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The Maghreb and Other Regional Initiatives: A Comparison

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Regions are growing in size and power, starting with the Maghreb's close neighbors in the European Union and extending to regional alliances in Asia. The wave of regional integration over the past two decades is making it more difficult for a single country of moderate size to thrive in the global economy. Certain regional groups, such as the Association of Southeast Asian Nations (ASEAN) and the various organizations of Central American countries, are considered successful today, but they faced major obstacles in the past. This section reviews the integration processes in ASEAN and Central America and compares their experiences with that of the Maghreb.

Association of Southeast Asian Nations

Established in 1967, ASEAN initially comprised Indonesia, Malaysia, Philippines, Singapore, and Thailand; over time, these countries were joined by Brunei Darussalam (1984), Vietnam (1995), Laos (1997), Myanmar/Burma (1997), and Cambodia (1999). ASEAN started as a political organization in response to intraregional conflict. The communist threat throughout the

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region furnished its rallying force, as sponsored guerilla wars, notably in the Philippines and Malaysia, contributed to the region's instability. In addition, all member states coordinated their efforts to deal with large refugee flows.

The Zone of Peace, Freedom, and Neutrality (1971) was the first major step toward political cooperation under ASEAN, but it was the Treaty of Amity and Cooperation, signed at the First ASEAN Summit in Bali in 1976, that set the organization's basic principles. Most prominent among these were the peaceful settlement of disputes, judicial cooperation, coordination of political positions, and, at first, noninterference in the affairs of other members. As the Cambodia conflict developed and threatened the region, however, the need for ASEAN was evident; ASEAN dropped its noninterference commitment and was instrumental in peacefully resolving the conflict.

After 25 years of political cooperation under ASEAN, the ASEAN Free Trade Area (AFTA) was launched in 1992, with a single market planned for 2020. Progress during AFTA's first decade was slow because of political suspicions. Moreover, AFTA member states were competing against each other in third-country markets, as several countries exported similar tropical products and manufactured goods. As often happens in regional groups, AFTA members were reluctant to open their markets for sensitive products, such as rice and automobiles. Other obstacles to AFTA included fears of dominance, politically by Indonesia and economically by Singapore.

The 1997 Asian crisis gave new impetus to strengthening the free trade area, as one means of coping with the deep recession was to accelerate and broaden the integration process. Market integration in Europe and North America and the emergence of low-cost competition from China and Latin America contributed to the push for stronger economic ties within AFTA. On the political side, the financial crisis paved the way for the fall of authoritarian regimes in Thailand, Indonesia, and Malaysia, and the new leaders proved more willing to cooperate with their AFTA neighbors.

The simple average preferential tariff for products of the ASEAN-6—Brunei Darussalam and the five originating states—was reduced from 12 percent in 1992 to less than 2 percent in 2008. The remaining four countries reduced their tariffs to the target range of 0 to 5 percent for 81 percent of the products in their inclusion lists. Countries aim to remove tariffs completely on all products by 2015 for the ASEAN-6 and by 2018 for the other members. Intraregional merchandise trade as a share of total trade increased from 9.7 percent in 1992 to 19.2 percent in 2007. In real terms, GDP per capita increased 54 percent between 1992 and 2007, an average annual increase of 3.8 percent. This period encompasses the Asian financial crisis, which hit Indonesia particularly hard. Real GDP per capita growth for ASEAN countries between 1997 and 2007, excluding Indonesia, reached 7.3 percent (table 4.1).

Table 4.1 Regional comparisons between the Maghreb, ASEAN, and CAFTA-DR, 2007

Agreement	Population[a] (millions)	GDP[a] Billions of US dollars	GDP[a] Per capita (US dollars)	Annual real GDP per capita growth, 1997–2007 (percent)	Merchandise trade within the region[b] (percent of total trade)	Total merchandise trade[b] (percent of GDP)	FDI stock in the region, 2006 (percent of GDP)
Maghreb	84	302	3,585	4.4	1.3	72.5	25.5
ASEAN							
Total	576	1,201	2,086	2.7	19.2	119.5	39.5
Excluding Indonesia	350	793	2,266	7.3	11.7	158.6	57.3
CAFTA-DR[c]	47	128	2,697	6.8	6.8	74.2	23.5

ASEAN = Association of Southeast Asian Nations
CAFTA-DR = Central American Free Trade Agreement–Dominican Republic
FDI = foreign direct investment

a. International Monetary Fund staff estimates.
b. Estimates based on figures for the first eight months of 2007.
c. Excludes the United States.

Sources: International Monetary Fund, *Direction of Trade Statistics*, January 2008, and *World Economic Outlook,* October 2007; United Nations Conference on Trade and Development (UNCTAD) foreign direct investment (FDISTAT) database, available at www.unctad.org.

AFTA included measures on trade facilitation and technical barriers to accompany tariff liberalization. Regionwide projects have also materialized in finance, transportation, and energy. Adopted in 2003, the Roadmap for Financial and Monetary Integration of ASEAN planned for the market infrastructure and legal and regulatory frameworks necessary to develop capital markets. Another specific aspect of the project targets collaboration between countries in training networks, product development, market linkages, and harmonization of capital market standards.

The trans-ASEAN transportation network and the Roadmap for Integration of Air Travel Sector (2007) promote the building of major networks of roads, railways, and inland waterway transport. Regional cooperation is also apparent in the trans-ASEAN energy networks, namely the ASEAN Power Grid and Trans-ASEAN Gas Pipeline projects (1997). Finally, in other areas, such as customs procedures and electrical and telecommunications standards, ASEAN countries are working on harmonizing national standards to international ones.

Adopted in October 1998, the Framework Agreement on the ASEAN Investment Area aims to establish an ASEAN Investment Area (AIA) to promote external foreign direct investment (FDI) into the region as well as intra-ASEAN investment. Although the agreement contemplates cooperation among the ASEAN countries in attracting FDI, it excludes services and portfolio investments, except services related to manufacturing, agriculture, forestry, fisheries, and mining. The heart of the initiative lies in increased transparency of investment regulations through joint publications and information sharing as well as the simplification of procedures. The AIA provided for the immediate liberalization of investment barriers and rules in all industries for ASEAN investors and the application of national treatment to all ASEAN investors. Temporary exemptions were granted for opening up particular industries with a maximum horizon of 2015.

Central America

The first step toward economic integration in Central America was the Central American Common Market (CACM) founded in 1960 between Guatemala, El Salvador, Honduras, and Nicaragua. Costa Rica joined in 1963. The Permanent Secretariat for Economic Integration (SIECA) and the Central American Bank for Economic Integration (BCIE), both created in 1961, are the main regional institutions for economic integration.

During the first two decades of its existence, the CACM made limited progress in liberalizing markets, primarily because import substitution was then the reigning economic philosophy throughout Latin America; also, the less developed countries—Honduras and Nicaragua—feared that they would not get a fair share of the gains from integration. Economic relations between members sharply deteriorated in 1969 when the Football War between El Salvador and Honduras erupted in response to large flows of Salvadoran immigrants to Honduras. The border was closed for ten years and trade between the two countries was seriously disrupted. In the 1980s the Latin American debt crisis led to economic collapse and civil wars broke out in El Salvador and Nicaragua.

As political relations between member countries improved in the 1990s, summit meetings between CACM leaders resumed. The Central American Integration System (SICA), established in 1991, was intended to revitalize the market by focusing on export promotion. A common external tariff ranging from 0 to 15 percent was implemented in January 1993. Panama participates in SICA and Belize attends as an observer. Honduras, which had withdrawn from CACM after the Football War, was readmitted in 1992. Also part of SICA are political organizations, such as the Parliament of Central America (Parlacen), the Central American Court of Justice, and the Consultative Committee.

The Central American Free Trade Agreement–Dominican Republic (CAFTA-DR) freshly spurred integration. Because of its recent implementation,[1] the effects of the agreement are difficult to evaluate. However, be-

1. Delayed by national political opposition, implementation began in March 2006 in El Salvador. It has yet to enter into force in Costa Rica.

tween March 2006 and October 2007, intraregional trade grew by 17 percent, as opposed to 7 percent growth of trade between member countries and the rest of the world. The Inter-American Development Bank (IDB) observes some diversification away from traditional exports.

At the heart of the CAFTA-DR agreement are provisions designed to increase commercial ties between members. The chapter on trade facilitation and reform of customs is an essential tool, as it achieved considerable progress in eliminating barriers to investment and modernizing the legal framework for business transactions throughout the region (Hufbauer and Kotschwar 2008). Also, the investment chapter of CAFTA-DR provides for an open and transparent investor-state dispute settlement mechanism, among other provisions. However, CACM countries are currently negotiating an Agreement on Investment and Trade in Services, which is compatible with the CAFTA-DR chapter but goes further. The treaty was signed in March 2002 and modified in February 2007, but has not yet come into effect, as the national annexes—which, for transparency, detail each country's commitments—have not been finalized yet (IDB 2007).

In addition, large-scale regional projects have been initiated in Central America, notably to link electricity grids and infrastructure in the region. The flexibility of the various rules under CAFTA-DR was a crucial element of these policies' sound implementation and political backing; the rules allowed more time for implementation by Honduras and Nicaragua, the poorest member countries.

Comparison with the Maghreb

In both the ASEAN region and Central America, the need for stability was key to promoting integration. A similar threat—terrorism—infects the Maghreb. As of now, security collaboration between Maghreb countries is limited to information sharing. Serious economic integration measures would be a major step forward.

For CAFTA-DR, the need to build bargaining power in talks with major trading partners, notably the United States, was instrumental. In a similar spirit, a strong Maghreb would not only provide the region with more weight in its trade negotiations with the European Union; it would also solidify the region's position as a leader in Africa.

In the 1990s, ASEAN was handicapped by weak supranational institutions. The Asia Pacific Economic Cooperation forum helped restructure and strengthen ASEAN institutions. Similarly, Central American countries benefit from US technical aid provided in conjunction with CAFTA-DR chapters on customs administration and reform, trade facilitation, and sanitary and phytosanitary measures. The European Union is playing the same role in the Maghreb through the Euro-Med partnership and the European Neighborhood Policy.

Both ASEAN and CAFTA-DR dealt with different economic development levels and resistance to dismantling tariffs because of production similarities among members. Both groups coped with extensive power disparities between their members and different political regimes as well. As Anós Casero and Seshan (2006) show, the Maghreb faces identical challenges.

Table 4.1 summarizes the economic situation of the Maghreb, CAFTA-DR, and ASEAN in 2007.[2] Intraregional merchandise trade in the Maghreb stands at only 1.3 percent of total merchandise trade, compared with 6.3 percent for CAFTA-DR and 19.2 percent for ASEAN. Total merchandise trade as a percent of GDP is similar for the Maghreb and CAFTA-DR, but significantly lower than it is for ASEAN. The FDI stock in the region as a percent of GDP in 2006 is roughly equal for the Maghreb and CAFTA-DR, but much lower than it is for ASEAN. Over the past decade (1997–2007), on a per capita basis, real GDP has grown more slowly in the Maghreb than in ASEAN (excluding Indonesia) or in CAFTA-DR. On the other hand, in 2007 GDP per capita in the Maghreb was 1.7 times higher than it was in ASEAN and 1.3 times higher than in CAFTA-DR. As the following chapters argue, the Maghreb has a great deal of untapped economic potential, which economic integration—regionally and with the world economy generally—could help to realize.

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2. The CAFTA-DR data exclude the United States.