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**ASSESSING SOUTH-SOUTH REGIONAL INTEGRATION:
SAME ISSUES, MANY METRICS**

by

Lucian Cernat

Associate Economic Affairs Officer
Trade Analysis Branch
Division on International Trade in Goods and Services, and Commodities
United Nations Conference on Trade and Development
Geneva, Switzerland



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Chief
Trade Analysis Branch
Division on International Trade in Goods and Services, and Commodities
United Nations Conference on Trade and Development
Palais des Nations
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ABSTRACT

Not only has the number of RTAs increased over time, but so also has the complexity of issues surrounding their formation, as well as the metrics used to assess them. Despite sustained research efforts, and irrespective of the approach adopted, the economic merits or demerits of regional integration arrangements remain essentially an empirical matter. Given the importance of this issue and the ambiguity that persists with regard to the economic impact of many RTAs among developing countries, the present paper uses a gravity model to analyse *ex post* the trade effects of seven South–South RTAs (AFTA, Andean Community, CARICOM, COMESA, ECOWAS, MERCOSUR, SADC), and a CGE model for an *ex-ante* analysis of a Framework Agreement on Trade Preferential System (FATPS) among the member States of the Organization of the Islamic Conference.

The gravity results have shown that with the exception of the Andean Community and MERCOSUR, which seemed to have reduced trade with non-members, the other South–South RTAs examined are not only trade-creating but also trade-expanding, increasing overall trade, even with third countries, sometimes quite significantly. In the case of FATPS, the *ex-ante* static CGE results suggest that, despite some potential for trade diversion, the net effect is trade creation.

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I. INTRODUCTION

In the late 1980s and early 1990s, in parallel with the GATT negotiations under the Uruguay Round, many countries entered into trade negotiations aimed at the formation, revitalization or extension of regional trade agreements (RTAs). Some developed countries consolidated their existing regional integration mechanisms, moving towards even deeper integration, for example the European Union (EU) Single Market, established in 1992. Other country groups created new RTAs or are currently involved in RTA formation. Recently, new RTAs have been initiated by countries that had traditionally been the main proponents of the multilateral approach under GATT (Japan, the Republic of Korea, Singapore and other countries in East Asia).

Not only has the number of RTAs increased over time, but so also has the complexity of issues surrounding their formation, as well as the metrics used to assess them. Given this renewed interest in RTAs, many policy-makers and academics have been questioning the impact of RTAs on participants and third countries.¹ For policy-makers, RTAs represent a solution to a multitude of issues: accelerating and locking in domestic reforms, positive political and economic spillovers at regional level, a relatively controlled learning process for liberalization, increased market access for domestic industries, a more prominent role on the international scene through partnership within an RTA, and so forth. Moreover, as RTAs are being formed among other trade partners, they are increasingly seen as a form of defence against trade diversion.

Among some academics, the quest seemed to have been more about finding the most popular catchphrase to describe the complex process of regionalism. Jagdish Bhagwati referred to the process of RTA proliferation whereby countries become interconnected in a myriad of overlapping RTAs, as the “spaghetti bowl” phenomenon (Bhagwati and Panagariya, 1996).² Another expression that has had a long career is the *hub-and-spokes* concept (Wonnacott, 1990).³ Most of the debate stemming from this approach to regionalism was centred on the *building vs. stumbling blocks* effect,⁴ which was also a popular reference in the RTA debate.⁵ Yet another concept put forward to explain this time the surge in RTA formation is the “domino theory”⁶ (Baldwin, 1993).

Apart from these attempts at conceptual clarifications and grand theories focused on producing a generally accepted, “one-size-fits-all” explanation of the existing RTAs, more modest attempts concentrated on the diversity of recent RTAs in terms of membership and scope, and looked at specific issues such as the elimination of non-tariff measures (NTMs), technical barriers to trade (TBTs), beyond-the-border measures, standards, competition policies, environment, anti-dumping and investment. Despite these sustained research efforts, and irrespective of the approach adopted, the economic merits or demerits of regional integration arrangements are essentially an empirical matter (Viner, 1950), but political and strategic concerns are also important.

While noting the complexity of the issues surrounding the effects of, and reasons for, RTA formation, this paper limits itself

to quantifying the impact of several regional trading arrangements on the trade flows among participants and with third countries. The remainder of the paper is organized as follows: section II briefly presents the recent trends in regionalism, while section III analyses several South–South RTAs using two methodologies to assess the impact of RTAs — an *ex-post* gravity model and an *ex-*

ante CGE analysis. The estimated results of the computable general equilibrium (CGE) simulation are arrived at by using the Global Trade Analysis Project (GTAP) model. The concluding section summarizes the main findings and, on that basis, lists some policy issues that need to be addressed during the process of RTA formation.

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