Divergence between the “Southern” Integrationist Model and the “Northern” Free Trade Model**

Latin American regions are well familiar with the process of regional integration. Hence, whereas over two hundred years ago, the Bolivarian myth gave rise to the dream of a supportive, united continent, the first projects of economic integration were developed in the 1950s and 60s, headed by ECLAC (the UN Economic Commission for Latin America and the Caribbean). At that time, the main goal was to improve cooperation among self-centred economies. For over fifty years now, the idea of integration has been making headway.

Yet these “integrationist” movements have run up against major obstacles consisting of traditional antagonisms between countries, a structural lack of capital, protectionism and authoritarian political systems that are often considered unstable. However, restructuring efforts have continued over time, leading to the establishment of four common markets (the Central American Common Market, the Caribbean Community and Common Market – CARICOM, the Andean Group and recently, Mercosur) and a free trade agreement between Chile and Mexico, the latter country itself being invited to join the North American Free Trade Area (NAFTA). Multiple and diverse, old or new, these integration processes reflect both hopes of development and the complex challenges of reconciliation.

The existence of these various sub-regional blocs appears in a number of texts and legal bodies, but until recently, economic performance had not been very significant and debt resulting from their commitment to development led to the deep crisis of the

‘80s (-1.2% of GDP/capita for the whole of Latin America). The need to overcome this marginalization vis-à-vis the industrialized countries, the desire to regain credibility, the hope of becoming the fourth world power after the EEC, North America and Japan pushed them to resume the integration process at a time when the centrally planned economies of Eastern Europe were disintegrating. Taking advantage of political changes, the restoration of democratic regimes and the renewal of an international economic mindset, the construction of an integrated Latin American region was thus relaunched.

Latin America continues to experiment with the integration process perceived as a lever for attaining the development levels that it has repeatedly failed to attain since independence was gained by the various countries in the 19th century. The dynamics of economic regionalization often display the shortcoming that agreements signed are not implemented. The search for integration in fact requires focussing on areas where synergies can lead to compatibility. It involves redefining the map of economic and political relations between Latin American nation-states and their neighbours to the North.

Current thinking on the South American continent regarding the need to deepen economic regionalization through institutional structures illustrates the profound differences between the engaged and engaging integrationist “southern” model, based on developmentalism, and the “northern” model put forth by the United States and based on the advantages of free trade. Their evolution is also different. Thus, the failure of the proposed Free Trade Area of the Americas (FTAA) had the boomerang effect of bilateral agreements that are a matter of concern for those who saw it as a way to overcome the difficulties and achieve the effective opening up of national economies, the latter no longer being sustained by any regional agreement.<sup>5</sup>

Hence, the fate of regionalization in Latin America lies in the ability of sub-continental powers (primarily Brazil) to establish a confederation as a means to and as the goal of deeper South American integration with stronger mechanisms of redistribution. In fact, these integration processes reflect different ambitions for the different territories, whether at the regional (sub-national) or national levels. Theoretically, political

<sup>5</sup> Mexico (and Canada) are finally well integrated with the US economy; at a second level are Central America and the Caribbean, Colombia and Peru. In any case, US programmes of resource access and territorial control in Latin America are running up against increasing competition through the growing demand from China, Europe and the South.

and economic ties (the Brasilia - Buenos Aires - Caracas - La Paz - Montevideo axis) would be strengthened and accompanied by a greater flow of goods, more open competition and the search for coordination and means of regulation.

In any case, the challenges are many: institutional weaknesses, the cyclical nature of trade, heterogeneity and inequality, issues of credibility, indirect destabilization exerted by the United States through the signing of bilateral agreements, etc. Moreover and ultimately, the desire to attract foreign direct investment (FDI) and develop innovative local economic systems leads to a specialization of territories and their inclusion in a game where those isolated from integrationist forces and flows of goods and people (geographic and/or economic marginalization) will lose.

All in all, the dividing line between the "northern model" and the "southern model" crosses Mexico. The position of Colombia is also uncertain and Venezuela holds a highly ambivalent position. Its development will depend on the leadership will of Brazil, the regional power. Between regionalization and globalization, Latin America thus faces critical choices in terms of politico-economic and social models. The unprecedented, original experiences of regional integration in North and South America call for a rereading of North-South relations, all the more so at this time of redefinition of international relations and emerging powers in the South.

### **Asia, or the Triumph of Neo-Regionalism**

Asian economic regionalization is an old phenomenon largely based on the internal dynamics of market forces. On the institutional level, regional integration is a more recent idea that has been organized around two consistent geographic areas: Australia and New Zealand within the framework of the Closer Economic Relations (CER) agreement beginning in the early 1980s; and the countries belonging to the Association of Southeast Asian Nations (ASEAN) through the ASEAN Free Trade Area (AFTA) as of the early

1990s. Both Oceania and ASEAN have chosen to move towards a preferential opening of markets according to a classic free trade model: agreements focus on dismantling barriers to the free movement of goods (and services in the case of the CER) with neither a customs union nor monetary integration and with no scheme for the free movement of persons or capital. In addition, Asia-Pacific Economic Cooperation (APEC), a forum for economic and technical cooperation for the Asia-Pacific Region, has served as a vehicle for increasing initiatives towards bilateral free trade agreements, most not yet completed.<sup>6</sup> The entire East Asian Region has thus entered a regionalization dynamic initiated by Japan but gradually taken over by the Newly Industrialized Countries (NICs) and by Chinese networks. Asian regionalization is driven by market forces but also by two trunk networks: Japanese companies based on technology and Chinese business and financial networks. They may enter into competition with one another or simply coexist. They may structure an area in a process of integration with the Eastern Europe & Central Asia (EEAC) region or, conversely, foster East Asian blocs revolving around Chinese networks and Southeast Asian blocs revolving around Japanese networks. Yet the refusal or inability to build institutionalized regionalization has demonstrated the limits of East Asian regionalism.

ASEAN has played an important role in the area, in particular, successfully maintaining peace and regional security. It has also sparked the first dynamic of cooperation and coordination among the governments of the region. Moreover, despite the proliferation of bilateral agreements<sup>7</sup> and sub-regional cooperation initiatives such as growth triangles, it remains the backbone of the main regional or interregional initiatives<sup>8</sup> and has initiated dialogue on regional security issues through the ARF (ASEAN Regional Forum). ASEAN+3 is the second area included here for three reasons: the intensification of economic relations among the economies of the region; the emergence of post-crisis cooperation in the area; and the presence of two major regional powers – Japan and China.

<sup>6</sup> For some years now, there has been a proliferation of such negotiations because of the strategic challenge ASEAN represents for China and Japan, but there have also been initiatives by Singapore, which recently engaged in an ambitious program of free trade agreement negotiations to strengthen its ties with the most dynamic markets.

<sup>7</sup> On this topic, see MILELLI (2005) and FERIDHANUS and YAWAN (2005).

<sup>8</sup> Only cooperation initiatives in the East Asian region are considered here. Initiatives in South Asia, such as SAARC (South Asian Association for Regional Cooperation) are not taken into account, nor those between the countries of East Asia and South Asia, such as BIMSTEC (Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation) an initiative established in 1997 for cooperation among Bangladesh, India, Sri Lanka, Thailand, Myanmar, Nepal and Bhutan, or the MGC (Mekong Ganga Cooperation), a cooperation initiative established in 2000 involving Thailand, Myanmar, Cambodia, Laos, Vietnam and India.

Insofar as the goal is to qualify the current processes in East Asia, it should be noted that the ASEAN+3 region is a stage for more intense intraregional economic flows than the rest of the world. Secondly, the dissatisfaction felt after the crisis by countries in the region with regard to the solutions proposed by the IMF has led to resentment accompanied by a collective realization of the need to establish mechanisms for regional solidarity.<sup>9</sup> Thirdly, the United States, Japan and China are present in this area and are or have been very active in strengthening economic and institutional realities. The influence of Japan on regional economic organization is clear. Japanese firms have actively participated in establishing regional segmentation of production processes. The NICs have pursued this strategy by investing in turn in other Asian countries with cheaper labour, the so-called Tigers, qualified as Second-Generation Newly Industrialized Countries (NIC2), and China (Bouteiller and Fouquin, 2001). This regional division of labour in East Asia is thus structured in concentric circles according to a country's development level, illustrating Akamatsu's famous "flying geese" image.

Although until now, the economic reality has taken precedence over the institutional reality, the constitution of institutional coordination within ASEAN will change the economic balance of power in this area in the future. The choice of institutionalization is dictated by a historic concern. The history of institutional construction allows a better understanding of the economic reality: institutions have, in fact, preceded the intensification of economic relations in this area.

## Conclusion

Processes of regional economic integration differ in their degree of institutionalization, pace, depth and/or scope. They are economic, political and cultural at once and reflect political will to varying degrees. They are part of trajectories specific to developing societies. The central issue becomes the degree of institutional coordination of economic policies and transfer of sovereignty, creating a credibility favourable to attracting capital. The question is likewise that of organizing forms of market and non-market coordination in a context of universalist or cooperative multilateralism.

The renewal of regional integration provides one of the most feasible strategies for overcoming the development problems faced by developing countries, given each country's many shortcomings in terms of resources and other economic aspects. Combined efforts and dynamic political commitment to integration can help overcome these problems. However, the benefits of regional integration are neither automatic nor necessarily substantial.

Over the past two decades, the landscape of regional integration has changed profoundly. In addition to the predominant model of regional integration among countries at comparable levels of development as per the original European model, another model has emerged, one of regional integration among countries at very different levels of development, i.e. North-South regional integration.

Since 1995, the EU has committed itself to this approach by signing agreements with its South and East Mediterranean partners – customs union agreements (Turkey) or Free Trade Area (FTA) agreements (Tunisia, Morocco, Jordan, Egypt, Algeria, Lebanon). However, it is in North and South America that these agreements have reached the broadest scope. They are not limited solely to the North American NAFTA; in fact, bilateral agreements are already in place or being negotiated between the United States or Canada and several countries in Central and South America. These multiple associations may be the forerunners to a vast Free Trade Area of the Americas (FTAA), as desired by the United States, though some countries demonstrate reluctance (especially within Mercosur). These North and South American FTAs, in contrast to Euro-Mediterranean agreements, include agriculture and the agriculture services sector, and have the particular characteristic of not being limited to the terms of goods exchange.

These developments question our scientific paradigms from different angles and invite reconsiderations of theoretical and practical relations between the economies of the North and the South. This new order of international economic relations suggests a profound renewal of the regional integration paradigm: is North-South integration really a new channel for accelerating development or just a new form of dependency of the South on the North? Is it compatible or at odds with South-South integration?

<sup>9</sup> The Asian crisis has thus been a catalyst for Asian regionalism, the latter having since found other catalysts as well. The emergence of cooperation towards regionalism within ASEAN+3 can therefore be observed in the post-crisis period.