CHAPTER 3

Review of Leading Models of Regional Economic Co-Operation and Customs Unions.

3.1 INTRODUCTION

After taking a bird’s eye review of recent developments in ‘The Theory of Customs Union’ and ‘Economic Integration’ a brief review of Leading models of Regional Economic Co-operation and Customs Unions in the past and present shall be taken in this chapter.

3.2 EEC - THE WORLD LEADER AMONG VARIOUS REGIONAL COMMON MARKETS.

The first important case of economic integration was the German Zolleverein in the 19th century, which led to total economic integration through the unification of the German city states with the establishment of a strong union which brought tremendous progress and prosperity to Germany due to its cohesive solidarity. All the trade barriers like intra-regional customs, city tolls, octroi, tariffs within Germany were removed which brought amazing results of reduction in costs, time, energy and increased efficiency, productivity, business turnover and profitability.

After World War II, European Coal and Steel Community was established in 1953. Later on the European Economic Community EEC comprising of Belgium, France, Italy,
Luxembourg, The Netherlands and West Germany was established, known as "The Continental Six!"

The agreement that is the basis for the EEC provides for the progressive elimination of the tariffs and import quotas levied on non-farm products produced within the market allows workers and other factors to move freely from job to job within the market and to establish common trade policies.¹

As a group, the EEC nations have come to be known as the ECM i.e. European Common Market. They have moved even closer together economically by converting to a somewhat uniform system of indirect taxation and adopting common farm prices. They have established Development Aid Fund and Common Monetary Fund of Eurodollars. They prevent intra-member states undesirable competition among themselves and decide the tariff policies concerning member and non-member countries. Production and economic conditions greatly and rapidly improved in the EEC countries, so many countries have been inspired and led to join it or associate with it and other international market areas have been proposed or organized for various geographical zones of the world. Ireland, U.K, Denmark joined ECM in 1973. About 46 countries have trade pacts and agreements with the EEC, out of which some of them enjoy some of the rights and privileges of the member countries but do not have full membership status.²

² - Ibid - page 797.
Infact, The United States itself, is a common market / community for all the autonomous member states of Federal America. The understanding of the member countries is to be formally signed by the agreement. The main clauses of 'common market/community' agreement are:

1) To abolish tariffs and import quotas between the member nations.
2) To establish a common system of tariffs against the products of non-members.
3) To allow the free movement of workers and capital across national boundaries.
4) To create common policies to confront common economic problems such as agriculture, pollution and the existence of non-competitive industries.

The common market became a role model of functional success, primarily because it introduced competitive pressures for efficiency, as heretofore monopolistic, oligopolistic firms (receiving undue national protection) suddenly had to compete with their counterparts in other nations. Secondly, it provided a larger pool of potential customers, so that firms previously too small to take advantage of the economies of scale available from modern technology could grow and take advantage of them. Thirdly, the common market countries tended to grow much more rapidly than their non-market European counterparts, and this prompted a lot of membership applications and efforts to emulate them in other places ranging from
Central America to eastern Europe.  

By 1990's, EEC is the topmost successful common market community, which has absolute dominance and influence over the total world trade. It can wield its pressure on the World Trade Organisation (formerly GATT). Various regional integration groups have established relations with EEC and they have emulated its model.

In recent years EEC has removed customs duties without reciprocal arrangements for most of their imports from some 60 African, Caribbean and Pacific countries.

Under this programme, ECU 8,760 million of aid was granted between 1986 - 1990. An economic and commercial agreement has also been signed with ASEAN.

Under the Common Agricultural Policy CAP, various schemes such as a single market, which calls for common prices, stable currency parties, community preference, common financing through the European Agricultural Guidance and Guarantee Fund, stabilized markets against world price fluctuations through market intervention with levies or refunds on export, have been successfully operated. At present, common market organizations cover over 95% of EEC agricultural production. In

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3 - Ibid - page 798.

order to check over production, compensatory grants are available to farmers who remove land from production. On the other hand, the European Monetary System EMS has been founded in March 1979 to control inflation and to protect European trade. The Exchange Rate Mechanism ERM is run by the Finance Ministers and Central Banks of the EC countries on a day to day basis. A European Currency Unit ECU has been introduced to facilitate the regional trade and transactions. In March 1993 1 UK Pound = ECU 0.82 and 1 US$ = ECU 1.18

3.3 EUROPEAN FREE TRADE ASSOCIATION - EFTA (1960)

Austria, Denmark, Norway, Portugal, Sweden, Switzerland and the United Kingdom founded the European Free Trade Association EFTA in 1960, with Finland participating first as an associate and later as a full member.

In 1973, Britain (UK), Denmark and Ireland left EFTA and entered the EEC in 1968. Greece became a member of the EEC in 1978 and Portugal and Spain joined it recently i.e. in 1986.

3.4 COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE - CMEA (1948)

In Eastern Europe, the Council for Mutual Economic Assistance was established in 1948 with the participation of the Soviet Union, Czechoslovakia, Bulgaria, Hungary, Poland and Romania. Albania and East Germany joined shortly thereafter. Subsequently Cuba and
Mongolia became full members, while Albania ceased to participate in CMEA activities.

CMEA community was influenced by Soviet Russia and its Communist Allies from Eastern Europe with special inclusion of far of Cuba and Mongolia which were mere ideologically and politically affiliated to the Communist Power Block of nations during the cold war.

The main impulse to form this group was to retaliate the onslaught and interventions of the free market economies of the European countries supported rigorously by the United States. CMEA thus was evolved through defense mechanism to create a deterrence to the expansion of markets of so-called Capitalist countries and their Allies. On the other hand, it was specially organized to promote bilateral trade among the poor and developing countries which had partially or fully adopted systems of socialist planning, state trading, state enterprises, nationalized banking and industries. Russia and its Allies had prime intentions to develop trade with Non-Aligned and friendly nations.

The number of such nations was quite large and the population belonging to them had the lion's share in the total world population. Cuba was literally boycotted by the North American and the U.S.A. Economic Communities, and therefore, it was dragged to join CMEA.
3.5 LATIN AMERICAN FREE TRADE AREA - LAFTA (1960)

Some of the Latin American countries also formed a similar group in order to establish a 'Free Trade Area' which is known as LAFTA in the year 1960.

The member countries which constituted LAFTA are Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, Mexico, Peru, Uruguay and Venezuela. Most of them happen to be the world's prominent exporters of Agricultural produce. They intend to protect their common interests against their trading partners from the rest of the world by preventing undesirable competition within their group.

3.6 WEST AFRICAN CUSTOMS UNION - WACU (1959)

The Ivory Coast, Mali, Mauritania, Niger, Senegal and the Upper Volta - countries from the West Africa established their customs union in 1959. Most of these countries are very small in size, weak in political strength and largely dependent on trade and economic relations with the European and other friendly countries. The formation of a group itself gives persistence strength of unity to each member country.

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3.7 CENTRAL AMERICAN COMMON MARKET - CACM (1960)

In 1960 the Central American Common Market was established with Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador as members.

3.8 EAST AFRICAN ECONOMIC COMMUNITY - EACM (1967)

The Customs' Union Movement literally proliferated and exploded throughout the Western and Eastern/Northern and Southern hemispheres of the world. Since there was an example of West African Customs Union, East African nations formed East African Common market comprising of Kenya, Tanzania, and Uganda and subsequently transferred it into East African Economic Community in 1967.

African common markets were established to react strongly against the 'Neo-Colonialism' of the Western nations.⁶

⁶ - Ernst B Hass - A note on regional integration - Inter Encyclopedia of Social Sciences - page 527.
3.9 ARAB LEAGUE - 1945

Efforts to forge all Arab Unity on the basis of the purely inter-governmental policies were made from time to time. The Independent State of Israel in 1948, directly provoked and stimulated the cause of unity, solidarity, military alliance and the economic cooperation among the Middle East Arab countries and the Arabian Gulf countries. The League of Arab States was formed in 1945.7

The movement of Arab awakenings ought to recreate and reintegrate the Pan Arab Community which was the part of the Ottoman Empire of Middle Ages. Arabs have common religion, language and cultural heritage. In the 19th century and after the first world war many Middle East/Asian Arab states could declare secession from the Ottoman Empire and became independent. After the 1919 peace settlement they were divided into British and French spheres of influence under mandatory control, eg. Syria, Lebanon, Jordan, Palestine. By 1943, seven of these countries achieved their independence. At the Arab conference in the Autumn of 1944 held at Alexandria, a covenant establishing a league (neither union nor federation) was discussed and finally signed at Cairo on 22nd March 1945 by the representatives of Egypt, Iraq, Saudi Arabia, Syria, Lebanon, Yemen (nine from North and North West Africa, five from West Asia in the neighbourhood of Egypt and seven from the Arabian Sub-Continent i.e. the Gulf countries.) Egypt's membership was

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suspended in March 1979 and the Secretariat moved from Cairo to Tunis. This action was taken in response to the signing of a bilateral treaty\(^8\) between Egypt and Israel. Egypt was re-admitted in May 1989 and the secretariat again moved to Cairo.

The agreement provides for the abolition of customs duties on agricultural products and natural resources within 5 years by reducing tariffs at an annual rate of 20\%. Customs duties on industrial products are to be reduced by 10\% annually.

The agreement also provides for the free movement of capital and labour between member countries, the establishment of common external tariffs, the co-ordination of economic development and the framing of a common foreign economic policy.\(^9\)

Due to internal bickering and Iraq's invasion on Kuwait in 1990, Iraq got eliminated from this market. Due to the U.S. sanctions and trade embargo after the Gulf war of 1991, Iraq, the most leading partner of the Arab Common Market has been isolated from it. The designed operations of the market have not been translated into implementation and action. The ACM has still remained more or less away from reality.

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3.10 ORGANISATION OF THE PETROLEUM EXPORTING COUNTRIES (OPEC) 1960:

The organisation was founded in Baghdad, Iraq, in 1960 with the founder members viz., Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. By 1992, membership consisted of 13 countries viz., Algeria, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela and is open to any other country having substantial net exports of Crude Petroleum. OPEC fund for international development was also established in 1976 to provide aid to friendly developing countries, on advantageous terms.10

3.11 ORGANISATION OF AFRICAN UNITY (OAU) - 1963:

On May 1963, the heads of States of 32 African countries, at a conference in Addis Ababa, signed a charter establishing an organisation of African unity. It raised its membership to 51 in 1991. The aim is to create an Africa wide economic community by the year 2000.

The chief objects are the furtherance of African unity and solidarity, the coordination of political, economic, scientific, health and defense policies. The headquarters are at Addis Ababa.11

10 - El Mallakh R.- OPEC and the International Oil Industry:
A changing structure - OVP 1980.
3.12 ASSOCIATION OF SOUTH EAST ASIAN NATIONS (ASEAN)- 1967:

ASEAN is a regional organisation formed by the governments of Indonesia, Malaysia, The Philippines, Singapore and Thailand through the Bangkok declaration which was signed by the Foreign Ministers of the member countries on 8th August 1967. Brunei joined it in 1984.

Principal objectives of the association are economic cooperation and development with the intensification of Intra-ASEAN trade and trade between the region and the rest of the world, cooperation in transportation and communications.  

3.13 ORGANISATION OF AMERICAN STATES (OAS) - 1890:

On 14th April, 1890, representatives of the American Republics met in Washington and established an international union of American Republics, which later became the Pan-American Union. The object was to foster mutual understanding and cooperation among the nations of the western hemisphere. In the Ninth International Conference of OAS, held at Bogota, Columbia, the Charter of the Organisation of American States was adopted.

The member countries in the year 1980 were, Antigua and Barbuda, Argentina, Bahamas, Barbados, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Commonwealth of Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Saint Lucia, Saint Vincent and The Grenadines, Surinam, Trinidad, Tobago, The United States, Uruguay and Venezuela. Thus the OAS consists of mainly U.S and Latin American countries.

On 14th April 1967, the declaration of the President of America, signed in Punta del Este, Uruguay, expressed U.S. commitment to promote Latin American economic integration, to increase Latin American foreign trade earnings, to modernise the living conditions of the rural population, raise agricultural productivity and to expand programmes in education, science, technology, and health. The General Secretariat is located at Washington D.C, U. S. A.

3.14 DANUBE COMMISSION - 1949:

The Danube Commission was constituted in 1949 based on the convention which was signed in Belgrade on 18th August, 1948, by the representatives of Austria, Bulgaria, Hungary, Romania, Czechoslovakia, U.S.S.R. and Yugoslavia. 

Danube Commission - Collection of International agreements relating to navigation on the Danube
The Belgrade convention reaffirmed that navigation on the Danube from Ulm to the Black Sea, with access to the sea through the Sulina Arm and the Sulina Canal, is equally free and open to the nationals of the member countries and their merchant shipping and merchandise.

The commission coordinates the regulations for river, customs and sanitation control, as well as, the hydrometeorological service. Since 1954, the Head Quarters of the commission have been in Budapest.

3.15 ANTARCTIC TREATY:

Antarctic is an island continent some 15.5 million sq. km. in area which lies almost entirely within the Antarctic Circle. It's surface is composed of an ice sheet over rock and it is uninhabited except for Research. Although it is owner less, following countries have territorial claims viz., Britain, Australia, France, Chile, New Zealand and Norway. 12 countries had maintained research stations in Antarctica during the Geophysical year of 1957-58. They were, Argentina, Australia, Belgium, Chile, France, Japan, New Zealand, Norway, South Africa, The U. S.S.R., U. K., U. S.A. India along with other 26 countries acceded to the treaty in Dec. 1959.15

An agreement reached in Madrid in April 1991 and signed by all 39 parties in October 1991. It imposes a ban on mineral exploitation in Antarctica for 50 years, at the end of which anyone of the 26 voting parties (membership consists of 26 full voting signatories and 13 adherents) may request a review conference. The ban may be lifted by agreement of three quarters of the voting nations. The agreement demilitarizes the continent, establishes the right to scientific research and creates a procedure for monitoring the environment.

3.16 LATIN AMERICAN GROUPS OF ECONOMIC INTEGRATION -

The association took over from the Latin American Free Trade Area (LAFTA) on Jan.1, 1981, to promote regional economic integration among the member countries viz., Argentina, Bolivia, Brazil, Chile, Columbia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

Similarly, Central American Common Market (CACM) was established in 1969 by an agreement signed by Bolivia, Chile, Columbia, Ecuador and Peru. Chile withdrew from the group in 1977, while Venezuela joined. Peru's membership was suspended until Dec.1993. The Act of Caracas signed in May 1991, established a free trade zone between member states as the first step towards the creation of a common market by 1995.16

16 - B.Box - (ed) South American Handbook 1990 (annual)
There is a common external tariff in 4 bands from 5% to 20%.
Tariffs between Bolivia, Columbia and Ecuador were abolished in October, 1992. Another group consisting of Argentina, Brazil, Paraguay and Uruguay has been founded, a 'Southern Core Common Market' on Jan.1, 1995. The main object is to progressively reduce the inter-state tariffs, in order to form a common market.

3.17 CARIBBEAN COMMUNITY (Caricom) -

The treaty establishing the Caribbean Common Market and the agreement establishing the Common External Tariff was signed by the Prime Ministers of Barbados, Guyana, Jamaica, Trinidad, Tobago. In 1973 Belize, Dominica, Grenada, St. Lucia, St. Vincent and Montserrat, Antigua, St. Kilts, Nevis-Anguilla also signed the treaty in 1974. The Caribbean community has three areas of activity viz.,

i) Economic Cooperation through Common Market.
ii) Coordination of foreign policy.
iii) Functional cooperation in areas such as health, education, culture, youth sports, science, technology and tax administration.

The Caribbean Common Market provides for the establishment of a common external tariff, a common protective policy.

and the progressive coordination of external trade policies, the harmony of fiscal incentives to industry, removal of double taxation arrangements among member countries, the coordination of economic policies and development planning.

3. 18 COLOMBO PLAN:

It was founded in 1950 to promote the development of newly independent Asian countries. It has grown from a group of 7 commonwealth nations into an international organisation of 24 countries.

The plan is multilateral in approach, but bilateral in operation. Multilateral in that it takes cognizance of the problems of development of member countries in the Asia and Pacific region and endeavors to deal with them in a coordinated way. Bilateral because, negotiations for assistance are made direct between a donor and a recipient country.

The aims are,

i) To promote socio-economic development through cooperative effort.

ii) To facilitate development and assistance to and within the region.\(^\text{18}\)

The member countries are Afghanistan, Australia, Bangladesh, Bhutan, Burma, Cambodia, Fiji, India, Indonesia, Iran, Japan, South Korea, Laos, Malaysia, Maldives, Nepal, New Zealand, Pakistan, Papua, New Guinea, Philippines, Singapore, Sri Lanka, Thailand, U. S. A., U. K., Canada etc.

Colombo Plan Aid covers all fields of socio-economic development and amounted to US$ 6841.3 million in 1989. It takes three political forms,

a) Capital aid including grants and loans for national projects released from developed member countries. The total amount of capital aid and technical cooperation assistance provided by the developed donors under the plan in 1989 was as follows:

iii] Australia - US$ 504.1 million.
v] Canada - US$ 277.8 million.

Total - US$ 6821.3 million.

b) Technical advice and assistance is provided in the form of services of experts and volunteers and training facilities.
c) Technical cooperation among developing countries. Under this programme, students and trainees receive training from experts deputed from developing countries to less developed countries.\textsuperscript{19}

3.19 GULF COOPERATION COUNCIL (GCC) - 1982

The GCC was founded in 1982 by Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (all belonging to the Arabian sub-continent) and Yemen, with a view to promote solidarity and political, economic and social cooperation between the Arab Oil producing states on the West Coast of the Persian Gulf. A later declaration enjoins members to combine efforts to protect their mutual sovereignty, independence and territorial integrity.

GCC's future agenda consists of formation of common market, one community, coordinated policies of external tariffs to be levied on non-members, foreign policies and policies of common defense force and even designing for common currency and coordinated banking for the full politico-economic integration.

GCC is a defacto functional organisation. Its policy is decided by a supreme council of Heads of States who meet annually.

The Ministerial councils of foreign ministers ordinarily meet quarterly. The head quarters are at Riyadh, Saudi Arabia.

In March 1991 (during Iraq-Kuwait war) GCC solidly stood for the cause of independence and liberation of Kuwait (a member). It proved its functional utility of strategic importance. In March 1991, GCC has established an armed regional peace keeping force with the help of Egypt and Syria.\(^\text{20}\)