**Paper Three – Regional Integration and Cooperation: Challenges and Opportunities**

**Introduction**

**Alongside globalisation, one of the defining features of international relations is regionalism.  Regionalism may take various forms; cooperation or integration, and integration may be shallow or deeper integration**

**Regional cooperation may involve cooperation in specific projects such as infrastructure development.  In the southern African region several such infrastructure development projects have taken place in recent years.   Countries have cooperated in the building of cross-border road infrastructure, and this has been very important for land-locked countries, and has also facilitated intra-regional trade.**

**Regional integration goes beyond cooperation to the conclusion of international agreements or protocols.  These may cover for example the liberalisation of trade among member states to create a free trade area or customs union.  This would be referred to as shallow integration.  Deeper integration extends beyond shallow integration which focuses on measures and instruments at the borders of member states such as tariffs, to behind the border issues such as investment and regulation.**

**Trends in Cooperation and Integration**

**Current trends are to move from free trade areas to customs unions and to deeper integration arrangements.   Again in Southern Africa, the member states of the Southern African Development Community (SADC) launched a free trade area in August 2008, and aim to become a customs union by 2010.  The East African Customs Union (EAC) is another example of such regional economic communities or regional integration arrangements in Africa.  Discussions are underway to consider the establishment in East and Southern Africa of a Free Trade Area encompassing a number of different such integration arrangements.  In West Africa regional integration is well established with some arrangements having moved beyond a customs union to a monetary union.  The Gulf Cooperation Council is an example of a cooperation arrangement in the Gulf region**

**The Nature of Regional Cooperation and Integration**

**Regional cooperation and integration may take various forms and be motivated by different interests.   Cooperation on security matters and in the political arena is also important.  On the latter front, member states may enter into an agreement on the monitoring of elections or even set standards for free and fair elections, and then provide for the monitoring and assessment of elections.**

**In cases of civil unrest or war, regional peace keeping arrangements and the mobilisation of peace keeping forces may be considered.**

**Political and security cooperation and integration require significant commitment by member states, acknowledging the fact that in case of civil unrest intervention by regional peace keeping forces may take place.  This has important implications for how member states handle domestic unrest situations.**

**Prospects for Regional Cooperation and Integration**

**Both in Africa and the Arab world the motivation for regional cooperation and integration is strong.  The benefits of sustainable regional development, the integrated nature of countries in these regions, as well as the benefits from such cooperation and integration are recognised.**

**Especially in Africa, the focus has been on the textbook model of regional integration.  This textbook model plots progress in regional integration from a free trade area to a customs union, to a common market, to economic union (including a monetary union when member states have a common monetary policy and common currency) and political union.**

**A free trade area focuses on liberalising trade in goods among member states.  To do this they agree to reduce tariffs and non-tariff barriers.   A free trade area is a form of shallow integration.  A customs union still focuses on trade in goods and requires that member states determine a common trade policy towards this parties.   Member states adopt a common external tariff.   This means that member states give up trade policy space.  Especially in cases where member states have diverse economic and trade interests, this means that they must compromise in the determination of the common external tariff.**

**Establishing a customs union and moving beyond to further forms of economic integration requires sacrifice of policy sovereignty.   Decisions at a supra-national level may be time consuming and cause delays in policy decisions and implementation. Moving beyond a customs union to a common market requires liberalising capital and labour flows among member states.  Especially in regions where some member states may have high levels of unemployment, the free movement of people among member states remains a very sensitive issue.**

**A monetary union means that member states have a common monetary policy (interest and exchange rates would be determined by a regional Central Bank).  For many developing countries the interest rate and the exchange are very important instruments of policy.   Giving up this policy space may impose significant constraints on the development strategy of these countries.**

**An economic union would further require, in addition to a common monetary policy, fiscal integration.   Again fiscal policy is an important development policy area and giving this up may be a severe compromise for many developing countries, for example as regard their tax and expenditure options.**

**Political union would extend beyond economic integration to the political sphere.  The establishment of regional political institutions, such as a Parliament, represents an advanced form of integration.**

**Benefits of regional integration**

**The following are benefits of regional integration**

**-    Achievement of political objectives**

**-    Access to a larger market and associated economies of scale and increased competition**

**-    Lower transaction costs of intra-regional trade**

**-    Encouragement of investment, both local and foreign**

**-    Enhancement of policy credibility**

**-    More political power and leverage in international negotiations**

**The costs associated with regional integration include:**

**-     the loss of policy sovereignty,**

**-   trade diversion (importing from members of the regional arrangement rather than from lower costs producer outside the region)**

**-    agglomeration economies (as economic activities cluster in specific parts of the region, exacerbating regional inequality)**

**-  slow regional (supra-national) decision making and delays in policy implementations**

**While the general trend suggests that perceived benefits of regional integration outweigh the costs, regional integration remains a complex process.  Especially in east and southern Africa, countries belong to several regional integration arrangements.  While such membership may have been rationally motivated at the time of joining, the evolution of the integration agendas of the various arrangements now poses significant challenges.**

**For example, it is not possible to belong to two customs unions simultaneously, since a customs union has a common external tariff.  If a country belongs to two regional integration arrangements that both aim to become customs unions, then this country will have to choose between the two arrangements.**

**In some regions there may be a regional hegemony.  Negative and positive factors are associated with a regional hegemony.  The existence of a regional hegemony may cause political challenges and also pose a threat to balanced regional industrial development.  Agglomeration of industry in the regional hegemony (as a result of more developed infrastructure and agglomeration economies) may mean that smaller member states may battle to attract investment.  A positive outcome associated with a regional hegemony is that it could be an engine of growth for the region.**

**An important consideration is that regional integration is a time consuming process.  The experience of the European Union provides some indication of how long it takes to proceed along this path of integration.   Modest objectives with realistic time lines are important.  This is often where there is divergence between political objectives and the regional integration agenda.**

**Regional integration can be used as a platform for effective global integration or it can be inward looking.  If regional integration is to be used to facilitate competitiveness development as a basis for participating effectively in global markets, then deeper regional integration is important.**

**Shallow integration refers to economic integration that focuses on border measures such as tariffs.  Hence the establishment of a free trade area which eliminates tariff and non-tariff barriers on intra-regional trade is a form of shallow integration.  Deeper integration involves ‘behind the border’ measures such as the liberalisation and regulatory reform of services and investment.**

**Many competitiveness challenges faced by developing countries relate not so much to border issues such as tariffs but rather to behind the border issues such as the cost, quality and reliability of service provision (eg transportation).  Hence the link between deeper integration and competitiveness is strong.**

**Concluding Comments**

**Regionalism is a defining feature of current international relations.  While regionalism in some sense runs counter to the fundamental principles of multilateralism, it provides an important strategy for developing countries especially smaller countries to participate in a competitive global economy.**

**Regional integration is a complex and demanding process, especially in so far as it may require the sacrifice of policy sovereignty.  The objectives of regional integration arrangements must be clearly articulated, the costs and benefits need to be carefully assessed.  A realistic plan achieving integration targets needs to be developed and implementation of agreements and protocols should be monitored, and compliance assured if the benefits of integration are to be realised.**