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Editorial

With the first edition of 2011, the Regional Integration Observer (RIO) enters into the fourth year of its existence. Today even more than at the time of the first edition, new aspects of regional integration processes are evolving and are worth being analyzed by this publication.

The current RIO focusses on economic issues. Because of the global economic and financial crisis, the world still finds itself in a position of uncertainty with regard to financial and currency issues. In the RIO interview, ZEI Director Jürgen von Hagen gives answers to some pressing questions in this context, especially concerning the role of Europe and the Euro and the Euro´s potential to serve as a model for monetary integration in other regions. Directly linked to this, the articles of Chibuike Uche and Emmanuel Kam Yogo deal with the efforts of monetary integration in West and Central Africa.

The economic profit, which countries can draw from integration processes is mostly the principal motivation for them to take part in such a project. ZEI fellow Claudia Rommel highlights this fact but also mentiones further aspects that can make regional integration processes a magnet that pulls other states to its core. To make the RIO complete, Patrizia Kegel and Mohamed Amal summarize 20 years of Mercosur integration. As Mercosur is a Common Market project, the focus here is also on economics. Finally, Philippe de Lombaerde takes a look at economic integration from a methodological perspective. His article deals with labour mobility and migration as factors to be measured, rather than the often used indicator of trade flows. With this diversity of articles the RIO gives an overview over current trends in economic integration in different regional integration schemes.

M. Vogl

Matthias Vogl, Junior Fellow at ZEI

José Manuel Barroso, Jean-Claude Juncker, Jean-Claude Trichet, Hans-Gert Pöttering (from left to right) and others at the 10th anniversary of the ECB in June 2008. © European Commissions.

Can the EU aid West African Monetary Integration?

** Chibuike U Uche*

Introduction

The idea of monetary integration in West Africa dates back to the colonial era. In British West Africa, for instance, Britain quickly moved to put in place an economic and political system for the smooth functioning of its colonies. One of the consequences of this development was the establishment of the West African Currency Board (WACB) in 1912. This system, which ensured the use of a single currency in British West Africa was only abandoned and replaced with country specific central banks when political independence became imminent.

For the Francophone West African countries, the influence of France on their monetary cooperation arrangements extended beyond their attainment of political independence. During the colonial period, France issued currencies in each colony that were firmly linked to the French Franc. Many of these currencies in the French African colonies were subsequently consolidated into “le franc des Colonies Francaises d’Afrique” (CFA Franc). The establishment of a common central bank: Banque Centrale des Etats de l‘Afrique de l‘Ouest (BCEAO) in 1962, for the francophone countries was essentially an extension of the pre-independence monetary arrangements in the region. Under the currency arrangement of 1962, France guaranteed the value and convertibility of the CFA Franc by tying it to the value of the French Franc. This no doubt facilitated trade of the beneficiary countries with France. In 1969 these countries decided to further deepen their relationships with the establishment of the Communauté Economique de l’Afrique de l’Ouest (CEAO). This was with active support from France. According to the then President of France -Georges Pompidou- such a Francophone grouping was necessary “in order to counter-balance the heavy weight of Nigeria.”

Indeed the deepening of economic ties among francophone countries, at the time, was a consequence of Nigeria’s intention to promote the formation of a bilingual economic grouping in the region in order to undermine the influence of France. This Nigerian idea, which later led to the formation of the

Economic Community of West African States (ECOWAS) in 1975, was influenced by the belief that some francophone West African States were used as proxies by France to support the breakup of Nigeria during the country's civil war.

The francophone West Africa monetary cooperation arrangement was, however, severely tested in the 1980s. This was mainly because of the sharp drop in world market prices of their main export commodities- cocoa, coffee, cotton and petroleum- and the appreciation of the French franc in the international market. Given the peg of the CFA franc to the French franc, the CFA franc also appreciated considerably. This made the exports of the CEAO countries more expensive and less competitive in the international markets. With the aid of France, all the member countries opted to make a uniform monetary adjustment-50 percent devaluation of their currency- despite their different economic situations. These francophone countries also used the opportunity to strengthen their political, economic and monetary solidarity and to reaffirm their commitment to the principles and stability that characterize the franczone. This was done with the transformation of the West African Monetary Union into the West African Economic and Monetary Union (WAEMU) in 1994. The WAEMU agreement was further strengthened in 1999 when the heads of states of WAEMU countries adopted the Regional Convergence, Stability, Growth and Solidarity Pact. Under this scheme, the WAEMU countries adopted a uniform set of economic targets with the aim of enhancing the convergence of their various economies and promoting economic stability and growth.

ECOWAS Wide Monetary Integration

Regional integration arrangements are far more than economic ideals. Colonial divisions of the West African countries, no doubt, ensured the late development of the idea of a West Africa wide regional integration program. As already mentioned, this idea, which was championed by Nigeria, first emerged in 1969. In 1972, the Association of African Central Banks set up a Study Group to examine trade and monetary relations in the sub-region. Their report culminated in the establishment of the West African Clearing House (WACH) in 1975. Its main objective was to facilitate the receipt of export proceeds by exporters and stimulate intra-sub-regional trade. In practice however, the introduction of WACH did little to promote trade in the sub region. This was because no stakeholder was willing to act as a hegemon. Nigeria, despite its political objectives and enormous oil wealth, failed to do so. Nigeria, against the recommendation of the WACH Study Group refused to channel trade in oil, its major foreign exchange earner, through the Clearing House mechanism. Without any willing and able hegemonic power in the region, it was not surprising that intra-regional trade only recorded minimal increases even with the introduction of the WACH. The establishment of ECOWAS did little to change this fact.

In 1987, the ECOWAS Heads of State and Government adopted the ECOWAS Monetary Cooperation Programme (EMCP). The main objective of this EMCP is the adoption of collective policy measures in order to achieve a harmonized monetary system and common management institutions. In reality, ECOWAS member states decided to go for deeper monetary integration (single monetary zone) despite the fact that they failed to successfully run a much simpler scheme. The result has been the unending extension of transition for the ECOWAS wide monetary integration. The last extended date of 2010 has now passed.

From the above, it is not surprising that despite its checkered history, WAEMU is still seen as a model for monetary integration in West Africa. This is because its agency of restraint mechanism ensures economic stability, which is essential for economic development and growth. Rather than expand a functioning WAEMU, colonial divide and pride prodded Nigeria and Ghana to establish a second monetary zone: the West African Monetary Zone (WAMZ) in the region. This strategy is supposed to help accelerate the achievement of an ECOWAS wide monetary union in the region. The weak assumption is that at the very least, this should help convince the CFA Franc group of the viability and feasibility of an ECOWAS single monetary zone. WAMZ was initially expected to come into force in January 2003 with the establishment of a West African Central Bank and the introduction of a Common Currency (the "Eco") for the participant countries. Like the ECOWAS wide monetary integration program, this scheme has also suffered multiple rescheduling of commencement dates. Like the ECOWAS wide monetary integration program, the main impasse to the attainment of WAMZ remains the absence of a hegemonic power that is willing to act as an agency of restraint. Unfortunately, Nigeria, even if it is willing, is currently not in a position, at least financially, to do this. Monetary integration in Francophone West Africa has been relatively successful thus far because pegging the currency to the Euro, with the support of France, gives France the authority to act as agency of restraint. Francophone countries therefore have to choose between continued French assistance and pursuing monetary expansionist policies. In the light of the above, the expansion of WAEMU to include non WAEMU West African countries is, no doubt, the most attractive option for the establishment of an ECOWAS wide monetary integration arrangement.

Admittedly, the current agreement France has with its EU partners, with respect to its monetary relationship with WAEMU countries, is unlikely to permit this. Getting the EU to rethink this restriction should, however, not be too difficult. This is because EU member states have supported ECOWAS countries through various forms of aid. In fact, the contributions of member countries, if aggregated, constitute the largest segment of aid to the West African region. Poverty reduction and economic growth in Africa have also often emerged as one of the main objectives of EU international economic relations. Funds currently spent on aid, with doubtful utility value, could well be diverted to help support the proposed fixed parity arrangement. France also currently has little to fear with respect to allowing for the expansion of WAEMU. Although it has traditionally been uncomfortable, with the size of Nigeria, recent developments have shown that such fears are no longer valid. Firstly, time has shown that the projected economic potential of Nigeria was rather too optimistic. Secondly, recent developments in the EU create genuine opportunities for ECOWAS wide integration. This is especially so, given the fact that the intra ECOWAS divide had its origins in European colonization. With the coming together of these European countries, their political and economic differences should begin to disappear, thus creating new opportunities.

There is now a clear opportunity for the EU to operationalize its usual advocacy of being interested in the economic development of West Africa by acting as an agency of restraint for ECOWAS countries. Although currency convertibility and stability will not automatically ensure economic growth in ECOWAS, it will be a convenient starting point. At the least, it will help foster the creation of a large economic space, which will positively impact the economic development of the region. It will also help to hasten the dismantling of the existing barriers to intra community trade and economic cooperation. For this arrangement to make long-term economic sense and lead to development for West African countries, it must be seen not as an end in itself but as an essential step towards the ultimate goal of internalizing the monetary restraint mechanism in the West African sub-region. It is also unlikely that any monetary support scheme, which has no explicit timeframe, will be acceptable to the EU.

The Way Forward

Now that it is evident that the idea of a second monetary zone has become a fast disappearing dream, the only viable alternative is for the WAEMU to be expanded to bring on board members of the Second Monetary Zone. There may, however, be two potential obstacles to this happening. First, most of the Anglophone countries will be reluctant to join a francophone organisation because of their colonial heritage and sometimes, nationalistic pride. The second reason is the fact that France (and the EU), which acts as the agency of restraint for WAEMU, may be reluctant to expand the current membership of WAEMU. As has already been argued, the second problem is not insurmountable. It will, for instance, not be difficult to convince the EU that the political and economic developments in Europe have now created a unique opportunity for it to help unite a region it helped to divide. The obstacles relating to colonial heritage and nationalistic pride will also not be difficult to surmount. The very fact that all the European countries that participated in the partitioning of the West African sub region have now united under the EU has blunted western interests in ensuring the continued division of the region. The issue of nationalistic pride will, no doubt, vary from country to country. The first step towards achieving an ECOWAS wide monetary integration arrangement would be for the EU to withdraw its resistance towards the expansion of WAEMU. There must, however, be strict and clear rules guiding the admission of new members to WAEMU and only countries that meet the set convergence criteria should be admitted. There should also be explicit penalties for default. This will, at the very least, ensure that willing new entrants will take decisions that could seriously impact on their membership or suspension from the union. Furthermore, to be acceptable to all the stakeholders, Europe cannot be expected to act as an agency of restraint for an expanded WAEMU for an infinite period. The ultimate goal must be to internalize the restraint mechanisms in the subregion. It is, for instance, easier for the EU to agree to act as an agency of restraint to an expanded WAEMU for an agreed period of time- say, 25 years in the first instance. There is also no reason why the Francophone countries will not consent to the expansion of WAEMU. This will at least help integrate their economies with those of their Anglophone neighbors without necessarily upsetting their relationship with Europe.

Once a framework for admitting new members into WAEMU has been put in place, it is likely that some WAMZ member countries will apply to join. Guinea, which was ostracized from the francophone union in 1958, is one. Liberia, which was not a British colony, is also another candidate. Without British interference, it is also likely that Ghana, Sierra Leone and Gambia, which are all encircled by Francophone countries, will all consider joining WAEMU. For the above West African countries, membership of an expanded WAEMU will help force them to adhere to macro-economic policy discipline and ensure monetary stability and currency convertibility. The attendant trade and investment benefits will no doubt be immense. It is, however, unlikely that Nigeria will join such a Union, at least in the short run. Aside from its colonial heritage Nigeria has over the years, partly due to its oil wealth and sheer size, acquired enormous nationalistic pride that will sabotage its joining WAEMU. This, however, should not be seen as a hindrance to the above proposal. This is because, in the future, it would be easier to integrate Nigeria and an expanded WAEMU into a single monetary zone than the current approach of trying to achieve an increasingly difficult Second Monetary Zone, which will then be integrated with WAEMU.

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ZEI-WAI Meeting: Obstacles of Sustainble Regional Integration in West Africa

During an intensive discussion with politicians, diplomats and local academics of Cape Verde, as well as with representatives of the European Union (EU) and the United Nations (UN) in the West African country, experts of ZEI and the West Africa Institute (WAI) reflected about institutional, socio-economic and security aspects of regional integration with a special focus on the Economic Community of West African States (ECOWAS). The workshop was held in the Cape Verdean Foreign Ministry in Praia as part of the consultation process of ZEI and WAI with support of the German Federal Ministry of Education and Research (BMBF).

Photo: ZEI director Prof. Ludger Kühnhardt and ZEI fellows Claudia Rommel and Matthias Vogl together with WAI project coordinator Dr. Corsino Tolentino and Cape Verdean diplomat José Rocha at the conference in the Foreign Ministry of Cape Verde.

Monetary Integration in Central Africa: Review and Outlook

** Emmanuel Kam Yogo*

The history of regional integration in Central Africa is that of many decades of failures: failure of harmonizing economic policies, failure of intra-community trade growth, failure of harmonizing investment regulations, failure of implementing free movement of persons etc. These failures never called into question the functioning of the Franc Zone in Central Africa, though some disorders occurred within the Central Bank of Central African States (BEAC=Banque des Etats de l'Afrique Centrale).

Nowadays, if the Franc zone is considered as a successful monetary integration model in Africa, it should not be forgotten that this monetary integration system is headed by a leader who is neither from Central Africa nor from the African continent, but France. France plays an important role in the functioning of the Franc Zone as a whole and in the functioning of BEAC in particular. However, it is also an instrument to control the monetary sovereignty of all member States of the Franc zone.

The Central and West Africa CFA Francs have the same history. Nevertheless, given the current situation in Côte d'Ivoire, should the Central and West Africa CFA Francs continue to share a common destiny? According to history, French African Colonies Francs (CFA F) was officially created in 1945. But the evolution of the statute of their users led to a change in meaning. The Central African CFA Franc became Franc of African Financial Cooperation (CFA F) and the West African CFA F became Franc of African Financial Community.

The Central African CFA Franc was created with the absence of a sub-regional integration policy. BEAC, the Central African currency issuing institution, functioned for a long time within a context with no political will of integration, since the Customs and Economic Union of Central Africa (UDEAC= Union Douanière des Etats de l'Afrique Centrale) which was created in 1964 did not have a Monetary Union Treaty. It was just in 1994 with the launching of the Economic and Monetary Community of Central Africa (CEMAC) that a Monetary Union for Central Africa (UMAC) was created. Article 9 of the UMAC treaty effectively takes into account the role of BEAC. After transferring the central Headquarters of BEAC from Paris to Yaounde, three Gabonese successively occupied the post of governor up to 2009. Casimir Oyé Mba (1977-1990), Jean Felix Mamalepot (1990-2007), Philebert Andzembe (2007-2009). Due to corruption and embezzlement within BEAC, Gabon's monopoly of the Governorship was put to question. During the CEMAC summit of Heads of State held in Central African Republic in January 2010, it was decided that the BEAC Governorship would now rotate among member States. Thus, Lucas Abaga Nchama from Equatorial Guinea was appointed to replace the outgoing Gabonese Governor. He took office after some malpractices were discovered at the foreign office of Paris and the loss of FCFA 17 billion. This situation discredited the BEAC. Hence, the first mission of the new Governor was to restore BEAC's credibility and brand image.

It was within that framework that a number of reforms had to be carried out:
- First of all, the internal control mechanism has been strengthened. It now has a statute that protects it from pressures. Henceforth, all BEAC offices will be subjected to annual audits by a special department created for that purpose;
- Then, a code of conduct and a market code were put in place;
- Lastly, there was a a reduction of the running costs.

All these reforms are being carried out with the support of the International Monetary Fund (IMF). The implementation of these reforms has had an impact on the statutes of the BEAC like the modification of the participation in the capital, the invalidation of the Fort-Lamy agreement (this agreement reserved the post of governor to Gabon), the limitation on the duration and of the term of office of BEAC's Governor, and the creation of the Monetary Policy Committee.

The cooperation agreement between BEAC and BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest), signed on 18 November 2008 in Dakar by their two Governors, laid down the guiding principles and cooperation modalities between them. They agreed to focus their cooperation on managing monetary signs, payment system, and dialogue on issues relating to banking, financial and monetary specific regulations, and the implementation of a permanent programme of activities and strengthening staff expertise. Reflections relating to the restoration of the Central and West African CFA Francs interchangeability are underway.

Finally, in February 2011, BEAC created a banking deposit guarantee fund for Central Africa (FOGADAC: Fonds de Garantie des Dépôts en Afrique Centrale) that aims to protect saver funds. The guarantee fund will be provided by commercial bank contributions.

In a nutshell there is on the one hand a prospect of increased alternation and maybe therefore also of a slight instability in the post of the BEAC Governor in the future and on the other hand there are signs of a strengthening of the cooperation with West Africa.

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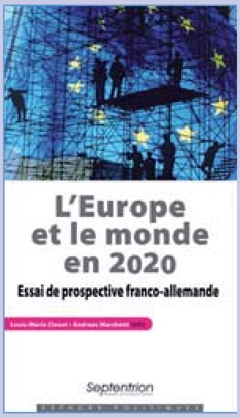
ZEI Publications - New Releases

Andreas Marchetti/Louis-Marie Clouet (eds.): Europa und die Welt 2020. Entwicklungen und Tendenzen (Schriften des Zentrum für Europäische Integrationsforschung, Vol. 74), Baden-Baden: Nomos 2011.



Louis-Marie Clouet/ Andreas Marchetti (eds.): L'Europe et le monde en 2020. Essai de prospective franco-allemande, Villeneuve d'Ascq: Presses Universitaires de Septentrion 2011

Chibuike Uche: The European Union and Monetary Integration in West Africa (Discussion Paper, C 206), Bonn: ZEI 2011.

Mercosur - Twenty Years after the Treaty of Asunción

* Patrizia Luíza Kegel and Mohamed Amal

Introduction

In 2011, Mercosur will celebrate its twentieth anniversary, a landmark in all the experiences of regional integration in Latin America. Two decades of effective regional integration among the four countries of South America: Argentina, Brazil, Uruguay and Paraguay. The particularity of this process and the reasons for its relative success can be explained by different factors, of which the following stand out: first, throughout the two decades of its existence, Mercosur has managed to maintain a climate of unprecedented democratic governance and political openness, compared with the patterns of developing countries; second, despite the institutional and economic limitations, the regional bloc maintained a stable structure of negotiations both internally among its member states, and on multilateral and bilateral levels; third, the cooperation has brought more international trade and economic benefits, allowing the consolidation of the regional economic bloc as a unit and attracting new members in a process of enlargement, which, though still nascent in its concept, points to a greater dynamic of South American integration. In this perspective, Mercosur, and especially Brazil, will be the driver of the dynamic of intra-Latin American cooperation.

Origins and changes dynamic

Although the South American experiences with regional integration date back to the 1960s, the reasons that have frustrated such attempts can be credited to the inability of the countries to link their decisions to the larger goal of trade liberalization and economic development. More or less constantly, the debate was limited to minor problems of a technical character, often resulting in a certain excess of internal rules. The Integration Treaty of 1988, signed between Brazil and Argentina finally was the basis for the creation of Mercosur with Uruguay and Paraguay joining the Treaty of Asuncion in 1991. The initial objectives of Mercosur have been ambitious, the ultimate goal being the formation of a Common Market. Basic elements for achieving these goals, even today, remain a priority for the economic and political success of the regional bloc. The principal ones are those linked to classical mechanisms of implementation of a Common Market, particularly the elimination of tariff and non-tariff barriers, free movement of labor and capital, free trade in services, the adoption of a Common External Tariff and the (attempted) coordination of macroeconomic policies.

In particular, the progressive deployment of the Customs Union in 1995, with the adoption of common external tariff, aimed to guarantee a set of measures to ensure the continuity of Mercosur. We highlight on the one hand the equality of conditions of all members in intra-regional trade, on the other hand the insurance of a margin of preference for the Mercosur partners in relation to extra-zone trade. The outcome shall be to establish the necessary political impetus for the consolidation and expansion of the regional bloc, and especially foster unity in the positions of member countries in their trade relations with other actors, particularly in the negotiations with the EU and within the WTO. Moreover, since the 1990s, the general climate of economic and institutional changes that has permeated Mercosur was extremely positive, especially because of a broad policy based on democratic values, trade liberalization and modernization of economic organizations. However, the second half of the 1990s was marked by successive crises, which had negative repercussions on Mercosur. Since the 1997 Asian crisis and the subsequent Brazilian devaluation in 1999, the intra-zone trade decreased gradually, reaching its lowest level at the time of macroeconomic turmoil in Argentina. Once this acute economic phase had been overcome, economic and trade transactions rebounded, though never reaching the levels before the crisis. Only after the recovery from the global financial crisis, the intra-regional trade reached its level of the years before. In this context of economic crisis and changes in the international trade patterns, the main attempt to strengthen the regional bloc during this period, by setting an agenda of “Mercosur re-launch”, was not that successful, and neither could muster the political conditions that allow the reform of the bloc‘s institutional structure. Thus, the legal and institutional structures with intergovernmental character that formed the Mercosur since its inception have been maintained.

The outcome was an accumulation of overlapping instances, with low operative capacity and directly exposed to the most diverse influences of internal economic and political circumstances of the member states. Unlike the EU, which manages and articulates the process of trade and economic integration using supranational institutions, the option of Mercosur, with the intergovernmental structure of governance, still reflects economic disparities, political and demographic differences. In this context, the legal and institutional framework adopted for Mercosur has not changed the traditional instruments of international organizations, in particular, does not contemplate any kind of mechanism of “shared sovereignty“ as the EU. Although there are different institutional and operational drawbacks, Mercosur in the last two years showed a positive dynamic towards consolidating the Customs Union and defining operational measures and strategies to reduce regional disparities and creating a favorable environment for the integration of their industrial production chains.

During the summit in August 2010 important measures for consolidating the Customs Union were adopted, which meant the combinability of different interests and perceptions of the state´s parties, with the aim of promoting a common goal. The agreement reached during the meeting in Argentina includes the gradual abolition of double charging of the common external tariff (CET), the adoption of a mechanism for distributing customs revenue and the adoption of a common customs code, the Single Customs Document and the Manual of Procedures for Controlling Customs Valuation. Furthermore, at the Summit in December 2010, the decision was finally made to establish a schedule for the elimination of exceptions lists to the Mercosur common external tariff within ten years. In terms of developing a framework to stimulate the integration of productive chains and business cooperation, the creation of a Guarantee Fund for micro, small and medium sized enterprises was approved in December 2008. The program strengthens the FOCEM (Mercosur Structural Convergence Fund), established in 2007, and has promoted several investment projects in order to contribute to regional development, reducing the development asymmetries and promoting new strategic investments.

The third area of strategic measures to strengthen the integration and intra-regional trade refers to approval of a plan of actions in December 2008 for the liberalization of trade in the service sector. The plan aims to eliminate all restrictions on access to the domestic market, to harmonize the regulatory frameworks of all member states, and to eliminate all measures and administrative obstacles to the effective functioning of the intra-regional trade with services.

Mercosur again

In an overall evaluation 20 years after its creation, Mercosur did not fully achieve the objectives proposed in the Treaty of Asuncion. There remain obstacles to tariff reduction, there was no significant advancement towards a more effective institutional consolidation, and especially no advancement towards the integration into the Common Market as originally planned. However, the decisions made in the recent meetings of the Mercosur Commission point out to a greater concern with operational issues related to set up effective management mechanisms of the deepening of trade liberalization and the intra-regional trade in order to extend this process to the service sector. On the other hand, such measures were also adopted with the aim to create new conditions for an effective functioning of the custom union. This demonstrates a more pragmatic policy of decision-makers, seeking to improve the management mechanisms for the purpose of the preservation of Mercosur´s main outcome as a geographic space of cooperation. However, according to Felix Peña (2010), this situation cannot conceal that there are three areas in which Mercosur has accumulated a considerable stock of positive externalities. Firstly, despite some setbacks, there is a set of economic and trade preferences already agreed and that have a positive effect on the increase of the intra-regional trade flows, the integration of productive chains through cross-investments and the attraction of Foreign Direct Investment.

Secondly, there is recognition and identification of the "brand" Mercosur, both by national populations, and in the context of international relations. And, finally the Mercosur has established itself as an integration process that has been and remains crucial to the deepening of regional political stability and democracy.

In this context, one cannot affirm that Mercosur is doomed to failure. Rather, it is still an ongoing process that does not correspond to pre-existing models of regional integration. Its continuing success is linked to a strategic process fundamental to the governance of the geographical area of South America. The very composition of Mercosur is revealing its vocation to set up an environment of political stability and economic scope. And finally, Mercosur acquires a legitimacy in the political and economic international context, due to the position of Brazil as an agent of dynamism in the structuring of an open and competitive space of integration aiming at building new strategic alliances (China and Africa), without losing its sight to main traditional partners like the United States and the EU.

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Measuring Intra-Regional Labour Mobility and Migration

** Philippe de Lombaerde*

One way to assess and monitor the deepening of regional economic integration processes is by looking at the degrees of de facto regional interdependence. Relatively high and/or increasing degrees of the latter can then either be interpreted as pre-conditions for the further institutionalization of the regional integration project, or as (partial) results of regional integration policies. While the relation between de facto interdependence and institutionalization at the regional level is thus to be seen in terms of testable hypotheses, it is clear that both are relevant aspects when studying regions comparatively. Regional economic interdependence can in turn be broken down in different aspects. And although different types of flows between the interconnected parts (countries) within an integration scheme are not the only intervening variables (business cycle correlations or price correlations e.g. are also relevant variables), they are of course essential. In a Balassa world, we would immediately think of trade in goods (and services), capital movements and labour mobility (migration), but flows of knowledge, communication and other human interaction could also be added.

In academia, the relative importance given to all these different but interconnected forms of intra-regional linkages has been very unequal, and does certainly not reflect their relative political or economic importance. Trade, especially in goods, is by far the most researched and monitored flow, and this is of course largely explained by the availability of good and complete trade statistics. Other forms of intra-regional interaction are clearly in need of comparative analysis.

In this short note I will focus on the measurement of intra-regional labour mobility and migration. The aim is to point to the inherent difficulties in measurement, on the one hand, and -at the same time- to the opportunities for further analysis that would emerge from having better statistics. The first set of difficulties concerns the conceptual level. Although international organizations such as the UN, the International Organisation for Migration (IOM) and the OECD have managed to reach consensus on a number of concepts, the phenomenon of (labour) migration and mobility is by nature quite difficult to capture in figures. This has to do with the fact that migrants themselves easily move from one category to another (short term to long term, illegal to legal, one-way to circular, change in citizenship, etc). It has also to do with the fact that countries have different laws and rules in place for migration, and different systems to register their inhabitants.

Compared to trade flows, migration can both be measured as flow or stock, although the latter is often more available. Several complications occur when comparing stocks over time, related to second generation migrants, acquisition of citizenship etc.

The second set of difficulties concerns the availability of statistics. Especially nationally consolidated data (both on total migration and by categories) which are comparable across countries and systematic data on worldwide bilateral migration flows, gathered on an annual basis, seem to be lacking. Such data would allow the production and usage of regionally consolidated data and indicators. Lack of these data explains why research on this increasingly important phenomenon over the last years has gravitated around micro-level studies based on surveys and interviews.

To our knowledge, the only attempt to construct a global matrix of bilateral migration flows in recent years has been the one of the World Bank in collaboration with the University of Sussex Development Research Centre. The matrix -only available for the year 2005- was principally based on census data on foreign-born population. From such data several relevant indicators can be calculated. In the table below regional immigration shares (RIS), regional emigration shares (RES) and the share of intra-regional migrants in the regional population (IRM) are shown for selected regional arrangements. These are the type of data that are needed (but over a longer time span) to study intra-regional labour mobility and migration in the context of regional integration. It would not be too difficult to formulate relevant hypotheses, linking the intra-regional migration variable to other variables (including policy variables).

It is our hope that new international initiatives are taken soon to remedy the lack of good and systematic data on (intra-regional) labour mobility and migration.

	RES	RIS	IRM
ASEAN	32,7	50,1	0,5
CAIS	14,7	68,0	1,2
CAN	2,1	22,9	0,1
CARICOM	1,2	19,6	0,2
CIS	74,1	85,5	7,9
ECOWAS	60,7	57,3	1,6
EU	45,2	32,0	2,6
GCC	39,7	1,1	0,4
MERCOSUR	27,4	30,3	0,3
NAFTA	80,7	27,0	2,8
SAARC	37,9	67,8	0,5
SADC	49,6	47,8	0,8

Notes: RES = IRM/EM*100, where IRM denotes the stock of intra-regional migrants within a particular regional arrangement and EM denotes the total stock of emigrants within a particular regional arrangement; RIS = IRM/IM*100, where IM denotes the total stock of immigrants within a particular regional arrangement; IRM = IRM/REP*100, where REP denotes the region's population. Source: Regional Integration Knowledge System (RIKS) (www. cris.unu.edu/riks).

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The Cost of Non-Integration

** Claudia Rommel*

The worldwide trend of countries to create regional blocs is an interesting phenomenon of our times. The European Union (EU), the Association of Southeast Asian Nations (ASEAN), the Southern Common Market (MERCOSUR) and the Economic Community of West African States (ECOWAS) are some examples for this. In Europe only a handful of countries explicitly state that they have no desire to join the EU. This group is getting smaller. Formerly one of these countries, Iceland has submitted its membership application in July 2009 against the background of the global financial crisis. How can the attractiveness of regional integration schemes be explained? Obviously, the countries which take part are convinced that they will profit from their membership. Beyond the normal cost and benefit analysis, many believe that there are actually costs of deciding not to join: the costs of non-integration. This article will look at the following questions: Are there really economic and political costs associated with not joining a regional group? And if so, what are these costs of non-integration?

Many discussions have revolved around the costs of integration. Most obviously would be the loss of sovereignty that many countries view as the highest cost of integration. Additionally, economic and political adjustments necessary for integration can be seen in a negative way as a sort of privation. Furthermore, where integration models arrange for redistribution systems, e.g. the Structural Policy of the EU, net payers are able to quantify their cost of integration. Even the benefits of integration can be analyzed and enumerated: starting by comparing the economic growth before and after accession to an integration bloc, identifying the benefits of a common currency, and the benefits for the individual in terms of mobility. When examining the costs and the benefits we can deduct these from facts in the past. With the costs of non-integration, however, we tread on an area of a possible future or a different past: we need to speculate about something that has not happened in that way and might never happen in the future. This is the reason why it is more convenient to discuss the opportunity costs of non-integration and as such also the benefits of integration. What would a country forgo when it does not integrate into a regional bloc? What would this regional bloc offer which is unattainable for a country remaining outside this bloc?

The Opportunity Costs of Non-Integration

A key aspect of a regional organization is the trade between its partners. Despite globalization, countries tend to trade more with their immediate neighbors than with distant economies. Lower tariffs, a free trade area or a common market can significantly facilitate trade between the member countries. However, only a situation in which trade is newly created instead of merely diverted is beneficial. Trade diversion occurs when a product is suddenly bought from a country participating in the same regional integration scheme instead of a non-participating country. The same trade flow now occurs between different partners. However, the diverted trade flow is due to the abolition of tariffs, not because the trade partner within the regional integration scheme is able to produce a certain good more efficiently. Some trade diversion cannot be avoided; however, desirable are the welfare gains stemming from trade creation. New trade is created when the changed conditions (in particular the increased competition) from the regional bloc force domestic companies to specialize and increase efficiency. Trade creation then occurs when countries specialize and trade their newly specialized products with each other. A country refusing to become member of a regional organization is missing out on the benefits trade creations yield.

Independent of whether a regional integration arrangement is organized in a supranational or intergovernmental way, forming part of a grouping typically increases and improves communication between the single members. Furthermore, increased trade among these countries requires a certain amount of trust to rely on the trading partner to supply the goods needed and to be able to take own products in the future. Therefore, regional integration is a trust-building measure. It is due to this benefit that membership in the EU is thought to be beneficial for the countries of former Yugoslavia. The prime example at the moment is the border conflict between Slovenia and Croatia. In light of the membership negotiations between the EU and Croatia, resolving the border issue has become a pressing subject and has now been transferred to an international arbitration tribunal. A country which has no desire to integrate into a regional bloc will be missing out on the trust-building effects integration entails.

Certain conditions need to be met for a regional organization to be successful in the long-run. Trade facilitation needs to go beyond merely removing tariffs. Non-tariff barriers, administrative barriers and other impediments to trade within the region need to be abolished as well. Within the EU, the European Court of Justice has shown the way forward as the primary defendant of the four freedoms through its case law. Furthermore, a regional integration scheme must be credible to increase the investment spending into the region and improve its attractiveness. Enhanced attractiveness and credibility are among the most important benefits deriving from integration for some countries. This is demonstrated by the case of Ireland whose transformation into the "Celtic Tiger" was enabled not only through an investor-friendly tax regime but also through its membership in the EU. If a regional integration scheme is not implemented properly, however, a loss of credibility will occur, hurting the image of the member countries. Thus a country refusing to carry out economic integration is missing out on the benefits resulting from credibility.

Regional integration schemes are successful if one of the following is true: either there is very strong political commitment in all of the member countries or there are strong supranational institutions pushing the integration agenda. Otherwise it will be possible for the members to offset any benefits occurring from integration in a wish to protect their industries. This could be observed in the South American organization Mercosur. Immediately after its creation in 1992 one of its members, Argentina, put a 10 % tariff on all imports irrespective of their origin. The other Mercosur members raised barriers to trade on their part. Therefore, a country that enters a regional bloc but fails to show the political will or create supranational institutions will be missing out on the benefits offered by the regional organization. Returning to the case of Iceland and the other Western European countries that are not members of the EU we see that they largely benefit from the common market through the European Economic Area (EEA). The EEA allows Norway, Iceland and Liechtenstein to participate in the common market without being EU members. At first sight, there seems to be no cost of non-integration for these countries. However, they are unable to take part in the decision-making. Having to accept the rules of the game that others have decided can be a high cost of non-integration.

The costs incurred from not integrating range from losing out on the benefits from increased regional trade over credibility loss to lacking influence in decision-making. However, if integration is not implemented properly, there are no costs of non-integration because the benefits arising from integration can be outweighed by national policies and lacking political will. Strong supranational institutions, clear rules and exceptions that are used only in very exceptional circumstances can enable a regional integration scheme to be successful and its member states to reap the benefits.

Note: Aspects of this article have been taken from the 1999 study "SADC; The Cost of Non-Integration" by David Evans, Peter Holmes and Ibbo Mandaza.

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Three Questions to Jürgen von Hagen
Director at ZEI and Vice-Rector of Bonn University

1. What consequence does the obvious contradiction between a growing global relevance of the Euro and the current internal crisis have for the future of the European common currency? Will the internal crisis impede the Euro from staying globally strong in the long-term?

I do not think that there is a contradiction, because there is no „growing global relevance of the Euro." BIS (Bank for International Settlements) data show that the Euro has barely replaced the market share of the previous European currencies (mainly the DM and the French Franc) in international financial markets. The old aspiration of European politicians, that the Euro would replace the dollar as the leading global currency has not been achieved. That said, Asian investors in particular are very worried about the internal crisis of the Euro fearing that investing in the Euro might be a bad idea. This will increase their inclination to stay in the dollar.

2. There are several monetary integration projects all over the world, be it in Europe, in the Gulf or in Africa. Is this a global trend which is about to grow even stronger in the future, comparable to the growing multipolarity in international politics? Which region has the highest prospect to really implement a currency union in the future?

The projects for monetary integration in the Gulf and in Africa are not new. Actually, the one in the Gulf is a few years behind schedule already. Monetary union requires to relinquish substantial parts of national sovereignty. I do not think that this is likely to happen in any other part of the world in the near future.

3. In the wake of the financial crisis in Europe it was sometimes recommended to introduce in Europe a regular mechanism to deal with government defaults. On a global level this topic is not new. Nevertheless, in Europe it seems to cause new fears. What does it mean in concrete terms to handle a government default? Does it have a different effect if a state is already belonging to a currency union?

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Substantively, it means that the debt of the government concerned would be devalued in part. Formally, this must be achieved in negotiations between the government concerned and its creditors, the bond holders. In principle the mechanisms are the same whether or not a country is part of a monetary union. However, the likelihood for this to happen increases in a monetary union. The reason is that a government in a monetary union cannot use the money printing press to inflate away an excessive debt burden. Its debt is almost like foreign currency debt from that perspective.

Prof. Dr. Jürgen von Hagen is Director at ZEI and currently also serves as Vice-Rector of Bonn University.

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