2 The Role of RIAs in Fostering Economic Development

Introduction

Available evidence suggests that free trade areas, customs unions, and partial preferential trade areas that have been established at different times in different regions of the developing world have in their previous incarnations generated only limited immediate, tangible benefits, inevitably eroding political support for their continuation. Poor sequencing and ill-chosen instruments and structures have in some cases contributed to failure. Where RIAs have succeeded in generating gains, the distribution of such benefits has often been perceived to be inequitable by the less-developed members of the group.

For these and other reasons, most RIAs among developing countries have lacked credibility in the eyes of their own governments, bilateral aid donors, international agencies and private investors (domestic and foreign). Of course, exogenous factors, such as the oil, debt and commodity crises, and their international repercussions, have contributed to the failure of RIAs in the developing world. The specific policy responses to the financial crises produced by such shocks, have aggravated extant economic maladjustments and distortions and rendered earlier RIAs in continents such as Africa and Latin America even less effective and indeed, inappropriate.

Lessons from the Past

The *new regionalism* which is emerging appears to be built on the recognition that past failures must be avoided. Second-generation RIAs are therefore different from those devised in the 1960s and 1970s in some important ways. These arrangements: (a) involve greater diversity among regional members; (b) have different objectives with an outward-orientation; (c) go beyond simple trade liberalisation in goods subject to GATT regulations to include liberalisation of trade in services, investment, technical and regulatory standards, customs formalities and government procurement practices; (d) are more outward-looking in aiming to achieve or maintain the global competitiveness of the region as a whole and that of its members; (e) are based on partnership among members which have already carried out significant unilateral trade liberalisation; and (f) have developed a more North-South character instead of the North-North and South-South arrangements which characterised earlier integration efforts.

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Moreover, the policy conditions for making the new regionalism work to accelerate progress in the developing world are more favourable today than they have been for four decades. Yet there is no wide consensus either on the kinds of RIAs that should emerge among developing countries or on what types of accompanying institutional structures would be appropriate. Nor is there agreement on the geographical scope and sequencing of regional cooperation either on a world scale, or in particular developing regions. More importantly, little thought has been given as to how RIAs in the developing world might be endowed with long-term credibility, even though such credibility is a crucial determinant of any RIA's ability to bring about a restructuring of production on which significant gains might ultimately depend.

What is much clearer now than it was before is that the success of RIAs needs to be envisioned in a context that involves economic as well as non-economic considerations. It is also clear that if RIAs are to yield significant developmental benefits to their members they must be based on the right choices of partners. Such choices cannot be rooted in lofty political aspirations or in popular and evocative notions of solidarity – as they often have in the developing world – but in opportunities based on realistic and attainable economic objectives. The main lesson that the experience of first-generation RIAs in developing countries teaches is that adopting a framework for cooperation inappropriate to economic realities is a certain recipe for subsequent failure.

There have been many false starts with RIAs in the developing world. There is no need to add to them. Market integration may be too ambitious to attempt immediately in most of the developing world. Yet even opportunities for simple investment coordination in specific sectors within any region can only be fully capitalised on if institutional structures emerge which enable progressive movement towards wider and deeper RIAs. For the same reason, these opportunities can only be properly evaluated in the context of an overall rationale which envisages less ambitious forms of economic cooperation in the short run leading eventually to full regional integration in the long run.

An appropriate strategy for the design of RIAs in any developing region must have as its starting point not just the significant political and economic changes taking place in that region, but also the rethinking that is taking place on the appropriate role of regionalism itself. In assessing that role it is becoming clear that the prisms through which RIAs have traditionally been viewed in terms of their success or failure are too unidimensional, probably faulty and imperfectly constructed. They need to be changed.

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The Inadequacy of Classical Theoretical Constructs

Second-generation RIAs have become multi-dimensional in character. But regional integration theory and analysis continue to be underpinned by the two basic Vinerean concepts of *trade creation* and *trade diversion*.[10] These concepts emphasise the welfare effects of trade flows among nation states and the manner in which such flows might be affected by RIAs. But these concepts lose their relevance as useful analytical constructs with the increasing globalisation of production and investment.

Gains from trade creation can accrue to non-member countries whose firms have a physical presence in the region concerned or may benefit from other inter-firm arrangements (technology licensing, cross shareholdings, strategic alliances etc.) with firms inside the region. Conversely, regional firms with a large presence outside the region might be affected by the effects of trade diversion on non-member countries in which they are located.

More importantly, the mere presence of RIAs can generate direct and portfolio investment impulses with their own primary and secondary effects. The consequences of investment flows and accompanying flows of hard and soft technology are not taken into account by classical Vinerean analysis, even though such flows may in many instances be more important than trade flows *per se*.

The relentless market-driven globalisation of production structures, even in the absence of RIAs or multilateral arrangements, makes it less possible to draw clear-cut analyses or conclusions about exactly which countries benefit, and which ones lose, from trade-creating or diverting and investment-creating or diverting effects of RIAs in a particular region. For example, it could be strongly argued that American and Japanese transnational companies located in Europe, but servicing the interests of their domestic or global shareholders, may be among the main beneficiaries from closer integration in the European Union.

The Vinerean framework for analysis focuses only on static efficiency gains. It is too partial and inadequate for evaluating the *unorthodox* or *dynamic* gains derived from: efficiency effects, externalities, sectoral investment coordination, incremental foreign investment, regional adjustment or macro-policy coordination. It therefore does not permit a proper assessment of the full costs and benefits of RIAs. Present theory does not just fail to incorporate the dynamic economic consequences of RIAs. It is incapable of providing the right kind of framework within which to assess their not inconsiderable *non-economic* costs and benefits.

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10 See, for example, de la Torre, A. and M.R. Kelly, *Regional Trade Arrangements*, IMF Occasional Paper No 93, Washington D.C., March 1992.

A more holistic theory of regional integration therefore needs to be developed to take these effects into account. But that is easier said than done. The blending of the economics of regionalism, with their international relations dimensions, employing an amalgam of economic theory with political science theory into a cohesive framework has often been conceived but remains elusive. Yet it is just such a framework which needs to be developed in order to assess properly the real value of second-generation RIAs.

Orthodox (Static) Gains from RIAs in Developing Countries

The basic justification for encouraging RIAs among developing countries is rooted in the belief that developmental benefits can be captured by using certain policy instruments and investment opportunities beyond those that can be obtained by their unilateral use. But, it does not follow that such benefits will automatically be enhanced by a progression from cooperation to integration (for a definition of the terms 'cooperation' and 'integration', see Annex I) or, in other words, from looser to tighter RIAs.

It cannot even be assumed that, *a priori*, RIAs will always lead to welfare gains through enhanced efficiency, for the region as a whole, for its individual members, or even in terms of global welfare. In general terms, the expected developmental benefits from RIAs and particularly from full integration can be derived from:

(a) gains from reducing allocative, administrative, efficiency and transaction costs associated with market distortions and barriers resulting from national policies;

(b) gains from coordination when economies of scale can be realised in public sector operations, or significant beneficial external repercussions can result from coordinated policy or coordinated investment in infrastructure.

These two sources embrace the usual arguments for RIAs: achieving economies of scale; taking advantage of externalities associated with market expansion; achieving allocation efficiencies through trade creation; turning short-term trade diversion disadvantages into long-term trade creation potential by capturing dynamic efficiency; and so on. One self-evident constraint on the pursuit of such developmental gains through RIAs is that account must be taken of regional equity considerations. The costs and benefits of RIAs must be – and be seen to be – equitably distributed. All partners must gain if RIAs are to endure and deepen – a principle which every successful regional arrangement recognises and which unsuccessful ones did not do enough to respect.

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The potential for achieving substantial trade gains from market integration in most developing regions clearly exists. Theoretical modelling shows for example that a welfare-enhancing free trade agreement can always be designed (Kemp and Wan: 1976). In a practical sense, that does not depend – as is often theoretically asserted – on whether members of an RIA are at the same level of development and have the same economic weight. Clearly, significant inequalities among the economic capacities of members create complications which need to be accommodated through regional policy, but they do not necessarily preclude efficient or effective RIAs from being designed.

The traditional motivation for RIAs has been the pursuit of *allocational efficiency gains* from market integration. The primary instrument for achieving this outcome has been trade liberalisation through market forces, sometimes modified by parallel inter-governmental agreements on industrial specialisation or fiscal mechanisms to promote the spreading of industrial development. Such market-focused approaches are expected to have a favourable effect on the allocational efficiency of participating economies through rationalisation of their extant and emergent economic structures. This effect is usually reflected through trade creation, expansion, investment rationalisation and production integration. RIAs are also expected to give rise to expanded domestic and foreign investment inflows into the integrated area as a result of investment creation.

The removal of tariff barriers under RIAs should – theoretically at least – result in the growth of intra-regional trade. Whether it actually results in efficient trade creation – i.e. movement of trade from high-cost to low-cost producers within the region – or inefficient trade diversion – movement from low-cost extra-regional producers to high cost intra-regional producers – depends on: the pre-integration level of tariff rates among regional members; the level of post-integration external tariffs compared with prior tariffs in each member country; the elasticities of demand for the imports on which duties are reduced; and the elasticities of supply of exports from regional members and foreign sources.

Trade creation is more likely to result from integration when: (a) each member's pre-integration tariffs on the products of other members are high; (b) production structures of members' economies are roughly similar in their output mix but different in the pattern of relative prices at which similar products are produced; (c) external tariffs applied by the region's members are common and low in comparison with pre-integration tariffs; and (d) the production structures of members are sufficiently responsive to permit intra-regional import-substitution at the same or lower cost than the cost of the same products from extra-regional sources. When any of these conditions is not met trade diversion may occur. The risk of trade diversion increases with

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each additional condition that is not met. When all these conditions are not met trade diversion will certainly result.

RIAs can have both *static* and *dynamic* efficiency effects. Static effects occur from the relative size of trade creation gains versus trade diversion losses. These gains occur on the supply side because production efficiencies result from the more effective reallocation of resources toward high-yield, low-cost production. On the demand side they occur because consumer welfare is enhanced by lower prices and greater choice. Static gains can also arise when RIAs achieve a lowering of product costs as a consequence of lowering transport costs, especially when trade is intra-regionally oriented.

Other sources of static gains involve reductions in rents from preferential market access that regional exporters enjoy. When RIAs accord priority to industrialisation, static gains can sometimes be derived from a reduction in the costs of highly protected, domestic-market-oriented industries while at the same time achieving the desired level of industrial activity, albeit at the expense of some continued inefficiency.

Unorthodox (Dynamic) Gains from RIAs in Developing Countries

RIAs can often lead to more than one off increases in regional income and welfare resulting from static efficiency gains.[11] *Dynamic efficiency* effects can lead to sustained increases in the rate of real income growth within a region. Such effects can arise through: economies of scale in trade-supporting industries and services which are caused by market enlargement;[12] spillover

11 Efficiency gains could be captured by enlarging markets and overcoming functional losses in allocative, administrative, and transaction costs associated with: small market size; market distortions; and barriers to the movement of productive factors, as well as of goods and services, resulting from protective national policies. Efficiency gains from regional market integration usually occur (and occur first to the private sector) as a result of market-based trade liberalisation which rationalises national economic structures, expands and rationalises investment flows, and integrates production to achieve cost-efficiency.

12 Scale gains would result in major industrial or infrastructural project investments. Large cost savings can be realised in most developing regions through coordinated investments in the physical – and perhaps even the social and institutional – infrastructure of geographically contiguous countries. Such gains could be particularly large from rationalising investments in power generation, transmission and distribution, road systems, rail networks, airline systems, airline regulation and airport management authorities, shipping and sea-port management, river basin management, and investments in health care and educational facilities. Such gains would also derive from investments in commercial agriculture and agro-industry; manufacturing, mining and construction industries which might need large regional markets to justify their local establishment. As de Melo *et al.* point out, scale economies by themselves do not provide a rationale for regional integration. They only strengthen the case for integration when an intermediate objective – usually that of industrialisation – has to be met. If industrialisation is the main objective, then scale gains provide a rationale for preferring regional integration over unilateral trade liberalisation. Scale economies only therefore reinforce the case for integration providing such a case already exists.

effects resulting from wider knowledge transfers across the region on both an *intra*-industry and *inter*-industry basis;[13] increased competition; increased levels of investment; stepped up pace of technological change; and consumption smoothing during business cycles.

Potential dynamic gains are increased to the extent that RIAs go beyond reductions in tariff barriers towards achieving greater flexibility and integration in labour and other factor markets, financial markets (to permit adjustment and industrial restructuring to occur through privatisations, mergers, acquisitions and divestitures), and in the liberalisation of other constraints to free circulation of goods, services and factors within a region. Dynamic gains can be enhanced by the harmonisation of macroeconomic policies which lower the risks and uncertainties – and thus costs – for regional investors.

Acknowledging that dynamic benefits *can* accrue from RIAs and enumerating these possibilities is of course easier than specifying and measuring their individual effects for any particular regional bloc. At a general level, statistical evidence on relationships between the dynamic effects of RIAs on output growth, and on intra-regional trade expansion, is inconclusive. But there is some evidence from cross-country studies to suggest that market integration has achieved greater success among large developed economies than among small developing ones in capturing dynamic efficiencies.

Such evidence points, for example, to the positive effects of RIAs on extra-regional trade expansion by providing a training ground for regional firms. Regional market integration behind a common external tariff (CET) can provide breathing room for productive enterprises in many developing regions to become internationally competitive by first becoming regionally competitive through the process of restructuring, merger, acquisition and privatisation. Economies of scale and spillover effects can provide a rationale for RIAs based on a temporarily high CET. In buying time for firms to move down their cost curves, temporary protection can be a springboard for achieving progressively higher levels of efficiency and for eventual export expansion. Regional market integration in the developing world can also foster greater competitiveness in the operations of small local firms of individual member economies which produce, distribute and service consumer

13 At the production level, four types of gains are emphasised. First, by establishing larger markets, integration promotes competition and contributes to an improvement of production methods and to a decrease in monopolistic mark-ups. Second, larger markets encourage longer production runs with cost-reducing effects. Third, market integration may enable regional consumers to benefit from greater product diversity. Fourth, larger markets encourage firms to specialise and to concentrate on a narrower range of products achieving economies of scale and encouraging further cost reduction.

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durables as well as capital goods. Such an effect, usually transmitted through sub-contracting relationships, fosters the growth of entrepreneurship by opening up means of entry and of mobility, especially to segments of the population which have been deprived from equal access to such opportunities. The two specific dangers with the training ground argument however are that: (i) many developing regional groupings may not offer sufficient market size for exploiting economies of scale; (ii) even when regional economies of scale are achieved – with the rents accruing from protection contributing to regional welfare because the same income would not be realised without such protection – prolonged maintenance of temporary trade barriers might lead to excessive entry, with ensuing surplus capacity increasing average costs and absorbing profits assured through protection by causing inefficiencies owing to too many firms operating below optimal scale.

RIAs can, by stimulating supply-response, accelerate successful structural adjustment in some developing regions (e.g. Africa) where it remains elusive despite a decade of intensive adjustment effort. RIAs can facilitate adjustment by buying sufficient time for enterprises to become regionally competitive before becoming internationally competitive. However, unless RIAs are designed to ensure that regional competitiveness is an intermediate step towards achieving global competitiveness, market enlargement behind high common external tariffs can result in welfare losses rather than gains if the dynamic advantage of converting short-term trade-diverting effects into long-term trade-creating opportunities is foregone.[14]

Some dynamic gains can be secured in the short run on the basis of existing production structures. Others, however, materialise in the longer term, after industrial restructuring has taken place. Longer-term changes hinge on investors' perceptions of the credibility and permanence of any market-enlarging arrangements. They also depend on the strategic responses of transnational corporations to market integration in any particular region.

Dynamic gains from *externalities* also include the effects of technology transfer and *catch-up* effects, human capital development, improved education, research and development, better public health care, social safety nets and quality standards, improved bargaining power on the part of a consolidated

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14 As de la Torre and Kelly (*op. cit.*) observe, this argument hinges on regional markets being fairly large and on ensuring that a policy of temporary protection for future export promotion can in fact be implemented successfully without protection becoming an entrenched feature due to successful lobbying by regional industries. Entrenched protection has for example become a characteristic feature of industries in South Asia. Along with other political factors, it has prevented successful regionalisation from taking hold in that region. Such entrenchment postpones the gains derivable from structural adjustment. By contrast in East and Southeast Asia initial protection has been progressively reduced enabling firms in that region to become internationally more and more competitive.

trade bloc dealing with other blocs, reduced transport costs and improved market access, better management of natural resources, and coordinated approaches to environmental management especially in regions with fragile, unique ecosystems. Under RIAs, enhanced intra-regional competition can lead to better resource allocation by strengthening the reliability of relative prices as indicators of relative scarcity. In turn this leads to more efficiency, higher transparency, and reductions in the social costs of collusion and of other abuses of market power.

Dynamic gains can also be achieved from increased foreign investment, reduced fiscal inefficiency, and improved policy coordination. Appropriately designed RIAs can attract more foreign investment for the production of consumer durables in developing regions as a whole than in their fragmented national markets. Foreign firms which straddle the global production-marketing structure are interested in investments which cater to large markets and not to markets of countries which are not of continental or sub-continental dimensions. The attractiveness of regional investment increases for foreign investors for defensive reasons as well, i.e. to avoid the losses due to possible trade diversion. Larger regional markets also make investment attractive by enabling certain fixed costs (innovation, research, development, advertising, market-channel establishment etc.) to be spread out over a larger market base.

High costs from *fiscal impediments* to market unity are often incurred by developing countries. Even when the actual yield from tariff collection is low, the costs of non-collection can be high when smuggling, combined with the costs of rent-seeking activities of officials – encouraged by fiscally-induced price differences – is reflected in the size and growth of informal trade in parallel markets. In such conditions – endemic throughout Africa and South Asia – the institution of a customs or tax union could yield substantial benefits for countries that constitute an appropriate customs or tax area (e.g. the Southern African Customs Union). These gains are worth pursuing through RIAs, even if other benefits are not immediately significant. In some cases RIAs could enhance efficiency and probity in overall public revenue administration and collection for both direct and indirect taxes, especially if tax regimes were simplified, regionally harmonised and made more investment-friendly.

A lowering of regional trade barriers – both tariffs and non-tariffs barriers – under RIAs, coupled with greater intra-regional currency convertibility, could induce the absorption of parallel market activity in many developing regions into the official economy. Once a parallel market is created, which is accustomed to operating without any payment of taxes – except in the form of corruption – it is, of course almost impossible to absorb all such activity into the official economy until revenue administrations become much more proficient and incentives change dramatically. Nevertheless, the removal of major price distortions has been seen to officialise a large amount of parallel market activity, especially illegal exports, and to ease the artificial hard currency constraints to development and growth which presently apply in many regions, most especially in South Asia and Africa.

Dynamic gains can also accrue from improved intra-regional policy and investment coordination. In regions where trade has previously been based on artificial tariff rates, correcting those distortions may have an initially adverse adjustment impact which regional cooperation might be able to ameliorate. At another level, improvements in transport networks or changes in transport regulations in one country inevitably have repercussions on another. When these are taken into account in policy formulation and public-sector planning under properly designed RIAs, significant gains can accrue.

RIAs can achieve more than unilateral actions when regional linkages and consultation yield larger pay-offs from policy improvements than those at national level. It was to capture precisely such benefits that European Union members agreed to coordinate monetary policies, transport regimes, and consumption and excise taxes. Similarly, because improved policy coordination and harmonisation can yield welfare gains (or minimise welfare losses) as a result of national policies being modified with regional effects in mind (e.g. exchange rates or labour market policies), there have been several proposals calling for structural adjustment programmes (SAPs) in Africa to be regionally sensitive. It is clear that such SAPs have not taken into enough account the impact that devaluations, trade liberalisation or financial sector liberalisation in one country can have on the trade and capital flows of neighbouring countries, as the experience of competitive devaluations in Scandinavia, the European Union, Africa and Latin America have clearly shown.

In a similar vein, the policies of individual governments bent on achieving self-sufficiency and security in electricity supply (in Asia, Africa and Latin America particularly) have led to a series of sub-optimal investments in surplus generating capacity with much higher environmental risks than would have been necessary if a regional perspective had been taken. RIAs designed to coordinate such investments could yield substantial tangible gains in a very short period of time, as recent studies for the Southern African region clearly indicate.[15]

In attempting to assess the significance of *unorthodox* gains from market integration, – often characterised as the costs of non-integration – the only recent quantitative indicators are to be found in studies of market completion

15 *Economic Integration in Southern Africa*, (Vol. 1-3), African Development Bank, Abidjan, 1993.

in the European Union context. These studies point to short-term output gains from eliminating non-tariff trade barriers of 2.7%, and longer-term gains of up to an additional 4%, of regional GDP. These percentages are several times larger than the commonly estimated integration gains of less than 1% from *orthodox* trade creation. Even so, these estimates have been characterised as too low because of their failure to account for other dynamic gains that can be expected to result from associated increases in savings and investment and in increased financial market efficiencies in particular.

The European Union's estimates take no account of another important aspect, namely, the transaction costs entailed by the existence of multiple currencies, to say nothing of other costs that they impose. Separate calculations made in connection with the economic benefits of parallel European monetary unification and common currency initiatives have shown the latter to be considerable. However, the political costs of such initiatives are presently perceived to be quite high in terms of popular resistance to the loss of national currencies despite business sentiment in favour.

The absolute and relative magnitudes of these estimates for the European Union of course have no direct application to the other regions. In particular the relative importance of gains from trade creation might be larger in some regions and smaller in others. What is significant in any particular regional context, however, is: (i) the distribution of unorthodox gains between the short run and long run – gains in the long run being dependent on improved cross-border investment flows; and (ii) the linking of unorthodox gains to the elimination of non-tariff barriers rather than to tariff reductions.

Future research requires unorthodox benefits through dynamic effects to be specified more carefully, analysed further and, where possible, quantified. Their realisation will depend on the exertion of political will by regional governments to cooperate in meaningful ways and to subordinate narrow, short-term national interests to the wider regional good and to the longer-term benefit of all members. The extent to which such benefits are realised will also depend on acknowledgement by members that the emergence of a regional community may transform completely the vista and scope for RIAs. It may increase by a multiple, the potential for economic gains to be accrued both from market expansion and from cooperating on infrastructural investment in regions which adopt inclusive rather than exclusive approaches.

Political Commitment to RIAs and the Issue of Credibility

Whatever the *economic* potential for deriving gains from RIAs might be, it is the *political* importance attached to capturing such gains which will eventually determine the course and content of RIAs in the developing world. Mere acknowledgement of the case that the potential for such gains exists is not, by itself, enough. The fact that different types of gains *can* be derived from RIAs does not mean that, in any particular region, they *will* be derived. An absence of coherence and consensus on the part of members as to the political and economic significance of RIAs usually impedes their progress, whether in mature arrangements like the European Union or in less integrated developing regions.

Commitment to cooperation is widely expressed by member governments in developing regions where regional institutional frameworks exist, but intent is rarely translated into determined action. Judged by their actions, the agenda of governments often contradict commitments. For instance, there are often divergent views about regional cooperation strategy within political camps in a country (e.g. the divergent views that exist within and between the British Conservative and Labour parties on the UK's role in the European Union). Even if they agree on the objectives of integration, governments may often differ on modalities and sequencing, i.e. on how further regional integration should take place, and what the institutional arrangements for increased regional interaction should be.

Publicly expressed apprehensions about the dominance of any one country in the region appear to be contradicted by the unseemly haste with which other like-minded governments informally agree to arrangements among themselves as an inner core, instead of making progress on a generally accepted regional framework within which all countries can participate constructively and non-threateningly. Carried too far, such inner-group agreements in the name of *variable geometry* and *multi-speed* approaches may impair the development of an appropriate multilateral agenda for regional cooperation and achieve a result opposite to that intended.

Movement towards deeper integration therefore depends on national perceptions about gains or losses from RIAs and the political will that national governments are able to muster in favour of movement toward widening or deepening. The pace of regional integration is a function of the pace of domestic political evolution in the member countries concerned. Surveying the political flux in member countries of a number of regions, there is little room for optimism about how smooth the process of evolution in these regions is likely to be.

Even in the European Union, only a few countries appear to have politically secure governments at the present time. In most developing regions, a large number of countries are either at, or are rapidly coming to, the threshold of major political and economic policy change. Inevitably, this is resulting in overstretched systems with machineries for governance having to manage several simultaneous transitions – political and economic. In some instances these pressures may well result in overloading the circuits and setting back, albeit temporarily, the regional agenda. On the whole, the thrust

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of political and economic evolution throughout the developing world is presently aimed at more democratisation and liberalisation. These two forces may lead to a renewed thrust toward RIAs once governments accept the inevitability of a regional dynamic and take pro-active measures to capture the benefits that accelerated regionalisation has to offer.

Equity and Regional Policy

Although it is now widely acknowledged that appropriately constructed RIAs can result in substantial benefits – economic, political and security-related – to members, there is legitimate concern in many developing regions that gains from market integration will accrue mainly to the larger or more industrially developed member countries. These countries are in the most advantageous position to capture immediately the additional income benefits from an openly accessible regional market.

Asymmetries in the relative economic weight and capability of regional partners has contributed in the past to the disintegration of many RIAs in the developing world despite specific measures to redistribute some of the gains captured. Such problems have been encountered in East Africa and in the Andean Pact countries, and have slowed down the process of closer integration in ASEAN.

RIAs in the developing world (and even more so those which embrace both developed and developing countries) will therefore need to include more effective arrangements for *equalising* the gains from regionalisation to secure the continued commitment of the smaller, less developed economies to a regional market for sufficiently long for the gains from credible integration to emerge and be felt. To be effective, second-generation RIAs will need to incorporate mechanisms for redistributing regional benefits more equitably to other partners in ways that accelerate their levels of overall development. The design of future arrangements to achieve successful redistribution of regional welfare gains through compensatory policies will need to learn from more successful experiences and overcome their deficiencies if the present round of regional cooperation in the developing world is to succeed and endure.

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