Regional Economic Groups

by PATRICK J. MURPHY

COUNTRIES join economic communities with two ideas and in three ways.

The slogans, "trade or fade" and "in unity there is strength," express their belief that joint action can solve problems in the common interest.

Their regional economic integration may take the form of a free trade area, customs union, and common market.

A free trade area comprises two or more customs territories in which tariffs are eliminated on products that originate in their territories. Each member maintains its own tariff schedules on imports from nonmembers.

A customs union is a free trade area with a common external tariff against imports from outside countries.

A common market is a customs union that allows the free movement of resources, capital, and labor among the members.

Many such attempts at economic unity have bogged down and have given rise to another lineup. Some groups in existence no doubt will undergo some changes before they attain the stability they need to meet the social and economic challenges of a more competitive world.

From fragmented colonial Africa, 29 independent states emerged. They have teamed up in many overlapping groupings based on a common language, traditional ties, complementary economies, or common goals.

They have signed hundreds of agreements, which new arrangements have quickly rendered ineffective. A stabilizing factor in these growing pains has been the orientation of a country or group toward its onetime mother or master.

Africa in 1964 was in another formative stage of continentwide economic regrouping, and five important economic communities were in varying stages of operation—the African and Malagasy Union (UAM), the East African Common Services Organization (EACSO), the Equatorial Customs Union (UDE), the West African Customs Union (WACU), and the Organization of African Unity.

THE AFRICAN and Malagasy Union was founded in 1961 with 12 members: Federal Republic of Cameroon, Central African Republic, Republic of Chad, Republic of Congo (Brazzaville), Republic of Dahomey, Gabon Republic, Republic of Ivory Coast, Malagasy Republic, Islamic Republic of Mauritania, Republic of Niger, Republic of Senegal, and Republic of Upper Volta.

They have been known as the Brazzaville Twelve, and all are associate members of the European Economic Community and have, or have applied for, memberships in the General Agreement on Tariffs and Trade.

They share a common heritage of French influence, political association, and currency. They have depended heavily on France for financial, technical, and military assistance.

The economic functions of UAM cover three major areas: Economic and social development; foreign commerce, including tariff problems, possibility of enlarging the free trade zone, and development of a common market; and fiscal and monetary affairs. A uniform customs code has been planned as a first step toward a common market.

The UAM under able and dynamic leadership has initiated constructive work in all the planned economic fields. Its headquarters site is Cotonou, Dahomey.

THE EAST AFRICAN Common Services Organization succeeded the East African High Commission.

Its members in 1964 were Kenya, Uganda, and Tanganyika. Zanzibar was a partial participant. The EACSO made the transition from colonial authority to independent leadership without undue change in its character.

Its functions are economic and include the administration of customs and excise duties, statistics, industrial coordination, communications, and mail services.

Goods and capital pass freely among the members, and they have a common currency. Commercial policy usually is coordinated. An EACSO mission began conversations with the European Economic Community on a trading arrangement and set a precedent as a negotiating agent for the three members.

EACSO has been termed a key to economic stability and development of eastern Africa.

THE EQUATORIAL Customs Union (UDE) was established in 1959 by the Central African Republic, Chad, Congo (Brazzaville), and Gabon.

Cameroon has become a member.

The countries are contiguous; have similar languages, cultures, and products; and form a single currency area. They are members of the Central Bank of the States of Equatorial Africa and Cameroon.

The UDE countries maintain a common external tariff on imports from third countries, except for a preferential arrangement with the EEC. Supplementary taxes applied to such imports vary little among the members. Goods, capital, and services move freely within the UDE.

Besides administering the customs union, the UDE engages in efforts to harmonize investments and technical projects, fiscal regulations, and economic structures.

It is among the most active of the African regional groupings, and its union should be beneficial in developing the economies of the members.

THE WEST AFRICAN Customs Union of the franc-zone countries of Dahomey, Ivory Coast, Republic of Mali, Mauritania, Niger, Senegal, and Upper Volta came into being through the signing of a convention in 1959.

It is in effect a limited free trade area, and its intention is to keep together the markets of the West Africans under the same former colonial regime. Its trade and economic institutions remain closely oriented toward France, as in colonial days.

The convention stated the intention to become a complete customs union, but that has been modified somewhat.

Some taxes on imports vary considerably among the members and unilateral changes in tariff policy apparently have been made without notice or consultation among the member states.

No quota or licensing restrictions have been imposed on goods traded within the West African Customs Union nor are natural products subjected to duties or taxes in intraunion trade. Generally, there is coordination of common customs and duties on imports from third countries.

THE CHARTER of the Organization of African Unity was drawn up on May 23, 1963, at a conference of Independent African States in Addis Ababa.

It was signed by 30 African nations and was hailed as the most comprehensive cooperative effort ever made by African countries.

It was the first attempt of diverse peoples of different cultures, religions, stations, languages, and races, from the Mediterranean to the Mozambique Channel, from the Gulf of Aden to Walvis Bay, to join efforts to seek their common goals.

During the 4-day conference, delegates adopted resolutions in a number of social, cultural, and economic fields. The charter called for the complete decolonization of the continent.

One of the resolutions was to send delegations to speak in behalf of all African nations before the International Court of Justice, the United Nations Security Council, and other international bodies.

It declared the continent to be a nuclear-free zone and called for cessation of thermonuclear bomb testing and disarmament by the Great Powers, particularly the United States and the Soviet Union. It outlined cultural, educational, health, and nutritional programs.

As to economic cooperation, the principal resolutions proposed to establish free trade throughout all Africa; formulate a common external tariff; coordinate transportation and communications; establish a monetary, fiscal clearing, and payments facility; harmonize existing and future development plans; and negotiate in concert with international trade bodies.

The conference took note of grave problems in Africa—a shortage of water in some places, lack of transportation, conflicts between new governmental structures and tribal customs, low levels in education and labor productivity, shortage of technicians, the dominance of one-crop economies, and a scarcity of investment capital.

Much of the world shared the hopes of the leaders at Addis Ababa that their nations and peoples could coordinate their efforts from the paper stage of the charter to the practical realities of the modern world.

THE GOVERNMENTS of Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay on February 18, 1960, signed the Montevideo Treaty creating the Latin American Free Trade Association (LAFTA).

The treaty provided for the gradual elimination of restrictions on trade among the signatory nations, reductions on a selective-product basis, and negotiations to lower tariffs on the basis of "reciprocity of concessions" among the members.

To effect full tariff elimination on intra-area trade, two separate lists were set for negotiation.

The first was a national list, to be drawn up annually, of concessions (at least 8 percent) granted on a bilateral basis among individual members and renegotiated every 3 years.

The second, or common, list is to comprise items that each member has put on its national list the preceding 3 years. It will then be applied to all members on a 25-percent reduction basis the first 3 years, 50 percent the second 3 years, 75 percent after 9 years, and 100 percent after 12 years.

In effect, the bilateral concessions negotiated every year become multilateral concessions every 3 years, and the reduction of intra-area trade duties to zero will be complete after 12 years.

Concessions on products on the national list may be withdrawn at any time. Once an item has been added to the common list, however, the concession is considered irrevocable. The treaty of Montevideo has a number of clauses by which the members can withhold numerous items from negotiation and some clauses that may result in preferences within the free trade area and for third countries.

The members of LAFTA conducted negotiations on tariff reductions in 1961 and 1962. The United Nations Economic Commission for Latin America (ECLA) estimated that the total value of concessions granted exceeded the target level of 8 percent annually. The concessions were mainly on products that were traditionally traded among member countries before the Montevideo Treaty and not on competitive products.

Negotiations on the third round of bilateral concessions began in Montevideo on October 1, 1963, and lasted until the end of that year. The annual target level of an 8-percent reduction in tariffs was reportedly attained. The negotiations on the first common list were postponed until 1964.

Each LAFTA country will retain its own individual tariff schedule on imports from third countries.

Other objectives of the Montevideo Treaty include: The industrial development of the area on a regional basis, the maximum utilization of all area production factors, and the adoption of other measures leading to the progressive integration of the economies of the member countries.

The members look to the trade liberalization program of the Montevideo Treaty to encourage the establishment of new industries and bring about a more fruitful utilization of domestic resources.

The development of wider markets among the LAFTA countries is expected to attract new investment and to reduce the costs of existing enterprises through facilitating mass production and distribution.

THE GENERAL TREATY of Economic Integration was signed in 1960 by El Salvador, Guatemala, Honduras, and Nicaragua and became effective in June 1961. Costa Rica applied for membership shortly after the General Treaty was signed and became a full and equal member in 1963.

The treaty incorporates some earlier agreements and forms the basis of the Central American Common Market. The treaty called for completely free internal trade by 1966 and a common external tariff on imports from third countries.

Ninety-five percent of all goods originating in the four countries already moved freely in 1964.

Trade among the five countries, primarily in agricultural commodities, had increased more than 300 percent by 1962 over the 1955–1958 level. A common external tariff was instituted by the Agreement on Equalization of Import Charges. The agreement and its protocols have been incorporated in the General Treaty. Thus, within 2 years, the movement toward Central American integration evolved from a free trade area into a partial customs union.

A Central American Bank for Economic Integration was provided for in the General Treaty but was established by a separate charter. It has an authorized capital of 16 million dollars. Since 1960 it has issued more than 20 loans totaling approximately 6 million dollars. Its purpose is to provide capital for regional industrial development.

The Central American Clearing House was established in 1961. In 1962 it handled about 60 percent of the total intraregional transactions. A common currency has the Central American peso as the unit of account. The headquarters of the bank and clearing house are in Tegucigalpa, Honduras.

The United States has loaned or granted 8 million dollars to the bank to help finance regional projects.

The Agency for International Development has given assistance for economic and social development.

The Central American Common Market looks optimistically to the future and has undertaken procedures to meet full common market conditions. A regional agreement on equalization of tax incentives for industrial development was promulgated to provide uniform treatment for investors interested in the region.

Other cooperative efforts were instituted to integrate transportation, communication, financial, and customs facilities.

The Central Americans have stated an intention to welcome neighbor countries into association or membership, to follow policies that will attract private foreign investments, and to expand third-country trade opportunities.

UPON RATIFICATION of a convention signed in Stockholm, the European Free Trade Association went into effect on May 3, 1960.

The signatories are the so-called Outer Seven of Europe. (Members of the European Economic Community are the so-called Inner Six.) The members are Austria, Denmark, Norway, Portugal, Sweden, Switzerland, and the United Kingdom.

The convention provided for a free trade area among the members by abolishing tariffs and other trade barriers on industrial products between the member states in 10 years or less.

The convention limited the application of free trade to industrial products, although limited arrangements for agricultural products and fish were concluded in May 1963.

EFTA was originally designed as a counter to the European Economic Community. Each member country remains free to decide its own external tariff and commercial policy.

Britain took the leadership in the formation of EFTA. Within EFTA, Britain retains her tariff arrangements with the Commonwealth whereby she grants preferences to imports from Commonwealth countries in exchange for corresponding preferences for her own exports to them.

As long as national tariffs differ, exporters from third countries may send their goods to the member countries with the lowest tariff schedules for transshipment to high-tariff member countries. But rules written into the convention define the origin of goods traded in EFTA and make it difficult to ship products to a high-tariff country by sending them first to a low-tariff country.

The absence of a common external tariff (CXT) of the seven members against outside countries has restrained economic, social, and financial economic integration regionally.

No provisions were made for common facilities for customs procedures, trading laws, communications, transportation, or a uniform monetary unit.

The level of industrial tariffs on internal EFTA trade has been reduced 50 percent below that of July 1, 1960, when EFTA began operating. On July 31, 1961, Finland, which had a form of associate membership, agreed to an additional 10 percent cut in her tariffs on imports from members.

Under EFTA, the external trade of the member countries has generally kept pace with the world expansion, but the rate of increase in intra-area trade has doubled.

The ministerial council of EFTA met in Lisbon in 1963 and decided to establish a final timetable for dismantling tariffs on industrial products. They agreed that these tariffs should be eliminated by December 31, 1966. The next reduction of 10 percent was set for the end of 1963.

The council decided also to schedule a West European fisheries conference and to establish an economic development committee, which would attempt to lay the basis for free movement of investment capital within the area.

As stated by the convention, EFTA's objectives are to promote a sustained expansion of economic activity, full employment, increased productivity, financial stability, and higher living standards; secure fair competition in trade among member states; and to contribute to the harmonious development and expansion of world trade and to the progressive removal of barriers to it.

There are special convention provisions that will minimize the disruption of some national industries that are expected to occur as a result of complete removal of their previous high-tariff protection.

THE ASSOCIATION of Southeast Asia (ASA) was launched in April 1962, when the ministers of Malaya, the Philippines, and Thailand met in the Cameron highlands of Malaya and agreed to a limited association to attack common problems and to promote cultural and social exchange. By such association, the members planned to work toward self-sufficiency.

During 1963, Malaya merged with North Borneo, Sarawak, and Singapore to form Malaysia. ASA has taken only tentative steps, mostly in the form of discussions, toward the attainment of the association's original goals.

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