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REVISTA DA FACULDADE DE ECONOMIA DA UNIVERSIDADE DE COIMBRA

Regionalisation, Globalisation and the Emerging World Economy: the case of the World Trade Organisation, the Regional Integration Agreements and the European Union



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resumo

résumé / abstract

Este artigo começa por procurar caracterizar as duas grandes tendências da economia mundial surgidas nas décadas de oitenta e noventa: a regionalização e a globalização (I). Seguidamente, é feita uma análise das referidas tendências na perspectiva do Sistema de Comércio Internacional, especificamente a partir do Uruguay Round (1986-1993), da criação da Organização Mundial do Comércio e da simultânea proliferação mundial de acordos de integração regional (II). Por fim, apresenta-se uma visão geral do «regionalismo europeu», acentuando duas vertentes: o reforço da integração europeia (o mercado interno e a União Económica e Monetária) e o alargamento para Leste e Sul (inclusão de países do Leste europeu e do Mediterrâneo) (III).

Cet article commence par analyser les deux principales tendances de l'économie mondiale pendant les vingt dernières années: la régionalisation et la mondialisation (I). Dans la suite, on présente une analyse de cet aspect dans la perspective du Système de Commerce International, particulièrement à partir de l'Uruguay Round (1986-1993), de la création de l'Organisation mondiale du commerce et de la prolifération simultanée d'accords d'intégration régionale dans le monde entier (II). Finalement, on offre une perspective globale du «régionalisme européen», soulignant deux aspects: le renforcement de l'intégration européenne (le marché intérieur et l'Union économique et monétaire) et l'élargissement vers l'est et le sud (aux pays de l'Europe de l'Est et de la Méditerranée) (III).

In this paper, an attempt has firstly been made to characterise two main tendencies emerging in the world economy during the eighties and the nineties: regionalisation and globalisation (I). We analyse these tendencies looking at the development of the International Trade System, in particular after the conclusion of the Uruguay Round (1986-1993), the setting up of the World Trade Organisation (WTO) and the simultaneous proliferation of regional integration agreements (RIAs) all over the world (II). Finally, a general view of «European regionalism» is presented, emphasising the double movement towards the increase of European integration (European internal market and the economic and monetary union) and the new enlargements to the Eastern and the Southern frontiers (the Eastern European countries and Mediterranean countries) (III).



1. Regionalisation, and globalisation*

As several authors have observed during the eighties and the nineties the phenomenon of regionalisation via the appearance of several regional integration agreements (RIAs) has accelerated. At the same time the so-called globalisation phenomenon has also become evident. Here, the emphasis is on the relationships between the two phenomena and their impact on the International Trade System (ITS).

From a conceptual point of view it is important to characterise both regionalisation and globalisation (Oman, 1993; Mucchielli and Celimène, 1993; Quereshi, 1996).

In general, regionalisation, considered to be the movement towards an economic integration process between different countries, can be said to be a *de jure* and/or a *de facto* phenomenon.

In the first case, regionalisation is equated to international economic integration (currently called regionalism) and may be in different forms or levels (Balassa, 1961): free trade areas, customs unions, common markets, complete economic unions and complete economic integration. In all cases, an institutional form has made the agreement visible and turned it into a political phenomenon with all the possible consequences (i.e. it can be used as an instrument for or against internal lobbies or external powers). There have been several examples of these kind of agreements in the eighties and the nineties, not only in Europe (the European Union and the European Free Trade Association), but also in America (NAFTA—North American Free Trade Association, LAFTA—Latin America Free Trade Association and MERCOSUL—Southern Cone Common Market), Africa (SADC—Southern African Development Community) and Asia Pacific (AFTA—Asian Free Trade Area). In the second cases, regionalisation is a «natural» or *de facto* phenomenon (Oman, 1994). This process is the work of microeconomic forces, which can be seen in the trade, investment and migratory flows across the borders in a particular region. It can be seen without the existence of any kind of formal agreement, but it can only be developed by the signing of a formal agreement. This has typically been the case in the Asia/Pacific region.

The word globalisation can be used in two different ways: as a synonym of multilateralism, as related to the global and international trade system or as a microeconomic phenomenon. For this purpose, it is useful to maintain both meanings, even though the second meaning is more usual.

When globalisation is treated as a microeconomic phenomenon it concerns firms and their behaviour and strategies, particularly the ways firms use to compete at local, regional and world levels. In that sense, globalisation means the growth of economic activity via the movement of goods, services and people across national and regional boundaries. Globalisation is not new, but has changed and accelerated since the end of 1970 through market deregulation, financial globalisation and the diffusion of the new information technologies. All that has been accompanied by the privatisation movement at national level and by a global trend towards liberalisation via GATT¹ and now via the World Trade Organisation (WTO), not only of trade in goods but also of services and in the TRIMs² and TRIPs³ areas. The driving force at microeconomic level was the diffusion of the «flexible system» of production at international level (simultaneous engineering, continuous incremental innovation, team work, just-in-time production and an integrated supply chain). The flexible system of production in particular, means the diminishing importance of labour costs in total costs and the growing importance of the physical

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¹ By GATT we mean the General Agreement of Tariffs and Trade as it was conceived in 1947.

² Trade-related aspects of investment measures.

³ Trade-related aspects of intellectual property rights.

proximity of producers to their suppliers and customers. The potential effects of globalisation are a greater interdependence in the world economy, a reduced sovereignty of the different Nation States, as some national policies are more difficult to define, and a greater instability (problems with the traditional oligopolies).

The globalisation process accelerated and presented new forms during the period characterised by the Uruguay Round negotiations. This period is simultaneously characterised by a movement towards liberalisation at GATT level via the Uruguay Round negotiations, and by the protectionist tensions between different countries and groups of countries by the use of non-tariff barriers. During the same period the regional integration agreements proliferated. When globalisation is said to be related to the multilateralism movement and to the trend for liberalisation, the immediate concern is with the possible effects of the recent proliferation of RIAs. The question is to determine whether RIAs help to develop multilateralism or may produce a sort of fragmentation of the International Trade System.

In sum, regionalisation can be defined as a centripetal phenomenon («...the movement of two or more societies toward greater integration or greater pooling of their sovereignty», Oman, 1994) and globalisation as a centrifugal and microeconomic one («the growth of economic activity spanning politically defined national and regional boundaries. (...) is driven by the action of individual economic actors — firms, banks, people — usually in the pursuit of profit, and often spurred on by the pressures of competition», Oman, 1994) and related to the global process of liberalisation traditionally via GATT and now via the World Trade Organisation⁴.

2. The evolution of the International Trade System: the Uruguay Round agreement, the World Trade Organisation and multiform regionalism

In this paper the above phenomena is being considered from the point of view of the International Trade System, which means that the focus will be on the trade aspects of regionalisation and globalisation. To begin with it is important to establish the differences between what can be called regionalisation and regionalism (Lorenz, 1991) from the point of view of the International Trade System. Regionalisation is defined as an empirically observable regional concentration of economic activity and, in this case, of trade flows. These regions are defined in geographical terms. Regionalism is the constitution of formal regional agreements by means of preferential trade agreements. In this case regionalism involves political decisions taken by the member countries in order to integrated a formal regional integration agreement⁵.

There are two «different» trends in the International Trade System, during the period under consideration. Firstly, the Uruguay Round Negotiations took place during a period of seven years, from the Punta Del Este Declaration of 1986 to the final agreement signed in Marrakech in 1994. At the same time several protectionist tensions were visible, not only between the most important trade blocs, but also between some developed countries and some NIEs⁶. Secondly several regional integration agreements were signed or were activated during the same period (presenting different forms and integrating different «types» of countries).

4 There several definitions of globalisation. See, for example, Grupo de Lisboa (1994), Dunning (1997), Sachwald (1994) and Lahille (1995). Some authors denied the existence of globalisation as a different phenomena from internationalisation (Hirst and Thompson, 1996).

5 There are certain differences between different authors in defining these concepts.

6 New Industrialised Economies. It is interesting that the same group of countries were called NICs (New Industrialised Countries) few years ago but the new name was substituted due to pressure from China. The main reason was that Taiwan was part of that group of countries but was seen by China as an «economy» rather than a country.





2.1 The Uruguay Round agreement — The World Trade Organisation

It can be said that the Uruguay Round and the final agreement is clearly more ambitious and is different to the preceding GATT agreements (Anjaria, 1986; Balassa and Balassa, 1984; GATT, 1985, 1986; Finger and Olechowski, 1987; Kirmani, 1989). The final set of agreements (GATT, 1994a) can be divided into different categories. The agreements on trade in goods (called GATT 1994)⁷, the agreements on trade in services (called General Agreement on Trade in Services, GATS), the agreement on the trade related aspects of intellectual property rights (TRIPS).

The Final Act (GATT, 1994a, 1994b; Cline, 1995) proposes the creation of a World Trade Organisation with the objective of the implementation of the Uruguay Round Agreements and as a forum for negotiation among members. The WTO is organised as an umbrella for GATT-94, GATS and TRIPS, and includes a Trade Policy Review Mechanism and an agreement on the rules and procedures governing the settlement of disputes.

The WTO appears as a sort of organiser of the international commercial relations in a scenario of multilateralism and comeback to the original purity of GATT (MNF clause, unconditionality, national treatment). At the same time, «its field of action» is clearly enlarged with the signature of GATs and with the TRIPs and TRIMs agreements.

It is possible to make some observations about the results of the Uruguay Round: (Lima, 1995a):

- 1 — Multilateralism is clearly reinforced (refusal of bilateral movements and prohibition of grey area measures);
- 2 — MFN clause and the principle of national treatment are reaffirmed;
- 3 — The safeguard clause is clarified (the general principle of non-discrimination is reinforced but in practice it is possible to utilise a safeguard measure in a selective way);
- 4 — One of the main achievements of the Uruguay negotiations was the creation of special rules of transparency *vis-à-vis* non-tariff barriers;
- 5 — Developing countries continue to receive preferential treatment (longer delays for transition period, preferential tariff treatment) but their general situation (in terms of market access to the markets of developed countries) will probably remain the same. In particular, the condition of the less developed countries will continue largely unchanged even if they have almost no obligations under the Uruguay Round Agreement;
- 6 — New themes appeared at the end of negotiations: the environment and the greening of commercial barriers («ecological dumping»), human rights versus labour rights («social dumping»), international migration, inter-regional competition and more intense liberalisation in the services area;
- 7 — The WTO appeared not only as an organiser of world-wide trade flows, but also as a forum for solving conflicts between members countries or groups of countries.

2.2 Regional Integration Agreements: a second wave and a multiform regionalism

With respect to the proliferation of regional integration agreements, it can be said (De la Torre and Kelly, 1992; WTO, 1995; IMF, 1994) that a second wave of regionalism has taken place during the eighties and nineties after a first wave of the sixties (Bhagwati, 1993). The first wave appeared in the end of the fifties with the EEC and Euratom in 1957 and ETFA in 1960 in continental Europe. That is to say, European regionalism (Tsoukalis, 1993) appears as the most important experience of the first regionalism. This was also experienced in Latin America with CAMC, LAFTA and Africa with UDEAC.

⁷ The WTO Agreements stipulate that GATT 1994 and GATT 1947 are two different agreements (GATT 1994).



The term «second wave» is used because it became a fairly visible phenomenon during the last decade. With the proliferation of several agreements (e.g. NAFTA in North America, several free trade agreements in Europe between EEC and different Central and Eastern European countries and ASEN Free Trade Agreement in Asia) and the reactivation of others in Africa (e.g. SADC, former SADD) and Latin America (CACM revived in 1990, LAIA 1980, formally LAFTA)⁸.

Table I — Intra-Trade of Developed Countries by RIAs and Region

| Region | Share of intra-trade in World Exports (%) | | | Share of intra-trade in total group exports (%) | | |
|-----------------------|--|-------------|-------------|--|-------------|-------------|
| | 1960 | 1975 | 1992 | 1960 | 1975 | 1992 |
| APEC ¹ | 36.5 | | | 69.3 | | |
| EEE(6) | 8.0 | — | — | 34.6 | — | — |
| EFTA | 2.3 | — | — | 15.7 | — | — |
| EEC(12) | — | 18.5 | 19.9 | — | 52.5 | 61.1 |
| EEC(15) | | | 23.6 | | | 66.8 |
| EEC/EFTA ² | — | 5.1 | 6.2 | — | 12.6 | 13.4 |
| USA/CAN. ³ | — | 1.3 | 1.5 | — | 8.0 | 9.0 |
| NAFTA ⁴ | — | — | 7.4 | — | — | 43.6 |
| CMEA | 6.3 | 5.1 | 0.5 | 62.3 | 57.4 | 17.9 |
| TOTAL | 16.6 | 30.9 | 32.9 | 34.6 | 47.1 | 51.5 |

- Notes:*
1. APEC (Australia, Brunei, Canada, Chile, China, Hong, Kong, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines; Singapore, Taiwan, Thailand, USA) and NAFTA are arrangements between developed and developing countries.
 2. Trade in manufactures between EEC and EFTA countries.
 3. Trade under the United States-Canada Automotive Products Agreement, which was negotiated in 1965.
 4. North America Free Trade Agreement : Canada, USA and Mexico.

Source:
Handbook of International Trade and Development Statistics, UNCTAD, 1993, 1994 and GATT, *Le Commerce Mondial*, 1994, 1995.

⁸ For a complete list of regional trading agreements, presenting membership, objectives and nature and recent progress toward integration see WTO (1995a: Appendix 1), IMF (1994: Appendix 1), Lima (1995a).The list contains only regional trading agreements of a reciprocal nature. All arrangements of unilateral nature such as the Lome Convention or the Generalised System of Preferences are excluded.



Table II — Intra-Trade of Developing Countries and Territories by RIAs and Region

| Region | Intra-trade of group as percentage of regional exports of each group | | | Intra-trade of group as percentage of total exports of each group | | |
|----------------|--|------|------|---|------|------|
| | 1970 | 1980 | 1992 | 1970 | 1980 | 1992 |
| AMERICA | | | | | | |
| LAIA | 76.8 | 61.0 | 82.5 | 9.9 | 13.7 | 16.7 |
| AND.GRP. | 15.6 | 12.1 | 32.5 | 1.8 | 3.8 | 6.2 |
| CAMC | 89.8 | 87.0 | 68.6 | 26.0 | 24.4 | 13.6 |
| MERCOSUR | 60.7 | 55.6 | 53.7 | 9.4 | 11.6 | 18.2 |
| CARICOM | 56.3 | 32.0 | 39.7 | 4.6 | 4.3 | 9.0 |
| OECS | — | 29.5 | 65.1 | — | 19.7 | 7.4 |
| AFRICA | | | | | | |
| UMA | 68.3 | 33.6 | 78.2 | 1.4 | 0.3 | 3.0 |
| UDEAC | 52.2 | 70.0 | 31.3 | 4.9 | 1.8 | 2.1 |
| ECCAS | 13.4 | 51.6 | 36.5 | 2.4 | 1.6 | 2.1 |
| ECOWAS | 81.3 | 75.4 | 72.6 | 2.9 | 10.1 | 7.8 |
| CEAO | 63.9 | 55.8 | 42.4 | 6.6 | 9.8 | 10.5 |
| MARIUN | 11.3 | 22.8 | 0.8 | 0.2 | 0.8 | 0.0 |
| CEPGL | 1.9 | 3.6 | 14.3 | 0.4 | 0.2 | 0.4 |
| PTA | 79.7 | 76.2 | 68.5 | 9.6 | 12.1 | 6.7 |
| SADC | 62.7 | 32.9 | 65.3 | 5.2 | 5.1 | 4.4 |
| ASIA | | | | | | |
| ACC | 17.1 | 7.8 | 31.2 | 2.2 | 10.5 | 7.8 |
| GULF-COOP. | 22.6 | 17.1 | 24.8 | 6.0 | 3.0 | 7.6 |
| ECO | 8.4 | 24.1 | 14.1 | 3.3 | 18.4 | 3.0 |
| ASEAN | 75.6 | 61.6 | 56.6 | 21.1 | 16.9 | 19.4 |
| BANGK. AGR | 11.3 | 9.5 | 7.8 | 1.5 | 2.2 | 2.4 |
| SAARC | 27.5 | 18.4 | 13.1 | 4.6 | 5.0 | 8.6 |

Notes:

LAIA: Latin American Integration association, formerly LAFTA, 1960; **CAMC:** Central American Common Market; **MERCOSUR:** Southern Cone Common Market; **CARICOM:** Caribbean Community, 1968, data incomplete prior 1981; **OECS:** Eastern Caribbean Common Market, data unavailable for 1970 and incomplete for period 1971-1980; **UMA:** Arab Maghreb Union; **UDEAC:** Customs and Economic Union of Central Africa, 1964; **ECCAS:** Economic Community of Central African States; **ECOWAS:** Economic Community of West African States, 195; **CEAO:** West African Economic Community, 1959 (initially West African Customs Union); **MARIUN:** Mano River Union, 1973; **CEPGL:** Economic Community of the Great Lakes Countries, 1976; **PTA:** Preferential trade Area for Eastern and Southern African states, data unavailable for Namibia and Swaziland; **SADC:** Southern African Development Community, data unavailable for Botswana, Lesotho and Swaziland; **ACC:** Arab Co-operation Council; **ECO:** Economic Co-operation Organisation; **ASEAN:** Association of South-East Asian Nations, 1967; **SAARC:** South Asian association of Regional Co-operation.

Source:

Handbook of International Trade and Development Statistics, UNCTAD, 1993.



We are aware of the shortcomings of analysing the frequency of agreements during a certain period. In particular, the list of agreements submitted to the GATT only provides one type of information: some agreements never functioned while others were replaced⁹. The study of different aspects can give a complete different picture of the different agreements: type of protectionist measures that are suppressed (tariff or/and non-tariff barriers,) sectional coverage (all sectors, or some specific sectors), influence on external and internal trade flows, investment flows and migratory flows.

Keeping that in mind, for this purpose the focus will be on the trade flow aspects of the problem. From Table I and Table II it is possible to get an idea of the importance of regional agreements, not only between developed countries, but also between developing countries. For developed countries (Table I), if the share of intra-trade in world exports is analysed it can be seen that the EEC share clearly increased and for trade in manufactured goods between the EEC and EFTA, but in the last case the increase was smaller. Also, in the case of the preferential trade between Canada and the USA (Automotive Products Agreement, 1965) a small increase is found. For the CMEA (Council for Mutual Economic Assistance) a decrease is found during the last period due to the desegregation of the former Soviet Union and Soviet Bloc.

If the share of intra-trade in total group exports is considered, we can see the impact on the relative concentration of international trade between countries which are part of a formal free-trade agreement or another formal agreement on economic integration¹⁰. Again the figures for the EEC are high: over 60%. The values found for the intra-trade EEC/EFTA or USA/Canada are much lower. The drop out of values for CMEA reflect the events just mentioned.

The case of NAFTA (Table I) is of interest. Firstly, it is an agreement between developed countries (USA and Canada) and developing countries (Mexico). Secondly, the share of intra-trade in total group exports is quite high (43.6%)¹¹. Also the case of APEC is interesting for similar reasons.

9 It is important to note that under GATT discipline it is possible to establish regional agreements under certain conditions. Article XXIV of the General Agreement, special Waivers (Art. XXV) and the Enabling Clause make it possible to diverge from the MFN obligations. Article XXIV, in particular, recognises that such agreements could provide a special way to promote a faster liberalisation of world trade. Free trade areas and customs unions are only permitted from that perspective. Article XXIV permits preferential trade agreements (free trade areas and customs unions) provided that: (1) all GATT members are notified of details, (2) such agreements do not raise trade barriers against other contracting parties to the GATT, and (3) such arrangements cover «substantially all trade» between partners and commit them to reduced barriers to intra-regional trade, possibly by means of a schedule and within a «reasonable length of time» (De la Torre and Kelly, 1992). Article XXV is a special waiver to the MFN clause, applied to the agreements with sectoral coverage (i.e. ECSC-European Coal and Steel Community, 1952, the Auto Pact between Canada and USA, 1965 and more recently the Lome IV Convention). The Enabling Clause is designed to regulate the preferential trade agreements between developed and developing countries. During the period of 1947 — 1995, GATT was notified of 98 agreements (reciprocal agreements). Of these, 52 were actually functioning in 1995. The explanation is simple: some agreements were dissolved and some were replaced by new agreements. However, in spite of this «legal» framework, since 1947 only six agreements have been declared to obey GATT rules and only two of them are actually functioning — CARICOM and the Customs Union between Czech and Slovak Republics (WTO 1995).

10 Kol (1995) uses a similar indicator to analyse what he calls «bloc formation « in world trade. He makes distinction between polarisation, regionalisation, and bloc formation in world trade. Regionalisation «relates to relative concentration of international trade among countries that are part of a country group with an informal cohesion, for instance in terms of geographical proximity», Polarisation «can be regarded as a special case of regionalisation, namely the case of a relative concentration of international trade among countries at difference levels of development. More concretely, polarisation refers to relative concentration of trade from a group of developing countries on a group of industrialised nations with geographical proximity». Bloc Formation «relates to the relative concentration of international trade among countries that are members of a formal free-trade agreement or another formal agreement on economic integration» (Kol, 1995:2). As we can see as compared with the definition proposed by Oman (1993), these definitions allow us to have a more clear idea about the phenomena going on in world trade.

11 Around 35% is the share of intra-trade (all merchandise products) between Canada and the United States.



What about regional agreements between developing countries in Latin America, Africa and Asia?

Table II presents the intra-trade-group as percentage of regional exports of each group and the intra-trade of group as a percentage of total exports of each group for the years 1970, 1980 and 1992. The main reason is the fact that Africa and Latin America export to the rest of the world are relatively little compared to the trade flows of the main world trade regions of (see Table II). Note: 1/For Latin America the values of the intra-trade group as a percentage of the regional exports of each group are relatively high, particularly in the LAFTA/LAIA case (82.5%, 1992) and are much smaller in the Andean Group(32.5%). The values for intra-trade as a percentage of the total exports of each group are relatively low, ranging from 18.2% (MERCOSUR) and 16.7 (LAIA) to 6.2% (Andean Group) in 1992; 2/ For Africa the values are also high but are variable for the first category of values, ranking at more than 70% for UMA and ECOWAS, 14.3% for CEPGL and 0.8% for MARIUN in 1992. When the intra-trade of group is taken as a percentage of each group's total exports the values are very low. In 1992, with the exception of CEAO, all groups presented values below 10%; 3/ looking at the data of the Asian agreements it is immediately obvious that each kind of data is slightly different: a) the intra-trade group percentage of regional exports of each group are much smaller than those presented by Latin American and African agreements with the exception of the ASEAN, with 56.6% in 1992; b) the intra-trade group as a percentage of each group's total exports presents a pattern more similar to the other groups, but again ASEAN presents relatively high values (19.4% in 1992).

Table III-A — Network of World Trade, 1960 (percentage distribution)

| Region of origin | Region of destination | | | | | | | | |
|------------------|-----------------------|----------|-----------|-----------|----------|-----------|----------|----------|------------|
| | WE | JPN | NA | CEE | AFR | ASIA | LA | ROW | WORLD |
| WE | 23 | — | 4 | 2 | 3 | 3 | 3 | 2 | 40 |
| JPN | — | — | 1- | — | — | 1 | — | — | 3 |
| NA | 7 | 1 | 5 | — | — | 2 | 3 | 1 | 20 |
| CEE | 2 | — | — | 6 | — | 1 | — | — | 10 |
| AFR | 3 | — | — | — | — | — | — | — | 4 |
| ASIA | 3 | 1 | 1 | 1 | — | 3 | — | — | 10 |
| LA | 3 | — | 3 | — | — | — | 1 | — | 8 |
| ROW | 2 | — | — | — | — | — | — | — | 4 |
| WORLD | 42 | 3 | 16 | 10 | 5 | 11 | 8 | 4 | 100 |

Table III-B — Network of World Trade, 1992 (percentage distribution)

| Region of origin | Region of destination | | | | | | | | |
|------------------|-----------------------|----------|-----------|----------|----------|-----------|----------|----------|------------|
| | WE | JPN | NA | CEE | AFR | ASIA | LA | ROW | WORLD |
| WE | 33 | 1 | 3 | 1 | 1 | 3 | 1 | 3 | 46 |
| JPN | 2 | — | 3 | — | — | 3 | — | — | 9 |
| NA | 3 | 1 | 5 | — | — | 2 | 2 | 1 | 15 |
| CEE | 1 | — | — | — | — | — | — | — | 3 |
| AFR | 1 | — | — | — | — | — | — | — | 2 |
| ASIA | 3 | 2 | 4 | — | — | 7 | — | 1 | 17 |
| LA | 1 | — | 1 | — | — | — | 1 | — | 4 |
| ROW | 1 | 1 | — | — | — | 1 | — | 1 | 4 |
| WORLD | 45 | 6 | 17 | 3 | 2 | 16 | 5 | 5 | 100 |

Notes:

1. WE= Western Europe, JPN= Japan, NA= North America, CEE= Central/Eastern Europe, AFR=Africa, ASI= Asia/Ocean; LA= Latin America, ROW= Rest of the World.

2. Indicates trade flows of less than 0.5 percent of world exports.

Source:

Kol (1995) from UN trade data base.

The data presented became more comprehensible with the information produced in Tables III-A and III-B. It is now possible to link the information about RIAs with the information about the main geographical area where RIAs take place. The world trade network in 1960 and 1992 is presented. The world economy is now divided into eight regions and one country (Japan): WE: western Europe, JPN: Japan, NA: North America, CEE: Central and Eastern Europe, AFR: Africa, ASIA: Asia and Oceania (except Japan), LA: Latin America, ROW: Rest of the World. The network presents the trade flows (imports and exports) between these regions and countries.

As Kol (1995) pointed out, the most important changes between 1960 and 1992 were: 1/ the growing importance of Japan (its importance doubled) and Asia (its importance almost doubled); 2/ the declining importance in terms of the world trade shares of Africa, Latin America and Central and Eastern European countries (they fell by about half between 1960 to 1992); 3/ the relatively stable position of Western Europe and North America; 4/ if only trade flows of over 0.5% of world exports are considered, it appears that Western Europe (1st), North America (2nd), Asia/Oceania (3rd) and Japan (4th) had the highest number of significant trade relations. Africa, Central and Eastern Europeans countries and Latin America are in the lowest position.

These data corroborate the trends found for intra-trade shares. (Tables II and III). Africa presents trade relations which are highly concentrated in Western Europe. In the case of Latin America, the trend shows larger trade relations with North America, even if they have significant trade relations with Western Europe. With respect to the Asian Countries it was noticed that they do not present a special trade relationship with just one country, but have diversified trade relations: Western Europe, Japan and North America.



Table IV — Trading Neighbours: Ratio of Share to Partner's Share of World Output (1989)

| Trader | USA | Canada | LA | Japan | Develp. Asia | EEC |
|--------------|------|--------|------|-------|--------------|------|
| USA | — | 6.42 | 2.68 | 0.60 | 1.56 | 0.51 |
| CANADA | 2.32 | — | 0.90 | 0.37 | 0.50 | 0.36 |
| LA | 1.19 | 0.74 | 2.81 | 0.55 | 0.23 | 0.72 |
| JAPAN | 0.65 | 1.17 | 1.12 | — | 4.70 | 0.26 |
| DEVELO PASIA | 0.71 | 0.65 | 0.19 | 1.53 | 3.68 | 0.56 |
| EEC | 0.18 | 0.37 | 0.46 | 0.09 | 0.44 | 1.25 |

Notes:

Ratio of trade between a country or groups of countries and its trading partners with the level of trade one would expect to find if that trade were proportional to the trading partners' share of world output.

Source:

Summers (1991).

Table V — Shares of Intra-Region Exports of Goods as a Percentage of Total Exports of Each Region

| Region | 1986 | 1989 | 1990 | 1992 |
|-------------------|------|------|------|------|
| NA | 39.1 | 34.2 | 34.3 | 33.4 |
| LA | 14.0 | 14.1 | 13.4 | 16.0 |
| WE | 68.4 | 70.7 | 72.2 | 71.9 |
| EEC | 53.3 | 48.5 | 42.8 | 18.5 |
| AFRICA | 5.9 | 6.6 | 5.9 | 6.7 |
| ASIA ¹ | 37.0 | 44.1 | 44.8 | 44.5 |

Note:

1. Includes Japan.

Source:

GATT, *Le commerce mondial*, several years.

What can be said about these tendencies from a world-wide perspective? To answer that it is convenient to add some more information concerning the major regions. First (Table IV), we present the ratio of trade between a country or group of countries and its trading partners with the level of trade one would expect to find if that trade were proportional to the trading partners' share of world output (Summers, 1991). For example if these ratio for A trade with B is 4 it means that A trade with B is four times as large as it would be if that trade were proportional to B's share of world (non-B) GDP. Second (Table V) we show the shares of intra-region exports of goods as a percentage of total exports of each region. The regions considered are: North America, Latin America, Western Europe, Eastern and Central Europe, Africa and Asia (including Japan).

Then we can say:

1/ As Summers (1991) clearly pointed out (Table IV), the efforts of regional integration that

involved industrialised countries (Canada and the United States, Japan and the NIE of Asia and the European Union) just confirm the very strong trade relationships that already existed. It is obvious that the worst thing to do would be to create a North Atlantic trading bloc.

2/ If the shares of intra-trade region exports are considered as a percentage of the total exports of each region (Table V) it is seen that the highest ratios belong to the North American region (Canada and the United States), Western Europe (generally European Union and EFTA countries) and Asia (including Japan). Then it is possible to talk about the appearance of three poles (Oman, 1993) or blocs (Schott, 1990; Kol, 1995; Cable and Henderson, 1994) in the international trade network.

3/ The proliferation of regional trading agreements has had two general functions: i) to consolidate and accelerate natural trade relations among neighbouring nations¹², ii) to produce negotiating strength during the Uruguay Round Negotiations, not only for developed countries (e.g. the United States and the European Union), but also for developing countries (e.g. Mercosul).

4/ It appears that the «second regionalism» (Bhagwati, 1993) is not going to cause the fragmentation of the International Trade System, which has been clearly reinforced by the Uruguay Round Agreements and the implementation of the World Trade Organisation (Hine, 1992).

3. ...and the European Union

The European integration process from the sixties until the present time presents two main tendencies: the first towards a deepening of the integration process and the second towards geographical enlargement.

The most enlightening progress towards the strengthening of the integration process was the agreement on the Single Act in 1985 and the signing of the Maastricht Treaty. The Single Act and the so-called 1992 objective concerns the recognition of the multitude of internal non-tariff barriers (physical, technical, fiscal and government procurement procedures) and the need to eliminate them in order to really build a European internal market and to assure the free movement of goods, services, capital and persons¹³. The Maastricht Treaty is built upon three pillars: the first pillar provides the general guidelines for a Common Foreign and Security Policy; the second consists of EC activities (EEC, ECSC and Euratom) and the third relates to justice and home affairs. For the European integration process, the aims of the second pillar and in particular the establishment of a economic and monetary union constitute the most important objectives.

Regarding the enlargement process it seems that the constitution of EU makes it very «attractive» (El-Agraa, 1995) for other countries. The first enlargement took place after several attempts in 1973 (Denmark, Ireland and the United Kingdom); the second in 1981 (Greece); the third in 1986 (Portugal and Spain); the fourth in 1995 (Austria, Finland and Sweden). Several others countries have applied for membership and Cyprus, Malta, Turkey and others are following, in particular the Visegrad group countries. Clearly as the process of enlargement continued the EEC space was became more differentiated (Mayes, 1993) (i.e. GNP per capita, labour force and unemployment rates, use of manpower, production structure, population growth, demand structure, central government expenditure, official development assistance, money and interest rates, manufacturing structure, merchandise export and import structure, trade growth, the origin and destination of imports and exports, income distribution, health and nutrition etc.) and the Community was irrevocably changed (Baldwin 1994).

¹² The United States Israel Free Trade Area is an exception, but for different reasons (i.e. political reasons).

¹³ The creation of North American Free Trade Area (NAFTA) can be considered a response to the creation of the European Internal Market. We note that the data for population and gross national product has become quite similar.





Table VI — The Regional Structure of EEC-12, 1958-92 (As percent of EC-12 Trade)

| Exports | | | | | | | | | | | |
|---------|----------------|------|-------|---------------------------------|-----|-----|-------|-------------------|------|-------|-------|
| Year | Western Europe | | | Eastern and Southern neighbours | | | | Rest of the World | | | |
| | EEC-12 | EFTA | Total | EE | MED | ACP | Total | D.C. | I.C. | Total | Total |
| 1958 | 37.2 | 12.2 | 49.4 | 2.7 | 7.8 | 6.6 | 17.1 | 15.3 | 18.2 | 33.5 | 100.0 |
| 1965 | 49.6 | 13.0 | 62.6 | 2.9 | 4.8 | 4.4 | 12.1 | 9.4 | 15.9 | 25.3 | 100.0 |
| 1970 | 53.4 | 11.7 | 65.1 | 3.4 | 4.8 | 3.6 | 11.8 | 7.1 | 16.0 | 23.1 | 100.0 |
| 1975 | 52.4 | 10.6 | 63.0 | 4.9 | 6.7 | 3.6 | 15.2 | 9.6 | 12.2 | 21.8 | 100.0 |
| 1980 | 56.1 | 11.2 | 67.3 | 3.5 | 5.9 | 3.5 | 12.9 | 9.2 | 10.6 | 19.8 | 100.0 |
| 1985 | 55.2 | 10.0 | 65.2 | 2.8 | 5.2 | 2.3 | 10.3 | 8.7 | 15.8 | 24.5 | 100.0 |
| 1990 | 61.2 | 10.4 | 71.6 | 2.3 | 4.2 | 1.6 | 8.1 | 7.3 | 13.0 | 20.3 | 100.0 |
| 1993 | 57.3 | 9.4 | 66.7 | 3.7 | 4.7 | 1.4 | 9.8 | 10.3 | 13.2 | 23.5 | 100.0 |
| 1958 | 35.2 | 9.3 | 44.5 | 2.9 | 4.5 | 6.8 | 14.2 | 19.2 | 22.1 | 41.3 | 100.0 |
| 1965 | 44.9 | 9.0 | 53.9 | 3.4 | 4.7 | 5.2 | 13.3 | 12.7 | 20.1 | 32.8 | 100.0 |
| 1970 | 50.3 | 8.7 | 59.0 | 3.2 | 4.7 | 4.4 | 12.3 | 10.3 | 18.4 | 28.7 | 100.0 |
| 1975 | 49.5 | 7.9 | 57.4 | 3.5 | 3.8 | 3.8 | 11.1 | 16.3 | 15.2 | 31.5 | 100.0 |
| 1980 | 49.3 | 8.6 | 57.9 | 3.7 | 4.2 | 3.8 | 11.7 | 15.6 | 14.8 | 30.4 | 100.0 |
| 1985 | 53.4 | 9.4 | 62.8 | 3.9 | 5.1 | 3.5 | 12.5 | 9.8 | 14.9 | 24.7 | 100.0 |
| 1990 | 59.0 | 9.6 | 68.6 | 2.7 | 3.8 | 1.8 | 8.3 | 8.2 | 14.9 | 23.1 | 100.0 |
| 1993 | 56.3 | 9.8 | 66.1 | 3.6 | 3.5 | 1.3 | 8.4 | 10.5 | 15.0 | 25.5 | 100.0 |

Notes:

EE: Eastern European Countries, MED: Mediterranean Countries, D.C. : Developing Countries, I.D. :Industrial Countries.

Sources:

Commission Européenne, *Examen des politiques commerciales — Union Européenne*, 1995.

It is important to stress (see Table VI and Appendix I) that the EU has developed a simultaneous process of enlargement, reciprocal agreements¹⁴ (free trade agreements, customs unions and association agreements for some neighbouring countries) and non-reciprocal preferential agreements¹⁵ with neighbouring countries, former colonies, developing and less developed countries: Lome Convention, for developing countries of Africa, the Caribbean and Pacific regions, Generalised System of Preferences for developing countries, i.e. for Latin American countries (Commission Européenne, 1995, WTO 1995). It can said that there is a controlled European market access with differential and more or less preferential access. Outside the EU can then be described as a «pyramid of preferences» (Stevens, 1982, Hugon, 1993), with some countries given more preference than others.

14 Reciprocal Agreements are those where all members have the same obligations, particularly for reducing tariff and/or non-tariff barriers.

15 Non-reciprocal Agreements are those where developing countries are granted trade preferences and their market access is made easier without demanding equal treatment. In the GSP case, preferences are non reciprocal, autonomous (granted by unilateral decisions of granting countries), not consolidated (they can be suspended).

The data of Table VI show how the trade structure of EC-12 changed from when it began to the present day: 1/ intra EC and intra-European trade increased during the period 1958-1993¹⁶ (for imports 37.2% to 57.3% and from 49.4% to 66.7%, respectively; for exports, from 35.2% to 56.3%, and from 44.5% to 66.1%, respectively), 2/ Eastern and Southern neighbours share in global terms has fallen but has performed irregularly: Eastern European and Mediterranean countries present low but rather unstable values, but the share of ACP countries has fallen in a stable way. Thus, it can be said that the effects of regional integration in Europe are impressive¹⁷.

European integration can be thought not only as a *de jure* integration (Oman, 1993) but also as a «natural integration», not in the understanding of Oman (1993) but in the sense of Sapir (1993) and Summers (1991) (trade between neighbouring countries, specially when trade barriers disappeared)¹⁸ reinforcing the tendency of a bloc formation in EU¹⁹, along with the North American and the Asian trade blocs (Kol, 1995; Oman, 1993; Schott, 1990)²⁰.

In sum, it can be said that the EU now faces a challenge: is it possible to continue further integration and continue the enlargement process and to develop important relations at the same time, particularly trade flows with other countries and groups of countries?

4. Conclusion

A regionalisation of world trade has become empirically visible, in that there is a concentration of trade flows in some regions (geographical areas), namely Western Europe, North America and Asia/Pacific, which lead to the existence of three poles (the triad) in the world economy, the «three different animals» (Oman, 1993). In reality regionalisation is a *de jure* and a *de facto* movement in the case of Europe and North America, but in the case of the Asian region it is much more of a *de facto* phenomenon.

Formal regional integration agreements have proliferated simultaneously all over the world, not only between developed countries or between developing countries, but also between countries with different levels of development. Regionalism, as the *de jure* movement of formal regional integration, has clearly intensified during the eighties and the nineties. Then, by comparison, with the appearance of such integration agreements in the sixties and early seventies, a second wave of regionalism took place (Bhagwati, 1993). In particular, in Western Europe the constitution of the EEC (now the EU) is an impressive experience.

Both movements seem to be related and it can be said that formal integration has helped to accelerate trade relations where there were already important trade relations. This is the case of Western Europe and EU and the case of North America and the free trade arrangements between the United States and Canada. In other regions, i.e. Africa and to a lesser extent in Latin America, regional agreements have not appeared to substantially change their trade patterns.

16 It is true that we can find some irregularity in the data, particularly in the more recent period. However some authors argue that the composition of EC must have been take as it was at each moment of time.

17 Of course we know that trade shares are a very imperfect indicator of European integration because at the same time trade structure may have changed (consumers preferences or national policies can be the explanation).

18 As compared with non- natural integration as for example TAFTA (Trans-Atlantic Free Trade Area).

19 In fact if we compare the ratio of intra-EC trade over extra-EC trade we observe that this ratio rises over time. For EC6 the corresponding figures are for total trade 55 in 1960 and 99 in 1970. For EC10 the figures for total trade are 106 in 1970 and for EC9 they were 103 in 1970. The ratio for EC12, between 1980 and 1992, rises from 116 to 159 for total trade, from 81 to 146 for primary products and from 144 to 167 for trade in manufactured goods (Kol, 1995). This clear represents a tendency for a relative concentration of international of trade among member countries of EC.

20 All these authors present definitions of trade blocs that have small differences. In general we think we can consider a trade bloc means an intensification of trade relations between countries that are part of a formal trade agreement.





At the same time, RIAs gave additional power to the different countries and groups of countries during the Uruguay Round Negotiations (1986-1993). This interaction and the Final Agreement in the Uruguay Round Negotiations makes it possible to see the International Trade System as more open and complex now, with what appear to be weaker signs of possible fragmentation.

The simultaneous «global» organisation of the world trade system and the appearance or/and reinforcement of regional agreements can probably be explained by the special characteristics of the globalisation process. One of the most important aspects of the new form of industrial organisation (flexible production) involves the proximity of producers, sellers and consumers to each other. In that sense the global location may be a local («regional») location. From that perspective the appearance of regional agreements may accelerate the liberalisation process at regional level. Regionalisation (the concentration of trade flows within geographical areas, namely Western Europe, North America and Asia) and regionalism (the movement towards economic integration whatever their formal form) may be an adequate response to the globalisation process.

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Appendix I — Regional Trading Agreements: the case of the European Union

EU (European Union) (1993) — Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, United Kingdom and, after 1995, Austria, Finland and Sweden: *economic union*.

EEA (European Economic Area) (1994) — European Union, Iceland, Liechtenstein and Norway: *free trade area plus factor mobility* (agricultural products are excluded).

EU-Association Agreements (bilateral) — with Bulgaria (Interim Agreement 1993), Czech Republic (Interim Agreement 1992), Hungary (Interim Agreement 1992), Poland (Interim Agreement 1991), Romania (Interim Agreement 1993), Slovak Republic (Interim Agreement 1992): *free trade area*.

EU-Baltic countries FTA (1994) (bilateral) — EU, Estonia, Latvia and Lithuania: *free trade area*.

EU-FSU Cooperation and Partnership Agreements (1994) (bilateral) — EU, former Soviet Union (Belarus, Kazakhstan, the Kyrgyz republic, Moldova, Russia, Ukraine): *free trade area*. In the medium run, the «co-operation and partnership agreements» of the EU with the countries of the former Soviet Union provide the MFN treatment of merchandise trade and certain services. The agreement also schedules a revision in 1998 with the possibility of creating a free trade area.

EU-Turkey Association Agreement (1963) — EU and Turkey: *customs union*.

Note: We have dealt exclusively with reciprocal agreements; we are not referring to the non-reciprocal agreements, which are particularly important in the case of UE: Lomé Convention, co-operation agreements with Algeria, Tunisia, Egypt, Jordan, Lebanon, Morocco, Syria, and the Generalised System of Preferences.

Source: IMF (1994), WTO (1995), Lima (1995b).

