

Chapter 1

Governing Regional Integration for Development: Introduction

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Developing countries have joined the rapidly growing global system of regional trade agreements (RTAs) *en masse* over the past few years.¹ While many developing country RTAs are today bilateral and formed with more developed economies, the traditional cornerstone of developing countries' insertion into the global trading system have been RTAs formed with groups of other, geographically proximate developing country neighbors. The drive toward regional integration surged with the formation of the Central American Common Market in 1961; several further groups sprung up in Latin America and Africa, followed by Asia, the Middle East, and Oceania.² Few developing countries remain outside such schemes. Indeed, Mongolia is the only country without an RTA of any kind. The immediate economic significance of RTAs is notable, as well, as about one-half of global trade is carried out under them.

Some 50 years ago, mainstream development thinkers advocated the formation of RTAs with high barriers to extra-regional trade and active intra-regional industrialization policies. The idea was to exploit regional scale economies by having each member state specialize in the production of distinct goods and parts of the value chain. These experiments yielded lackluster results. Keeping regional producers from accessing cheap, high-quality inputs and shielding industries from international competition, they resulted in inefficiencies and welfare losses. What is more, intra-regional liberalization was often half-hearted at best, with partners retaining tariffs and other barriers against each other.

In contrast, formed against the backdrop of multilateral trade liberalization, today's RTAs are inherently outward-oriented. Although not unchallenged, the contours of these initiatives are promising: they feature deep intra-regional liberalization and tend to go well beyond tariffs to regulate a host of trade-related areas, such as investment, services, and government procurement. Many developing country groupings are also aiming at producing regional public goods conducive to commerce, such as regional transportation networks and common institutions aimed at enhancing the members' adherence to international product standards, and to stability and development, more

1 RTAs here refer to customs unions and free trade agreements.

2 Unless otherwise stated, in the rest of the book 'region' and 'regional' will refer to supra-national groupings.

generally speaking. Developing country RTAs, in short, are today conceived as springboards for their members' global competitiveness *by way of regionalism*.

While regional integration around the developing world promises to be much more dynamic today than during the era of import substitution industrialization, its potential and actual contribution to the members' economic development and global trade remains unclear.³ Analysts and practitioners alike tend to concur that many developing country RTAs have failed to live up to their liberalizing and welfare-enhancing potential, and that one of the key factors behind this performance is slow and incomplete implementation of the common integration commitments.⁴ Indeed, poor implementation is widely viewed as *the Achilles heel* of developing country RTAs. It stems from various sources, such as domestic political sensitivities, lack of technical capacities in government agencies, and the cascading workload of the implementation – and negotiation – of multiple trade agreements simultaneously. Moreover, that today's RTAs cover great many issue areas implies an expansion in the number of players, such as government bureaucrats and interests groups, that have a role and stake in the implementation process. This, in turn, can render the entire implementation process hostage to political imperatives and weakest links, and multiplies the demands of inter-agency coordination.

This is where governance of regional integration comes in. This volume is based upon the notion that 'getting governance right' is a central element for successful RTA implementation. This volume operationalizes governance in the context of RTA implementation with a more narrow and technical term of 'monitoring', which here refers to the *processes* carried out by national and regional public and private sector institutions – rules, roles, and actual physical organizations – to ensure and/or scrutinize the implementation of the regional integration process. Monitoring takes place in the 'monitoring system', or the framework of national and regional public and private sector institutions that are involved and/or employed in monitoring.

In the context of RTAs, the purpose of monitoring is to ensure that the contractual obligations assumed by all parties will be implemented. However, over time, monitoring can also come to include activities aimed at propelling the development of new strategies and initiatives that guide regional integration project in the right directions. And it may imply attending to the intended or unintended effects of regional integration policies and their contribution to overall developmental goals. Monitoring of regional integration thus touches on various policy levels, and can take place in different stages of integration and with various degrees of institutionalization.

Monitoring is crucial for the implementation of RTA commitments both at the national and regional levels. But it can also engender positive externalities beyond the process of implementing the regional agreements.

At the national level, monitoring keeps various bureaucratic players up-to-date on the legal and administrative actions that are to be carried out in order for the country and its partners to live up to their regional commitments. It centralizes and organizes the implementation agendas of the government bureaucracies, and

3 See, for example, Schiff and Winters (2003).

4 See, for instance, World Bank (2005).

helps shame laggards into compliance. As such, it enhances the preparedness of the primary users of RTAs, the private sector players, to plan for the future and use the wider economic space created by integration. Conversely, a well-delineated governmental monitoring system provides a single window for private sector actors to resort to in the face of inadequate or inconsistent implementation, and, as such, greases trouble-shooting in the monitoring system. The trust generated in the process can encourage and enhance public-private sector cooperation. Instilling transparency in the regional integration process, monitoring can also help build domestic political momentum for deepening the integration process.

At the regional level, monitoring helps synchronize the member countries' implementation agendas, and, crucially, provides an institutionalized channel of information-sharing, regular communications, and problem-solving between the members. Disputes can and do arise in any trade relationship; monitoring helps the partners to put out fires early and, as such, avoid the RTA's politicization. More generally, engendering repeated interactions among the partners, monitoring can induce trust and further cooperation between them. Indeed, the prospects for deepening and widening the integration process hinge to a large extent on the success of the monitoring of the initial integration agreements.

In the longer-run and more generally, good RTA monitoring can produce positive feedback effects. It can contribute to good regional governance practices, such as accountability, participation, and effectiveness.⁵ The deepening and widening of the regional integration process, one of the outcomes of successful monitoring, can also help consolidate regional governance, as well as facilitate inter-regional interactions, something of particular importance to small, less developed countries. In turn, the further development of the integration process can lead to more diverse and complex forms and processes of monitoring and participation, leading to a richer understanding of it.

Our investigation which is focusing on the monitoring of mainly economic integration schemes should therefore be seen in the wider context of the discussion on the importance of good governance for development. Although a consensus view about the crucial character of the latter nexus seems to have emerged since the 1990s, the discussion and empirical research have mainly concentrated on the contribution of (good) governance to development at the national level. The Governance Group of the World Bank Institute (WBI), for example, defines governance as "the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them".⁶ The assessment of each of these three components of governance requires some form of monitoring. Governance is thus broader than 'government' and refers also to the interactions between the traditional actors and institutions of government, on the

5 See Best (2006).

6 See www.worldbank.org/wbi/governance. See also the Governance Matters reports and other studies of the WBI Governance Group.

one hand, and civil society actors and institutions, on the other (Corkery, 1999:15; Best, 2006:185). In addition, it is stressed that we should move away from a traditional hierarchical view on the interactions between the governmental and non-governmental sectors in the direction of a more horizontal or networking perspective on roles and relations among actors and institutions.

With the notion of governance came also, logically, the notion of ‘good governance’. Although different interpretations of the notion exist, the following building blocks or principles of good governance are usually mentioned (Kondo, 2002:7; European Commission, 2001; Best, 2006:185-193; Blagescu and Lloyd, 2006: 215-217):

- *Openness and transparency*: public institutions should provide reliable and relevant information on their activities in a timely manner and actively communicate about their activities and decisions to the citizens;
- *Participation*: public institutions should take the opinions, input and feed-back from citizens and businesses into account when designing and implementing public policies; participation should be in place in all phases of the policy cycle;
- *Accountability*: public authorities should be held responsible for their actions and omissions, not only by those actors and institutions from which they received their mandate (traditional view of accountability) but also from the citizens in general (stakeholder view of accountability).⁷

Our view is that although undeniably the national policy level is still the most important policy level in many policy areas, the developing world is moving in the direction of a world in which governance is taking place and shape at different levels, whereby the regional level is gaining more importance. The discussion on the contribution of good governance to development should therefore take place at these different levels. As far as we can see, apart from the often skeptical opinions on the effectiveness of developing country regional schemes or the technical reports on specific problematic aspects of existing economic integration schemes (customs procedures, implementation of common tariffs, implementation of agreed technical standards, etc...) there is not much systematic work done to evaluate the quality of governance at the regional level so far. At the conceptual level, the recent work by Best (2006) and Blagescu and Lloyd (2006) should be mentioned. The former suggests that, in order to take the specificities of the emerging regional governance level into account, two additional good governance principles should be used.⁸

- *Effectiveness*: the regional institutions should efficiently deliver what is needed on the basis of clear objectives;

7 In the Global Accountability Framework of One World Trust, four dimensions of accountability are considered: transparency, participation, evaluation, and complaints and redress. See: www.oneworldtrust.org.

8 These two additional principles are an adaptation of the European Commission’s proposal (2001).

- *Appropriateness*: the regional institutions should take the decisions at the most appropriate level, “they [should] ‘match’ the real needs of the integration process in a functional perspective, [and they should] satisfy legitimacy requirements in ways which ‘fit’ the political context” (Best, 2006:191-193).

The purpose of this volume is to take stock of the quality and effectiveness of monitoring of developing country RTAs (or slightly deeper integration schemes built around an RTA) around the world, and to generate policy recommendations for governments and regional organizations to foster their monitoring systems and improve the quality of regional governance. Ranging from South-East Asia to the Southern Cone of South America, from Southern Africa to the Middle East, the case studies also strive to identify appropriate interventions for international donors to support RTA members and regional organizations to overcome constraints to effective monitoring. The global and interdisciplinary team of authors combines senior expertise with young talent, and academic rigor with hands-on experience in the different regions.

In each chapter the author(s) were asked to answer the following questions for the most relevant regional integration initiatives in the respective regions:

- Which are the actors involved (regional organizations, international/multilateral organizations, national authorities, academics, civil society, ...), instruments used (review processes, indicators, questionnaires, ...), and outputs generated (internal circulars, external reports, yearbooks, ...) in the processes and actions that have been taken for monitoring the regional integration process in the respective region?
- Which are the specific institutional and/or legal structures and instruments built-in in the agreements (or institutions) for monitoring purposes?
- Which are the underlying conceptual and methodological frameworks, if any?
- How can the monitoring processes be evaluated in terms of their policy relevance and effectiveness, and in terms of their contribution to (good) regional governance and the dynamics of the regional integration process?
- Are there specific technical issues (problems and solutions) that are of relevance to other regions?
- What are the factors underlying the lack or deficiencies in monitoring?
- Which are the monitoring needs that can be identified for the future? What should be on the research and policy agenda and which are the conditions and major obstacles for implementing the agenda?

Each contributor had the freedom, however, to attach appropriate weights to the different questions and choose appropriate methods to answer the research questions. As far as the conceptual framework is concerned, the possibility was provided to present ‘regional’ interpretations of the monitoring and (good) governance concepts. The resulting variation in length and contents of the different chapters reflects the different realities in the different regions and the different disciplinary (and cultural) backgrounds of the authors. The editors opted for not imposing too rigid a template

upon the different chapters in order to preserve the richness of the collection of chapters.

While primarily focusing on developing country RTAs, we have also included two case studies focused on monitoring in developed country regional agreements – European Union’s monitoring of its intra-regional integration and US monitoring of its various RTAs signed over the past few years. Although we are fully aware of the specificities and social construction of the different regional schemes around the world and of the dangers of comparison and exporting models, we think that it may be possible to extract ‘lessons’ from these experiences, both from a political economy and from a technical perspective. The EU case, which is the most far-reaching integration scheme in the world, may be relevant for relatively deep forms of regional integration that involve the building of supra-national regional institutions, or for processes that might evolve in that direction. The cases of US and Mexico, meanwhile, may help guide developing countries in monitoring their rapidly proliferating portfolios of intra- and extra-regional new generation free trade agreements (FTAs).

This volume is organized by the main world regions. The regions and their respective regional integration processes that are covered in this book are the following: in the ‘Latin America and Caribbean’ region the Andean sub-region (Fernando Prada and Alvaro Espinoza, Chapter 2), the Caribbean (Normal Girvan, Chapter 3), Central America (Kati Suominen, Chapter 4), and the Southern Cone (Ricardo Rozemberg and Carlos Bozzalla, Chapter 5) are included. In the ‘Asia and the Pacific’ region chapters on South-East Asia (Cuong Nguyen and Clay Wescott, Chapter 6), the Pacific Islands (William Sutherland, Chapter 7) and South Asia (Rodrigo Tavares, Chapter 8) are included. The part on ‘Africa and the Middle East’ counts contributions on the Gulf region (Bernard Savage, Chapter 9), the Maghreb (Thouka Al-Khalidi, Chapter 10), and Eastern and Southern Africa (Dirk Hansohm and Jonathan Adongo, Chapter 11). Chapters 12 and 13 deal with Europe (mainly the European Union) and North America (monitoring of the various RTAs signed over the past few years), respectively.

In Chapter 14 we provide a summary of the findings for each chapter and we extract the more general cross-chapter conclusions of this project.

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