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PERGAMON POLICY STUDIES ON INTERNATIONAL POLITICS

Comparative Regional Systems

West and East Europe, North America, The Middle East, and Developing Countries

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Preface and Acknowledgments

This volume has been designed to assist students, professionals, and the interested public in their efforts to comprehend the patterned and unpatterned forms of international activity through which states relate to the most important entities in world politics – their neighbors. Much of the cooperative and conflictual behavior in international politics occurs within regional contexts, hence the importance of understanding the sources and forms of this behavior, and the issues which contribute to it as well as those which it produces.

For comprehensive examination of the various regional systems it has been necessary to invite contributions from numerous distinguished area specialists and generalists. All have written with much sensitivity, insight, and dedication, seeking to build on vast accumulations of knowledge in order to provide full and integrated learning experiences. We are grateful to these authors, and we trust that contact with their minds through this volume will encourage readers to follow the development of their more specialized studies.

The preparation of this work was given much encouragement by Richard C. Rowson, President of Pergamon Press, who saw a need for comparative studies of politics above the national level and below the global level. Richard's encouragement gave confidence and was a stimulus to achievement.

Each of us is indebted to many colleagues who have aided the development of our thinking on regional systems, and Gavin Boyd is grateful to members of the Political Science Department at the University of New Orleans, whose hospitality he enjoyed while working on the volume during the summers of 1978 and 1979.

3 Regional Patterns of Economic Cooperation*

Harold K. Jacobson
Dusan Sidjanski

FACTORS IN REGIONAL ECONOMIC COOPERATION

Regional economic cooperation has become a salient feature of world politics in the latter half of the twentieth century. Numerous agreements for regional economic cooperation have been signed and ratified. International institutions have been established to oversee the implementation of these agreements. In some instances, intraregional trade among the states adhering to an agreement has increased sharply and significantly, and there have been numerous other important achievements of regional economic cooperation as well. This chapter explores the reasons for the present prominence of regional economic cooperation, analyzes the systems that exist and what they have accomplished, and probes the significance of regional patterns of economic cooperation for the global political system and its future.

A simple explanation for the contemporary prominence of regional economic cooperation would be that productive processes have outgrown most, and perhaps all, nation states; most, if not all, nation states are too small to be effective economic units in the contemporary period. Several arguments could be marshaled to support this explanation. Hardly any states have within their own borders all of the resources needed for modern production. Few contemporary nation states contain sufficient population to constitute markets that would allow manufacturers to take full advantage of opportunities for economies of scale. Some modern technology is so expensive as to be beyond the means of most nation states or of firms operating in single nation states. Transnational corporations (TNCs) have become so large and their operations so extensive that single nation states are incapable

*This chapter is an outgrowth of a research project that has been supported by a grant from the Ford Foundation. We gratefully acknowledge this assistance.

of monitoring them and guiding or controlling their behavior. Environmental pollution resulting from production processes frequently cannot be confined within the borders of a single nation state. Even this brief list of arguments constitutes a compelling case for regional economic cooperation.

It would, however, be incorrect to explain contemporary patterns of regional economic cooperation just in economic terms. A desire to be able to deal more effectively with purely economic issues has hardly ever been the sole motive in the creation and successful operation of a regional economic cooperation system, and sometimes it has not even been the most important motive. Nor would pure economic rationality explain the membership of all contemporary economic cooperation systems, some of which contain states that are not even geographically contiguous. Factors other than economic issues are also crucially important to explain the contemporary patterns of regional economic cooperation. Tradition and the desire for greater power, influence, and security have all played vital roles, as will become apparent when we examine particular systems.

Doctrines Concerning Economic Cooperation

Before dealing with the various individual systems for regional economic cooperation, though, we need to consider certain general economic issues that are involved in regional cooperation.

From the eighteenth century, when the processes of industrialization began to gain momentum, until now nation states have provided the organizing framework for economic development. Nation states have made specialization in production and exchange possible by minting money and by creating legal systems that would structure and enforce contractual relationships. In principle, there is no reason why there could not be as much specialization and trade among nation states as there has been within nation states. Indeed, liberal economists have always argued that production and, thus, welfare would be maximized if there were free trade that would allow maximum specialization among states. In practice, however, barriers to international trade have been ubiquitous. States have enacted tariffs which increase the price of imports to consumers and, presumably, thereby decrease the demand for them. Such tariffs may have been enacted merely to gain revenue to support the operations of government, but they also can have the purpose of limiting imports and, thereby, protecting domestic industry. More recently, states have also enacted quantitative restrictions which precisely limit imports. Some states have established monopolies for foreign trade, and the bureaucratic organizations controlling these monopolies determine how much of which products shall be imported and from which states and, also, what to export and to which states. Controlling foreign exchange can have virtually the same consequences. There are also numerous other national regulations relating, for example, to health matters and licensing requirements that constitute barriers to trade whether or not they were intended to have this effect.

Regional economic cooperation has many meanings in the contemporary period, but common to virtually all of them is the mutual granting by members of regional systems of preferential treatment with respect to limitations on trade. Classical liberal economic doctrine has defined different types of regional economic cooperation.(1) In a free trade area, tariffs and other barriers to trade are eliminated among the states participating in the system. In a customs union, in addition to eliminating barriers to internal trade, the member states adopt a uniform tariff for trade with third parties. A common market is a customs union in which there is a free flow of factors of production; labor and capital can move from one state participating in the system to another without restriction. An economic union includes the features of a common market and, in addition, the economic policies of the member states are harmonized. Complete economic integration would add full unification of economic institutions and policies, including the adoption of a common monetary system. These terms can be useful reference points, even though actual agreements for regional economic cooperation seldom conform exactly to such ideal types. Often elements of one type are mixed with those of others, and the terms are frequently used indiscriminately.

From the perspective of classical liberal economic doctrine, regional economic cooperation must always be a second best solution, global free trade is the proper formula for maximizing welfare. But the choice that national and international leaders and officials have faced has not been between global free trade and regional economic cooperation, but rather what steps should and could be taken to lessen the many obstacles to trade that nations have erected.

Economic analysis has demonstrated that, even from the free trade perspective, regional economic cooperation can have beneficial effects. In his classic study, Jacob Viner pointed out that, if the consequences of a customs union is to shift production from a higher cost domestic source within one member state of the union to a lower cost source in another member state, new trade will have been created by the establishment of such a union.(2) If, on the other hand, production is shifted from a lower cost source outside the union to a higher cost source within the union, trade will have been diverted. From the perspective of free trade, then, the test of the merits of a particular customs union is whether or not, on balance, its trade creation effects are greater than its trade diversion effects. Beyond these, what are termed static effects of customs unions, there can also be dynamic effects. Eliminating obstacles to trade among the members of a customs union will create a larger market that should stimulate investment. Firms that previously were in a privileged position in national markets could be faced with competition from firms in other member states, and this competition should promote efficiency. If the static and dynamic effects of a customs union contribute to accelerated economic growth in the member states of a customs union, this could lead to increased trade between the members of the union and other states, and, thus, could contribute to increased global welfare. In terms of classical liberal economic doctrine, whether the creation of a particular customs union should be favored or opposed can only be determined after an analysis of the projected consequences of a particular agreement; a general answer is impossible. Nor is it possible to define in the abstract natural domains for regional economic cooperation.

Beyond the justification for regional economic cooperation in classical doctrine, two other doctrines have been developed. The first of these is, in some respects, a variant on the classical argument. The classical argument was developed in the context of market economies, and it is particularly applicable to such economies where the market forces of supply and demand as expressed in prices determine what should be produced and how it should be distributed. The argument rests heavily on the doctrine of comparative advantage, the notion that welfare will be maximized by states specializing in the production of those items in which they are most efficient, or which they can produce at the least cost.

To be applied to states with planned economies, the classical, liberal position about customs unions requires some modification. In planned economies, planners rather than the market determine what should be produced and how it should be distributed. They also set prices. When a group of market economies eliminates obstacles to trade, shifts in production will occur as a result of market forces. Trade among planned economies, on the other hand, can only be based on national planners providing for such trade in their national plans. Between 1917 and 1945, when the USSR was the only state to have a centrally planned economy, planning was done on an overwhelmingly national basis; and in the years immediately following World War II, this tradition was continued in the USSR and was extended to the states in Eastern Europe that had newly established communist regimes. Communist planners conceived international trade almost exclusively as a device for obtaining goods, materials, and services that could not be obtained domestically. An important reason for communist planners not according much importance to international trade in these years was the assumption in communist doctrine of enduring hostility between communist and capitalist states. Therefore, it would be unwise to be dependent on a presumed enemy. In addition, for a communist country to give much importance to trade with capitalist economies where market forces determined the quantity of goods to be produced and at what price would introduce uncertainties that could enormously complicate planners' tasks.

After World War II, however, a new situation emerged. There were several communist countries, each with a centrally planned economy, and international trade among them need involve neither the ideologically objectionable consequence of becoming dependent upon presumed foes nor the technical difficulty of incorporating uncontrolled elements into national economic plans. Soon there was discussion in the communist world of an international socialist division of labor, and principles were elaborated to guide specialization among communist states.(3) Like the doctrine of comparative advantage, these principles maintain that there should be specialization in production among communist countries according to efficiency. Countries should specialize in the production of those goods for which they are most efficient. However, the principles limit specialization by mandating that each country should have a "balanced economy" and that historical differences in levels of economic development among individual countries should be eliminated. Since the principles contain no guidelines for the harmonization of these objectives with that of promoting efficiency, and since calculating relative efficiency in the absence of prices determined by market forces is difficult, when central planners attempt to arrange international trade among countries with centrally planned economies, the process can involve at least as much bargaining as the application of rational analytical techniques.

There are, consequently, important differences between the practice of regional economic cooperation among states with centrally planned economies and that among market economies, as well as in the rationales guiding such cooperation. The governments of countries with market economies need only alter barriers to trade; private entrepreneurs guided by the interacton of supply and demand as reflected in prices will, then, determine the location and level of production. When communist countries cooperate, these matters must be settled by bargaining and agreement among central planners.

The other new doctrine that has been developed to justify regional economic cooperation applies particularly to less developed countries (LDCs). In terms of classical liberal economic theory, the case for regional economic cooperation among LDCs is unconventional, for it involves essentially competitive rather than complementary economies. The traditional argument assumed that the states involved in regional economic cooperation would already conduct substantial trade among themselves, and eliminating obstacles to this trade would permit economies of scale by enlarging the size of the market and promote greater efficiency by increasing competition and facilitating specialization. Less developed states, however, usually exported the same primary products to and imported finished goods from industrialized countries with very little trade among themselves. To maintain that their economies should be merged required a different rationale from that contained in classical liberal economic doctrine. Raul Prebisch, in his capacity first as Executive Secretary of the United Nations Economic Commission for Latin America (ECLA) and then as Secretary-General of the United Nations Conference on Trade and Development (UNCTAD) played a major role in formulating and propagating this new rationale.(4)

The case that he and others developed rested on the assumption that industrialization was vital to significant economic development. Starting from this premise, they argued that developing countries should produce domestically substitutes for manufactured goods that they previously imported, and that the scope for a strategy of achieving industrialization by import substitution could be substantially increased if markets of a sufficiently large size were available. Regional economic cooperation would be a way of creating larger markets. Prebisch and the others further maintained that, as they developed, the newly created industries would require protection against competition from firms in the industrialized countries. Regional economic cooperation could provide this protection.

Prebisch and other advocates with similar views also favored LDCs pursuing export-oriented industrialization strategies; that is, strategies that involved promoting the production of industrial goods for export to the developed countries. Import substitution could be a prelude to export promotion. The doctrine that they propounded argued that through industrialization the LDCs could, in addition to raising their levels of per capita gross national product (GNP), diversify their exports and reduce their dependency on the export of one or a few basic products to one or a limited number of developed countries for earning foreign exchange.

Thus, while regional economic cooperation among already industrialized countries has as one of its objectives eliminating inefficient producers, regional economic cooperation among LDCs seeks to protect newly-established and uncompetitive producers until they become more efficient. While the classical liberal economic doctrine concerning regional economic cooperation stresses eliminating barriers to trade among participating countries, the doctrine that Prebisch advanced also stresses erecting barriers against trade with nonparticipating countries. This doctrine further maintains that LDCs should use regional economic cooperation as a means of increasing their bargaining power vis-a-vis already industrialized countries.

Given the importance attached to the development of new industry, the weakness of market mechanism in LDCs, and the tendency of undirected new investment there to concentrate in the already more developed areas among them, the doctrine postulates that a considerable measure of central direction will be required at both the state and interstate levels to direct investment so as to insure an equitable distribution. Thus, the doctrine has elements in common with that created to guide regional economic cooperation among states with centrally planned economies.

These, then, are the basic economic doctrines that guide contemporary regional economic cooperation. They have had an important influence on international affairs in the second half of the twentieth century. Before examining the extent of regional economic cooperation in the contemporary world and its achievements, however, we need to review aspects of the development of the world economy, especially in the period between the two world wars.

The Protectionism of the 1930s and the Post-World War II Commitment to Free Trade

Since the beginning of industrialization in the eighteenth century, the level of obstacles to international trade has fluctuated. During the nineteenth century, Britain, the pioneer industrializing state and the premier economic power, attempted to lead the world in the direction of free trade. It began reducing its tariffs in the 1820s and finally adopted a policy of free trade in 1846 with the repeal of the corn laws. The Cobden-Chevalier Treaty between Britain and France in 1860 constituted a major advance toward free trade among the economically most important states of the time. The free trade movement, however, was not universal. The United States adopted protective tariffs virtually at the outset of its independence, and maintained them throughout the nineteenth century; and Germany adopted a protective tariff in 1879. Throughout the nineteenth century, trade within colonial empires was privileged. Trade between the metropole and its colonies was not subject to the same obstacles that a metropolitan country might enforce against other countries; and, in certain instances, this was also true of trade among a country's colonies. The most important instance of regional economic cooperation was the Zolverein, starting in 1819, which united an increasing number of German states in a customs union that endured until German unification was completed in 1871. The level of the Zolverein's external tariffs, though, was modest. Despite the exclusivist policies of colonial empires and the protectionist policies of the United States and Imperial Germany, during the nineteenth century, there was a general sense of movement toward an open world market under British leadership. International trade grew substantially.

World War I fundamentally dislocated the global economy and interrupted its growth. The governments of the major belligerent states assumed control of large portions of their foreign trade so that it could be integrated into their war production efforts and so as to deny the benefits of trade to enemy states. When the revolution established the communist regime in Russia in 1917, state control of foreign trade became a permanent feature there. Attempts were made throughout the 1920s to reestablish an open world market, but they ultimately proved futile. In 1930, after the stock market crash, the United States adopted the Smoot-Hawley Tariff, which raised already high American tariffs even higher, doubling them in some instances. Other countries retaliated. Economic difficulties spread throughout the world. In 1931, Britain was forced to abandon the gold standard; the following year it adopted its first protective tariff since the repeal of the corn acts. A few months later, Britain and other commonwealth states adopted the system of commonwealth preferences, whereby their trade with one another would be subject to lower duties than would apply to trade with other countries.

The principal advocate for free trade abandoned the quest and turned instead to trade within the protected area of its commonwealth and empire. Other metropolitan countries followed a similar policy.

After Hitler came to power, German trade was increasingly directed toward the smaller states in Southeastern Europe and toward Latin America. International trade increasingly came to be conducted within economic groups rather than on a global basis, and the volume of trade declined instead of growing as it did in the nineteenth century. During the late 1920s, the average annual value of world exports was $32 billion; in the late 1930s it was only $23 billion.(5) Patterns of trade shifted dramatically. Between 1929 and 1938, Britain's imports from Europe fell by 16 percent while its imports from Oceania (principally Australia and New Zealand) increased by 53 percent.(6) During this same period, France's imports from Europe fell by 21 percent while its imports from Africa rose by 75 percent. Belgium and the Netherlands similarly redirected their trade toward their colonies.

World War II disrupted the global economy still further. Then, however, as the planning for the peace settlement and postwar period proceeded, the United States assumed the role that Britain had played in the nineteenth century of being the leading advocate of free trade. The United States GNP had become the largest in the world as early as the last third of the nineteenth century, and by the turn of the century it was twice as large as that of Great Britain. The United States' move away from protectionism began with the passage of the Trade Agreements Act of 1934. This act permitted the President to reduce tariffs by as much as 50 percent in return for reciprocal cuts by other countries. These cuts in the U.S. tariff would be generalized to virtually all other countries. Generalizing the tariff cuts was seen as an instrument for working toward freer trade. Successive renewals of the act extended this authority. The Department of State, the President, and the majority in Congress had concluded that United States' products could compete favorably on world markets and that U.S. producers and the United States broadly would benefit from freer trade. Many Americans were particularly anxious to obtain greater access for trade to the colonial territories of the European countries. Although the United States had had this concern since the earliest days of its sovereignty, the strength of the desire had fluctuated.

By 1938, the United States had negotiated reciprocal trade agreements with 18 countries,(7) and in November of that year it negotiated an agreement with Great Britain. In August 1941, President Franklin D. Roosevelt and Prime Minister Winston Churchill issued a joint declaration, the Atlantic Charter, that outlined the common principles that the two leaders declared would govern their states' policies toward future world order. The fourth of these principles pledged access "on equal terms, to the trade and raw materials of the world. . . ."(8) When the United States provided Great Britain with supplies that were essential for its war effort under the lend-lease program, Article VII of the agreement signed in 1942 that governed the arrangements committed the two countries to take "agreed action" after the war directed "to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers. . . ."(9)

In 1946 the United States proposed to the Preparatory Committee of the United Nations Economic and Social Council (ECOSOC) that a tariff negotiation be held. The proposal sought to take advantage of the renewal of Congress in 1945 of the Trade Agreements Act. The United States hoped that tariff reduction negotiations could take place simultaneously and that the agreed reductions could be extended to all countries participating in the negotiations and could be embodied in one treaty. Conferences and negotiations ensued, and in 1947 the General Agreement on Tariffs and Trade (GATT) was signed. The Agreement provides a legal framework for multilateral negotiations to reduce obstacles to trade. The United States and other countries envisaged that a broad-membership international governmental organization (IGO) would be created that would have among its functions the administration of the agreement, but it has proved impossible to establish such an IGO. Instead, over the years a rudimentary institutional structure has been created on the basis of the agreement. This institutional structure and the agreement, together commonly referred to by the acronym GATT, have provided the regime that has governed the preponderance of international trade since World War II. Twenty-three states signed the agreement in 1947; as of 1979 there were 84 contracting parties. All of the world's most important trading states, the United States, Canada, France, Italy, the Federal Republic of Germany, the United Kingdom, and Japan, have been members since the mid-1950s. Those that were among the victorious powers in World War II were among GATT's founders, and those that had been defeated joined subsequently. The most important countries with communist governments, the USSR and the People's Republic of China, have never been members. From its creation GATT's membership has regularly accounted for more than 60 percent of the value of world trade, and this proportion has grown to include more than 70 percent in the 1970s.

The most fundamental principle of GATT is nondiscrimination. The contracting parties to the agreement commit themselves to extend most-favored-nation treatment to each other; that is, contracting parties must extend to each other the most favorable tariff rates given to any country. The agreement was a broad commitment to work toward free trade. Nevertheless, in Article I, paragraph 2, the agreement expressly permitted existing preferential trading arrangements, like the system of commonwealth preferences; and Article XXIV permitted the creation of free trade areas and customs unions under certain conditions. The most general condition is that the new tariff level should not be higher or more restrictive than the general incidence of the tariffs that existed prior to the formation of the new arrangement.

Regional economic cooperation in the period since World War II, thus, took place in a context shaped by particularly strong memories of the harmful consequences of the protectionism of the 1930s and by a newly-created legal and institutional regime that committed the major trading states to lowering obstacles to trade on a nondiscriminatory basis. The GATT has been strongly backed by the state with the most powerful economy in the world, the United States. United States economic power was particularly strong during the formative years of the regime. In 1950, GNP of the United States accounted for more than a third of the world total. Even by 1975 it was almost a quarter, so U.S. policy has continued to be a major factor in the world economy.

REGIONAL ECONOMIC COOPERATION AMONG DEVELOPED STATES WITH MARKET ECONOMIES

An analysis of regional economic cooperation in the period since World War II may appropriately begin with an examination of cooperation among developed states with market economies. States in this category were the first to launch far-reaching regional schemes. The accomplishments of these schemes are more extensive in several respects than those of cooperative ventures involving states in other categories, and some of these schemes have been used as models for those that have been adopted in other geographic regions.

OEEC and OECD

The first steps toward regional economic cooperation were taken in connection with efforts for postwar reconstruction.(10) When in June 1947, in his commencement address at Harvard University, Secretary of State George C. Marshall offered extensive U.S. economic assistance for the reconstruction of Europe, he made the offer conditional upon the European states reaching agreement among themselves on their requirements and on the actions that they would take. Fear of communist advances in Europe if economic conditions were not rapidly improved spurred the United States to action. The offer of assistance was made conditional because the United States government was convinced that cooperation among the European states was essential to their recovery. It was convinced that adequate economic progress could not be achieved if the European states pursued the same nationalistic economic policies that they had followed in the 1930s.

Eighteen European countries responded by creating in April 1948 the Organization for European Economic Cooperation (OEEC).(11) OEEC formulated a joint program for reconstruction and allocated American assistance among the European recipients. In addition, it inaugurated a program to promote trade. This involved the adoption of a Code of Liberalization that committed member states to progressively eliminate quantitative restrictions on imports and the creation of a clearing system for payments for trade among the organization's members. OEEC's activities facilitated a rapid increase in intra-European trade which between 1948 and 1958 grew twice as fast as total world trade. This trade spurt made a vital contribution to European recovery.

In 1960 it was agreed that OEEC should be transformed into the Organization for Economic Cooperation and Development (OECD), and that as part of the transformation Canada and the United States should become full members. OECD has continued its predecessor's trade liberalization functions, and has added others. Eventually, Japan, Australia, and New Zealand also joined OECD so that the organization's 24 members include the developed states with market economies in Western Europe, North America, East Asia, and Oceania.(12) The level of a state's economy and the nature of its economic system have become the principal criteria for membership in the organization. Only partly in jest, the OECD is sometimes referred to as the "rich countries' club." Although its member countries accounted for only 20 percent of world population in the 1970s, they accounted for 60 percent of world production, 70 percent of world trade, and 90 percent of the development aid given to poorer countries. What binds OECD's members together is the extensive economic ties that they have with one another and the fact that they face common economic problems; at their level of development, for some purposes at least, economic regionalism has come to be defined in functional rather than geographical terms. We will return to OECD, but first it is essential to consider the economic cooperation schemes that have been developed among subsets of OECD's members.

The European Communities

The European Communities are by far the most important of these. In 1950 French Foreign Minister Robert Schuman responding to different demands expressed by European leaders and through the European movement proposed that France and the Federal Republic of Germany should place their coal and steel production under a common authority and that this scheme would be open to participation by other countries. Four other countries – Belgium, Italy, Luxembourg, and the Netherlands – joined France and Germany, and in 1952 the European Coal and Steel Community (ECSC) came into being. The ECSC treaty committed the six states to create a common market for coal and steel and it provided for the establishment of institutions with supranational powers to manage this process. The institutions were supranational because under specified conditions the High Authority, an autonomous body of the community, and the Council of Ministers could take decisions that would be binding on individuals and firms in the six states without the governments of those states having to take implementing action, as is normally the case with international governmental organizations.

Given the geographical distribution of natural resources, creating a common market for coal and steel among the six countries – particularly between France and West Germany – was a logical step to take. This rationale, however, had existed ever since coal and steel became important ingredients in production, and, although the six countries were geographically contiguous, plausible economic arguments could have been advanced to support more or less inclusive groupings. The creation of ECSC cannot be explained in economic terms alone, nor were economic motives the most important ones propelling the national leaders who prepared the treaty. The most important motivation was a concern for security, a desire to prevent the recurrence of conflict between France and Germany and, more broadly, in Western Europe. When Robert Schuman proposed the common market for coal and steel he said, "The solidarity in production thus established will make it plain that any war between France and Germany becomes not merely unthinkable, but materially impossible."(13) The controls that the victorious powers had maintained on steel production in West Germany could not be maintained indefinitely, and France feared that West Germany's steel production would soon exceed its own. France proposed to give up unilateral authority over its own steel production in return for establishing supranational control over West Germany's. French leaders also believed that integrating West Germany into a Western European supranational organization would be a way of lessening the probability of the United States and the Soviet Union becoming embroiled in a potentially disastrous controversy over the future of West and East Germany.(14) Leaders in West Germany also wanted to preclude Franco-German conflict. In addition, they saw membership in the ECSC as a way for West Germany to gain legitimacy in the global political system.

Under the pressure of deepening Cold War tensions that were stimulated by the war in Korea, in 1952 the six member countries of ECSC signed the European Defense Community (EDC), which would have merged their military forces. When, after considerable delay, the French National Assembly in effect rejected the EDC treaty by deciding not to consider it, Western European leaders who were deeply committed to the process of achieving integration began a search for other means to promote their goals. They agreed to press the six states to create a nuclear energy community and a broad economic common market. Action in these two areas could be seen as extensions of the ECSC. Nuclear power, like coal, is a source of energy; and a persuasive argument could be made that all sources of energy should be treated alike. Efforts to merge the six countries' coal and steel industries soon encountered obstacles caused by national differences in other areas, economic policies, transport and social security systems for instance. To merge coal and steel fully and successfully one would have to lessen and eliminate these other differences.

This sequence of events is important because it illustrates the continuing blending of security and economic motives in the process of Western European economic integration. The leaders of the movement have had as their objective the creation of a federation that would include France and West Germany. Decisions about how to proceed represented tactical judgments, not abstract commitments to some foreordained concept of economic regionalism. The steps that they proposed after the defeat of EDC had an economic logic and would bring economic benefits, but their pressure for action was motivated by more than this.

Prodded by the integrationists, in 1957 the six countries agreed to create the European Atomic Energy Community (EAEC or Euratom) and the European Economic Community (EEC), and the two new treaties came into effect January 1, 1958. The former committed the six countries to common, joint, and cooperative action for the development of the peaceful uses of nuclear energy and to the creation of a common market for nuclear materials in which there would be no obstacles to trade among the six countries and there would be a common tariff for trade with nonmember states. The commitment in the EEC treaty was much broader. It involved the creation of a general customs union for manufactured goods; customs duties and quantitative restrictions on trade among the six countries were to be eliminated according to a fixed time schedule that also provided for the creation of a common external tariff (CET) on trade with nonmember states. The treaty involved a commitment to take measures to insure the free movement of labor and capital within the six countries. Further, the six states agreed in the treaty to create a common market for agricultural products and to adopt a common agricultural policy (CAP). They agreed to develop a common transport policy and a common antitrust policy. The treaty also contained provisions concerning monetary and social policy and economic relations with the member countries' colonies and former colonies.

In 1967, the separate institutions created by the ECSC, Euratom, and EEC treaties were merged. Since then, common institutions have managed the affairs of the three communities. The Commission is the keystone to the structure.(15) In a conventional international governmental organization it would be termed the executive head, but its authority is much greater than one would find in a typical IGO. A collective body, the Comission consists of individuals appointed by agreement among the member states for fixed terms. In certain instances, its decisions are legally binding, but more often the Commission initiates proposals that are then considered and adopted by the Council of Ministers. The Commission had a staff in the 1970s that numbered about 8,000. The Council of Ministers is comprised, as the title implies, of ministers from the member states; which minister will sit depends upon the subject being considered. The Council generally has final authority, but it can alter a proposal of the Commission only by a unanimous decision. When decisions are taken by a qualified majority, voting is weighted roughly in accordance with the population of the member states. Despite the qualified majority that is required the voting rules preclude taking a decision that is opposed by all of the smaller states or by more than one of the larger states. There is an Assembly which has the power to give its formal opinion on actions of the Commission and Council, to force the collective resignation of the Commission, and to reject the entire budget. It also has more general budgetary power in limited areas. Since 1979 the Assembly has been comprised of representatives chosen by direct election. This has given the communities a new political dimension. Finally, there is a Court of Justice to which community institutions, states, and individuals have

access. Starting in 1973 the heads of government of the member states of the European communities have met regularly to give overall political direction to the integration process. The President of the Commission has attended these sessions. In the late 1970s, the European summit regularly met three times a year.

The European Communities have made substantial progress, and that of the economic community is particularly impressive. All tariffs and quota restrictions on intracommunity trade in nonagricultural items were eliminated by July 1, 1968, and the Common External Tariff went into effect on the same date. To insure that the stimulus to competition provided by the creation of the customs union would not be lost because of collusive arrangements among firms, community agencies have implemented a vigorous antitrust policy. Substantial progress has been made toward allowing workers to move freely among the member states in search of employment, and some restrictions on the movement of capital have been eliminated. The CAP was put into effect for most commodities by mid-1966 and was completely in effect by mid-1968. The system involves common support prices for basic agricultural commodities. Threshold prices are set for imports from non-community sources. Their level is designed to insure that the price of imported commodities will be at or above the target price set for the support of the particular commodity. Variable levies are charged on imports. These are designed to make up the difference between world prices and threshold prices. Effective protection on some products can range from 50 to 100 percent. Trade and other economic relationships between the members of the community and most of their former colonies have been governed by special conventions. Community policies have gradually superseded national policies with respect to all external commercial matters, and all members of the European Communities except the United Kingdom participate in a common monetary system which began in 1979.

The United States has generally favored steps toward economic and political integration in Western Europe even though they have involved discrimination against U.S. exports since intra-community exports have received more favorable treatment than those from outside the community. The United States felt that its security interests would be best served by Western European integration. American officials wanted to prevent a recurrence of Franco-German conflict and thought that a unified Western Europe would help to counterbalance possible Soviet expansionism.

Furthermore, the United States believed that the process of European integration would stimulate the economies of the member states and, thereby, increase the demand for U.S. products. Through negotiations in GATT during the so-called Kennedy Round, the United States successfully sought to influence the level of the EEC's Common External Tariff on nonagriculture goods and to insure that it would be lower than the previously existing individual tariffs.(16) The objective was to minimize the trade diverting effects of the creation of the European Common Market. The United States has also sought, but with less success, to minimize the limits on its agricultural exports to the members of the EEC that have been imposed as a consequence of the CAP.

EFTA

The United Kingdom was invited to participate in the negotiations that led to the creation of the European Coal and Steel Community and later in those that led to the creation of Euratom and the EEC, but on both occasions it refused. The UK did not want to abandon the commonwealth preference system nor what it perceived as its special economic relationship with the United States. UK agricultural policies differed from the CAP and resulted in considerably lower food prices. There has been broad unwillingness in the UK to embrace the integrationist goals that have been the motive force for the support by many on the continent for the European Communities. At the time of the ECSC negotiations, the socialists were in power in the UK, and they were reluctant to become deeply involved with the six continental countries where centrist parties ruled. There was also some skepticism in the UK that the ambitious plans for European integration would prove feasible.

On the other hand, the UK's trade with the six countries involved in the European Communities was substantial. In 1951, when the ECSC treaty was under negotiation, exports to the six countries accounted for 10 percent of the UK's total; by 1957, when the Euratom and EEC treaties were being negotiated, this proportion had jumped to 14 percent. To avoid the discrimination against its exports that the Common External Tariff would involve, the UK explored the possibility of creating a free trade area for all of the members of OEEC, but this failed because it was unacceptable to France. The UK then turned to the creation of an alternative regional trading group, and in 1959, the UK, Austria, Denmark, Norway, Portugal, Sweden, and Switzerland signed an agreement creating the European Free Trade Association (EFTA), which came into effect the following year. The EFTA convention provides for free trade in industrial goods among the member states. There is no common external tariff. Finland negotiated an agreement of association with EFTA in 1961, and Iceland became a full member in 1970.

To some extent, EFTA fulfilled the UK's objectives. Between 1958 and 1962 the UK's exports to its partners in EFTA increased by 45 percent, and by 1962 they accounted for 12 percent of the UK's total exports. However, during the same period, the UK's exports to the six member states of the EEC increased by 73 percent, and in 1962 they accounted for 19 percent of the UK's total exports. As the 1960s developed, it became increasingly clear that the UK's economy was more closely linked with those of the members of the EEC than with those of its partners in EFTA. Moreover, the GNPs of the member states of the European Communities were growing at a considerably faster rate than that of the UK, which increased the attraction for the UK of joining the Communities.

The Enlargement and Extension of the European Communities

In 1961, the government of the United Kingdom decided to apply for membership in the European Communities, and negotiations ensued; but British entry was ultimately blocked in January 1963 by a French veto. In 1967, the government of the United Kingdom made a second attempt to join the European Communities, but its application again met the same fate. The situation did not change until after the resignation from the French presidency of Charles de Gaulle in 1969. Later that year, the heads of government of the six member states of the Communities agreed in principle to their enlargement. Negotiations with Denmark, Ireland, Norway, and the United Kingdom began June 30, 1970. They were concluded January 22, 1972. The Treaty of Accession provided that they would become members of the European Communities January 1, 1973; and Denmark, Ireland, and the United Kingdom did join the communities then. Denmark and the UK withdrew from EFTA just before they joined the European Communities; the UK's joining EEC also meant that it had to abandon its system of commonwealth preferences. Norway did not join the European Communities because the proposal to join failed to gain a majority in a special referendum that was held on the issue. Norwegian voters rejected membership, despite the fact that more than half of Norway's exports went to the member states of the Communities. A referendum on joining the Communities was also held in Denmark. Danish voters approved membership. A smaller proportion of Denmark's exports went to the member states of the Communities than of Norway's. The explanation of the pattern of voting in each country is complex; it is only necessary for present purposes to underscore that prospective economic advantage was obviously not the sole determining factor.

After Denmark, Ireland, and the United Kingdom joined the European Communities in 1973, the remaining members of EFTA – Austria, Iceland, Norway, Portugal, Sweden, and Switzerland – and the EFTA associated state – Finland – negotiated free trade agreements with the European Communities. These agreements provided for the progressive establishment of free trade in industrial products between the members of EFTA and EEC. A free trade area in industrial products between EFTA and EEC was established July 1, 1977. Most of Western Europe had become a free trade area.

In 1979, the European Communities negotiated an agreement with Greece under the terms of which Greece would become a member of the Communities on January 1, 1981. Negotiations were also underway between the Communities and Portugal and Spain, looking toward their ultimate full membership. Although expanding the European Communities to include Greece, Portugal, and Spain raised complex economic issues, the governments of the nine members of the Communities were strongly motivated to take this action. They hoped that membership in the Communities would strengthen and preserve the relatively new and fragile democratic institutions in the three countries. Again, economic rationality was not the foremost consideration in deciding the dimensions of regional economic cooperation. Noneconomic factors have been crucial in determining which states might be included in the European Communities and also in determining which states could not be included. Even though strong arguments could be made for their joining, the formal and legal neutrality of Austria, Sweden, and Switzerland makes it difficult for these countries to contemplate membership because of the integrationist goals associated with the Communities' institutions. Similarly, Finland's proximity to the Soviet Union has barred it even from full membership in EFTA.

Beyond the free trade agreements that the European Economic Community has negotiated with the members of EFTA, under the rubric of its Mediterranean policy it has also negotiated preferential trading agreements with several countries that border the Mediterranean Sea. The most extensive of these is with Turkey. Other agreements are with Cyprus and Malta, Algeria, Morocco and Tunisia, Israel, and Egypt, Jordan, and Syria. In addition 57 African, Caribbean, and Pacific (ACP) countries, (all former colonies of the community's member states), are associated with the EEC under the terms of an agreement that is periodically renegotiated. The current definition of the nature of the association was defined in the agreement negotiated in Lome in 1975 and in the revision of this agreement which was negotiated in 1979. This agreement, which replaced the previous Youande agreement, gives the ACP countries free access for many of their projects to the EEC markets and it contains arrangements for stabilizing the export earnings of the ACP countries. Under previous agreements, the ACP countries were required to accord products from EEC countries preferential access to their markets, but this requirement was dropped when the Lome agreement was negotiated in 1975.

The 1976 population of the nine members of the European Communities totaled 258,656,000. This is larger than the population of the USSR or the United States, and is exceeded only by that of the People's Republic of China and India. If the populations of Greece, Portugal and Spain were added, as they eventually will be, the total population would be 313,365,000. The member states of the European Communities, by themselves, are an enormous economic unit. With the states that are linked to the Communities through preferential trading arrangements – member states of EFTA, the Mediterranean countries, and the ACP countries that adhere to the Lome agreement – it is a truly formidable trading block.

Despite its strong support for the creation of the European Communities and its favorable attitude toward the expansion in the committees' membership, particularly the UK's entry, successive United States administrations have frequently worried about the consequences of the communities' development and policies for U.S. economic interests. As has already been mentioned, the United States sought through negotiations in GATT during the Kennedy round to insure that EEC's Common External Tariff would be lower than the individual tariffs that it replaced. Later in the Tokyo Round of GATT negotiations, 1975-1979, the CET was reduced still further, as was the U.S. tariff. The United States has also used GATT and other international fora to seek to lessen the protective character of EEC's Common Agricultural Policy.

A North American Common Market?

Some in the United States have argued that the best way to counter what they believed were the pernicious effects of the EEC's regional trading bloc would be for the U.S. to create its own regional trading bloc. Of course, the United States and the Canadian economies have always been closely linked. In 1965 the two countries signed an agreement committing themselves to eliminate all obstacles to trade between them in automobile products. This agreement took effect provisionally immediately on being signed, and it was given definitive effect the following year. It created a free trade area in automobile products between the two countries. Some have suggested going farther to create a general customs union or a common market including at least the United States and Canada and possibly Mexico and other countries. Through the 1970s, no action was taken on these suggestions, but they continued to have a certain appeal and their attractiveness probably increased as the economic difficulties that the industrialized countries encountered continued. These difficulties also stimulated Australia and New Zealand to consider going beyond their free trade agreement of 1965 to even possibly full economic union.

Regionalism and Interdependence Among OECD Members

Sparked by the legal and institutional framework of the European Communities, there has been a tendency toward an increased regionalization of trade among the industrialized countries of the North Atlantic area. Table 3.1 shows intraregional exports as a percentage of total exports for three groupings of states – the original members of the European Communities, EFTA, and Canada and the United States. The growth in the relative importance of intra-Community trade was most dramatic in the case of EEC, but it also occurred in the other two areas as well. After Denmark, Ireland, and the United Kingdom joined the EEC, intra-Community exports came to constitute an even larger portion of the group's total exports, more than 50 percent in 1977.(17) On the other hand, intra-EFTA exports fell back to just over 17 percent of the group's total exports in 1977. The United Kingdom as a major market and producer was an important factor in giving EFTA whatever coherence it had as a regional trading group; without the United Kingdom, EFTA appeared to be primarily a group of countries that for one reason or another could not join the European Communities. Indeed, more than 46 percent of EFTA's total exports went to the EEC in 1977.

Even the European Economic Community, with its relatively high proportion of internal trade, however, cannot operate as a self-

Table 3.1. Intraregional Exports as a Percentage of Total Exports

	YEAR			
Regional Grouping	1938	1948	1958	1968
EEC[a]	27.5	26.2	30.1	45.0
EFTA[b]	18.3	17.4	17.7	23.8
Canada and the USA	19.0	22.0	27.2	35.2

Source for data: United Nations Secretariat, Department of Economic and Social Affairs, Statistical Office, Statistical Yearbook, 1963 (New York: UN, 1964), and, 1969 (1970)

[a]Belgium, Federal Republic of Germany, France, Italy, the Netherlands, and Luxembourg.

[b]Austria, Denmark, Finland, Iceland, Norway, Portugal, Sweden, Switzerland, and the United Kingdom.

contained economic unit. The members of the EEC are dependent upon trade with less developed countries to obtain essential raw materials; and their economic relationships with the United States, Japan, Australia, and New Zealand are extremely important to them. In the 1970s, just as the United States, Canada, and Japan found that there were several important economic issues (for instance concerning energy, unemployment and inflation) that they could not solve alone, the member states found that the European Communities also proved to be too restrictive a framework for them to be able to tackle these issues successfully.(18) Instead, solutions had to be sought within more inclusive frameworks such as the OECD and the annual summit meetings of the heads of government of the seven economically most important countries – Canada, the Federal Republic of Germany, France, Italy, Japan, the United States and the United Kingdom.

The Western economic summits have attempted to define broad orientations for the economic policies of the advanced industrial states with market economies. The OECD has provided a framework for more specific cooperative activities. OECD's supreme organ is the Council, on which each of the organization's 24 member states are represented, and which operates according to the principle of unanimity. OECD's objectives are to promote economic growth in its member states and to strengthen aid from these countries to less developed countries. The organization has interpreted this mandate broadly to include such issues as science and educational policies and environmental problems. OECD organizes and publishes studies and research, it facilitates the exchange of information among its member states, and it attempts to shape

member states' policies through the adoption of normative pronouncements. Its activities have mitigated the tensions that have arisen as a consequence of the creation by some of its members of regional trading groups, and they have made a contribution to the creation and continued functioning of the relatively liberal trading system that has been so important a feature of the global economy since World War II.

Economic cooperation among the industrialized states with market economies can be viewed as occurring within an overall framework established with OECD. Although 19 of the 24 members of OECD are in Western Europe, given the inclusion of Canada, the United States, Japan, Australia and New Zealand, and the noninclusion of such European states as the German Democratic Republic, Czechoslovakia, and Poland, it is clear that type of economic system and level of economic development are more important criteria for membership than geography. Among the member states of OECD there are various smaller groupings: the European Communities, the European Free Trade Association, and the limited and loose connection between the United States and Canada and between Australia and New Zealand. Geography plays some role but not a predominant one in defining each of these groupings. It is especially important to recall how important other factors have been in the historical evolution of the European Communities, the grouping that has moved farthest toward achieving economic integration. In the current enlargement of the Communities, Greece, which is physically separated from the nine present members, has been the first of the three candidate states to be accorded membership. These smaller economic groupings within OECD are important as the growth in intraregional trade demonstrated, but their prominence should not obscure the broader interdependence among the OECD members. In the 1970s, almost 70 percent of the exports of OECD's members went to other OECD states. This proportion of internal trade is even higher than that of the European Communities. Interestingly, in 1938 the 24 states that constitute OECD also sent about 70 percent of their exports to one another. The interdependence among these states has an enduring quality.

REGIONAL ECONOMIC COOPERATION AMONG STATES WITH CENTRALLY PLANNED ECONOMIES

Comecon

The origins of regional economic cooperation among states with centrally planned economies date from the same period and events that set in motion cooperation among developed states with market economies. The USSR and other Eastern European states had been among the principal recipients of the relief and reconstruction assistance provided through the United Nations Relief and Rehabilitation Administration (UNRRA) during its existence from November 9, 1943 through June 30, 1947. Like the states of Western Europe, these countries had continued to have serious reconstruction problems after UNRRA ended its operations. When the Western European states began in the summer of 1947 to develop their response to Secretary of State Marshall's offer of assistance for the reconstruction of Europe, the Soviet Union made it clear that it would not participate in any joint planning of reconstruction or in any joint allocation procedure. The USSR did not want its economy or those of the states of Eastern Europe with newly-established communist regimes linked tightly with the economies of the capitalist states of the West. By 1948, the destination of more than 44 percent of the exports of the USSR and the other communist states of Eastern Europe was within the region. In 1938, only 10 percent of the exports of these states had their destination within the region.(19) The Communist Information Bureau (Cominform), linking communist parties throughout the world, was formed in 1947; and in January 1949, after OEEC had been created, the Soviet Union and Bulgaria, Czechoslovakia, Hungary, and Romania established the Council for Mutual Economic Assistance (Comecon). Since then, Comecon has been the principal institutional setting for economic cooperation among states with centrally planned economies.

Geography and type of economic system have clearly been important in determining Comecon's membership. But they have not been the only factors. Had it not been for the quarrel between Yugoslavia and the USSR, which resulted in Yugoslavia's expulsion from the Cominform in June 1948, Yugoslavia would have been a logical candidate for membership. As it was, Yugoslavia began to participate in the activities of Comecon only in 1964. An agreement was signed then that permitted Yugoslavia to participate in those activities that were of special concern to it. It gave Yugoslavia a relationship with Comecon similar to the special status that it enjoys with OECD. Albania joined Comecon later in 1949, but ceased participating in the organization in 1961. The German Democratic Republic became a member in 1950. The People's Republic of China started sending observers to Comecon in 1956, but stopped this practice in late 1961. Mongolia became a member in 1962, Cuba in 1972, and Vietnam in 1978. From this history it is apparent that the nature of a state's relationship with the USSR is a crucial determinant of whether or not it will join Comecon or participate in the organization's activities. The Council for Mutual Economic Assistance is an organization of some but not all states with centrally planned economies. The core of the membership is in Eastern Europe, but it also includes states in Asia and the Caribbean.

During the first years of its existence, Comecon conducted few activities. Indeed, its Charter was not even published until 1960. It began to undertake active programs in the late 1950s, and these programs and the organization's structure were further strengthened in the early nineteen-sixties. The decision to develop Comecon in the late 1950s was clearly linked to the evolution in the relationships between the Soviet Union and the smaller communist states in Eastern Europe toward more traditional interstate patterns. It was also an element in the strategy that was crafted to deal with the economic issues that contributed to the Hungarian revolt in 1956. Then, too, it was only by the mid-1950s that the newly-founded communist regimes in Eastern

Europe completed their first planning cycle reorienting their economies in the new directions that they had chosen; economic cooperation among communist state became more feasible after this initial phase had been completed. In addition, steps to strengthen Comecon have often closely followed progress toward economic integration in Western Europe. The initial activation of Comecon occurred simultaneously with the preparation of the Euratom and EEC treaties. Khrushchev submitted an ambitious program for strengthening Comecon just after the United Kingdom announced its first bid to join the EEC.

In institutional structure, Comecon is a conventional IGO. The supreme organ is the Council, on which all members are represented. Unanimity is required for decisions to be taken. An Executive Committee, which is also comprised of representatives of all member states, meets between sessions of the Council and oversees the implementation of its decisions. Comecon has a secretariat in Moscow, which is headed by the Secretary to the Council. This individual has always been a national of the Soviet Union. Much of the detailed work of Comecon is done in some 20 standing commissions which are comprised of experts who deal with the coordination of production plans in relatively narrow branches of economic activity. There is also, as a subordinate body of the Executive Committee, a Bureau on Generalized Problems of Economic Plans. None of these institutions has supranational powers. On the other hand, since the Council is often comprised of heads of governments, and the membership of the Executive Committee is at the level of deputy head of government, and since production is organized in the member countries on the basis of government plans, if these bodies are able to reach unanimous agreement, it is likely that their decisions will be implemented.

Comecon works through specialization agreements and joint projects. The first procedure is intended to permit larger production runs by reducing duplication, and it results in bilateral and multilateral agreements for the delivery of goods. In the first stage of a joint project, there is a pooling of capital, construction equipment, and qualified personnel. Once the project is underway, the output is shared among the participating countries according to their contribution of capital and services. The most notable joint projects are the Druzhba oil pipeline, which transports oil from the Soviet Union to Hungary, the German Democratic Republic, Poland, and Czechoslovakia; the integrated power grid linking the power systems of the European member countries; and the railway freight-car pool, a common pool drawn upon by member countries. The International Bank for Economic Cooperation (IBEC) clears payments among Comecon's members. Since their currencies are inconvertible, having the IBEC perform clearing functions allows the states merely to be concerned with their overall balance of Comecon trade, rather than having to balance all accounts bilaterally.

There can be no question that Comecon is an important focal point for the trade of its member states. In 1977, the destination of more than 55 percent of the exports of its European members (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, and the USSR) was within Comecon.(20) This percentage exceeds that of any other contemporary regional economic grouping, even the EEC. The extent to which the exports of the various members of Comecon are concentrated within the region varies. Bulgaria's proportion of 77 percent is the highest, while Romania's of 41 percent is the lowest. Although the data are scanty, it appears that the exports of the non-European members of Comecon (Cuba, Mongolia, and Vietnam) are also heavily concentrated toward other members of the organization. About 65 percent of Cuba's exports go to Comecon members.

The size of the USSR's economy dwarfs those of the other members of Comecon. The USSR's GNP is more than seven times greater than that of Poland which has the next largest, and more than 28 times that of Hungary which has the smallest GNP of Comecon's European members. The GNPs of the non-European members are even smaller than that of Hungary. Given the overwhelming size of the USSR's economy, not surprisingly it is the dominant trading partner with Comecon. All of the other members of the organization, except Romania, export more to the Soviet Union than they do to their other partners combined. Czechoslovakia, the German Democratic Republic, and Poland, however, all have higher per capita GNP's than the Soviet Union, and much of the intra-Comecon trade is the exchange of Soviet raw materials for manufactured goods from other countries.

Comecon and Interdependence

How important the Council for Mutual Economic Assistance will prove to be in the future is somewhat moot. Prior to World War II, most of the trade of the Comecon's members was with other countries. The Eastern European states traded predominantly with Western Europe, mainly supplying raw materials in return for manufactured goods. Industrialization was the prime objective of the post-World War II economic plans of the Soviet Union and the Eastern European states with communist regimes. This implied changing the prewar orientation of their economies. In the more than three decades since the conclusion of World War II, great progress has been made toward achieving the objective of industrialization.

By the late 1970s, however, many of Comecon's members had begun to encounter serious economic problems. Like all countries throughout the world, they were beginning to face resource shortages. Several members were encountering difficulties in sustaining rapid rates of economic growth and, particularly, in maintaining the pace of technological development. Comecon member countries characteristically trade less than states with market economies of comparable size and levels of economic development.(21)

In the 1970s, several Comecon member states sought to improve the performance of their economies through foreign trade, particularly with countries with market economies. East-West trade increased substantially. Some of the smaller Eastern European countries moved to join the institutions that were crucial to the global capitalist trading system. In the late 1970s, Cuba, Czechoslovakia, Hungary, Poland, and Romania were members of GATT; and Romania was a member of the International Monetary Fund. Although intra-Comecon exports as a proportion of the members' total exports were still high in the 1970s, they were lower than they had been in the preceding decade. As the 1970s came to a close, the crucial issues concerning regional economic cooperation were the extent to which and how rapidly the Comecon countries would move to expand still further their economic ties with countries with market economies.

REGIONAL ECONOMIC COOPERATION AMONG LESS DEVELOPED COUNTRIES

Schemes for regional economic cooperation among the less developed states in the southern hemisphere began to come into being about a decade after the launching of those involving centrally planned economies and developed states with market economies. Many of the schemes have had antecedents in earlier periods. Efforts to promote cooperation among the Central American states date to the nineteenth century, and several of the regional cooperation schemes in Africa and the Caribbean tie together states that shared a common colonial rule. This past history has shaped and facilitated cooperation schemes, but it has not in any way insured their success.

Latin America and the Caribbean

The contemporary movement toward economic cooperation among developing countries started in Latin America. Raul Prebisch formulated and began to propogate arguments about the gains that LDCs could achieve from regional economic cooperation when he was Executive Secretary of ECLA from 1948 through 1962. This was the period during which the economic cooperation schemes among the developed states with market economies and with centrally planned economies were launched. It was a period when these two groups of states rapidly increased their trade and achieved substantial economic growth. The economies of the LDCs grew too, but not as rapidly as Prebisch and others would have liked; and although their exports expanded steadily, they fell from 25 percent of world exports in 1938 and 30 percent in 1948 to 21 percent in 1962.(22) Prebisch saw regional economic cooperation among LDCs as a way of arresting and reversing this decline.

The first regional economic cooperation institution to be established for Latin America was the Inter-American Development Bank (IDB), created in 1959. The Organization of American States (OAS) played a role in the conception of IDB. Membership was originally limited to states that were members of OAS, but a specific exception was made at an early date for Canada, and the general requirement was dropped in 1976.(23) Over the years the IDB has established an identity independent of OAS. Its headquarters is in Washington, D.C., and the United States has been the largest single contributor to the bank's funds. The IDB makes loans backed by its ordinary resources that have interest rates close to the rate on the commercial market. In addition, through the Fund for Special Operations, it makes long-term loans at low interest rates that may be partially or wholly repaid in the currency of the country where the project being financed is carried out.

IDB has a broad mandate to promote the economic development of its less developed members individually and collectively. Within this mandate it has actively sought to promote economic cooperation among American states generally. In 1964 it created the Institute for Latin American Integration (which is known by the acronym INTAL after the Institute's title in Spanish, Instituto para la integracion de America Latin) in Buenos Aires which has conducted an active program of research, training, advisory services and publications. The IDB has frequently provided direct assistance for integration schemes. In addition, IDB loans for national projects in such areas as the development of transportation facilities have often had as their ultimate purpose facilitating economic cooperation among American states. Lack of adequate facilities for inter-American communication was identified at an early stage as one of the most significant obstacles to inter-American economic cooperation. National projects can contribute to overcoming this obstacle if they are conceived as components of a regionwide grid.

There is one other regional organization that includes a large number of states located throughout Latin America and the Caribbean, the Latin American Economic System (known as SELA, the acronym of its name in Spanish, Sistema Economica Latinoamericano). Created in 1975, SELA's broad aim is to promote cooperation to achieve the self-sustaining and independent development of the region. It is empowered to take a number of specific steps including creating Latin American multinational enterprises. The Latin American Economic System has 26 members.(24) As of 1979, SELA had established a number of action committees in various sectors of economic activity and was moving toward the establishment of a Latin American Multinational Fertilizer Marketing Enterprise and a Multinational Enterprise for Handicraft Promotion and Marketing. SELA also acted as a caucus to coordinate the policies of its member states in negotiations with the EEC and in various UN bodies.

In addition to these two regionwide schemes, there are also four important economic cooperative efforts involving smaller numbers of states. These are: the Latin American Free Trade Association (LAFTA); the Central American Common Market (CACM); the Caribbean Community (CARICOM); and the Andean Group.

The Montevideo Treaty creating LAFTA was signed in 1960 in the wake of the establishment of the EEC and EFTA, and the treaty came into effect the following year. The original signatories of the treaty were: Argentina, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay. Colombia and Ecuador acceded to the treaty in 1961, Venezuela in 1966, and Bolivia in 1967. Although Mexico is physically separated from the other members of LAFTA, its level of economic development is similar to that of several of them. Between 1955 and 1961, trade among the states that eventually constituted LAFTA declined by almost 40 percent. It was hoped that LAFTA would contribute to reversing this trend. Although the treaty commits the members to establishing on a reciprocal basis a free trade area within a period of 12 years from its entry into force, the depth and extent of this commitment has been weakened. The treaty itself permits member states to restrict, in a nondiscriminatory way, trade in agricultural products. Then, at the first conference of the contracting parties, an interpretation was adopted that limited the commitment to trade in manufactured consumer goods and capital goods. The treaty encourages the member states to negotiate industrial complementarity agreements which allow particular sets of states to reduce tariffs in narrow economic sectors more rapidly than would be possible otherwise, in the hope of facilitating Latin American multinational enterprises.

Progress in LAFTA has been somewhat disappointing. The system of reciprocally negotiating tariff negotiations on a product by product basis has proved cumbersome, and once the items that were included in the traditional intraregional trade were covered, negotiations have made little headway. More than 11,000 concessions have been granted, but the largest share of these were granted prior to 1965. The member states have been very reluctant to remove tariff protection from newly-established manufacturing enterprises. Some twenty industrial complementarity agreements have been signed, primarily among the most highly industrialized countries. Intraregional exports which were only 8 percent of the total exports of LAFTA's member states in 1960,(25) had risen to 13 percent in 1977.(26) However, in 1977, 29 percent of LAFTA's exports went to the United States and 23 percent to the nine members of the EEC. LAFTA is still only a minor factor in the trade of its member countries.

The General Treaty on Central American Economic Integration creating the Central American Common Market (CACM) was signed by Guatemala, El Salvador, Honduras, and Nicaragua in December 1960, and Costa Rica acceded to the treaty in July 1962. Efforts to unite the Central American states have a long history. From the time that they gained independence until 1838, the Central American states constituted a single political unit, the Federal Republic of Central America. Since the disintegration of the Federal Republic there have been several attempts to link the five states. All of them have small populations (only Guatemala has more than five million inhabitants) and relatively small territories. The states form a compact geographic unit, and a strong case can be made for the advantages of economic cooperation among them. The General Treaty committed the states to eliminate tariffs on intraregional trade on all but a limited number of goods and to establish a common external tariff. It provided for the establishment of the Central American Bank for Economic Integration. It also endorsed a Regime for Central American Industries, designed to promote new investment. Industries that qualified for this regime would enjoy privileged status within the five states, including free trade, special consideration with respect to the reduction of the import duties on imported raw materials, and preference in official imports.

By mid-1966, almost all of the tariffs on items in intra-CACM trade had been eliminated and uniform customs duties had been established for about four-fifths of the items imported from extra-CACM sources. By May 1969, the common external tariff protected 97.5 percent of the tariff items. Intraregional exports jumped from 8 percent of the member states' total exports in 1960, to 27 percent in 1970. Equally important, the structure of intraregional trade changed substantially. In 1960, foodstuffs and live animals were the largest single category of intraregional exports, accounting for almost half of the total. In 1970, manufactures were the largest category, accounting for more than a third of the total. On the other hand, the regime for integration industries yielded few results. Only Guatemala and Nicaragua established integration industries. Nonetheless, the early years of the Central American Common Market brought promising progress.

But there were also problems. Some member states argued that the benefits of a common market were not shared equally. Some governments attributed balance of payments difficulties that they encountered to the progress made toward trade liberalization. These arguments became intertwined with disagreements stemming from factors unrelated to CACM. Tensions mounted, and in 1969 violence erupted between El Salvador and Honduras. Since the so-called "soccer war," the Central American Common Market has been in a continual crisis. Honduras and El Salvador no longer trade with one another, and some of the community institutions have ceased to function. The level of intracommunity exports as a proportion of the member states' total exports has declined. During the late 1970s, the governments of Nicaragua and other Central American countries were preoccupied with internal conflicts.

Despite CACM's success in increasing intraregional exports, in the 1970s more than a third of the member states' exports went to the United States and more than a fifth to the nine members of the EEC. The economies were still strongly oriented toward the industrialized states of the northern hemisphere.

The Caribbean Community came into being in 1973. The members of the community are: Antigua, the Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, Anguilla, St. Lucia, St. Vincent, and Trinidad and Tobago. The total population of the members of CARICOM in the late 1970s was less than five million. Six of the members are independent, seven (Antigua, Belize, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent) remain under the sovereignty of the United Kingdom. Belize is in Central America and Guyana is in South America. The other members are islands among which independent states (i.e., Cuba, Haiti, and the Dominican Republic) and non-independent territories (i.e., Puerto Rico, the Virgin Islands, Guadeloupe, Martinique, and the Netherlands Antilles) are interspersed. All of the members of CARICOM experienced British colonial rule; this is their common tie. In 1958, before any of the territories attained independence, they were united by colonial fiat in the West Indies Federation. However, the federation was dissolved in 1962 when Jamaica and Trinidad and Tobago achieved independence and decided to withdraw because they felt that its objectives were too restricted and that membership was not to their advantage. In 1965 Antigua, Barbados, and Guyana signed an agreement for the establishment of the Caribbean Free Trade Association (CARIFTA). Between then and 1971, this agreement was modified and eventually won the adhesion of all of the present members of CARICOM except the Bahamas. CARICOM is, then, an extension of CARIFTA. Although the Bahamas is a member of CARICOM, it does not adhere to the common market that is a major aspect of the organization's cooperative economic activities.

The common market annex to the CARICOM agreement commits signatories to the liberalization of trade on products originating in the region (except for those included on a reserve list) and to the establishment of a common external tariff. Special provisions are made for the less developed member countries (i.e., all members other than Barbados, Guyana, Jamaica, and Trinidad and Tobago). They need not eliminate tariffs on intraregional trade local products as rapidly, and they are also given a longer period to adjust to the common external tariff. The CARICOM treaty provided for the creation of the Caribbean Development Bank and the Caribbean Investment Corporation. The CARICOM treaty also commits the member states to functional cooperation with respect to such matters as the development of common shipping and air transport services, scientific and technological research, health and educational services, and social insurance.

Despite some early successes, progress in CARICOM has been disappointing. When the treaty was signed in 1973, intraregional exports constituted more than 10 percent of the member states' total exports.(27) They have not reached that level since. Obstacles have been imposed to trade, and functional cooperation schemes have been frustrated. Sharp divergencies in orientation toward economic policies have developed among the larger member states with Jamaica moving to the left and Trinidad and Tobago continuing a market-oriented course. The member states have continued to rely heavily on trade with the industrialized countries; about 75 percent of their exports go to the United States and the European Communities.

The final important regional economic cooperation scheme in Latin America is the Andean Group. The Treaty of Cartegena was signed by Bolivia, Chile, Colombia, Ecuador and Peru on May 26, 1969, and Venezuela adhered to the Treaty in 1973. All six states are also members of the Latin American Free Trade Association. Frustrated by LAFTA's slow pace, they hoped that more rapid progress could be made in a smaller grouping. They also hoped that by linking their economies they could counter the economic dominance in LAFTA of Argentina, Brazil, and Mexico, particularly that of Brazil. The provisions of the Treaty of Cartegena are the most far-reaching of those of any of the regional economic cooperation schemes in Latin America and the Caribbean.

The Andean Group is the only one of these schemes to have a community organ analagous to the Commission of the European Communities.(28) The Junta (or Board) of the Andean Group is composed of three individuals chosen by the member states for three year terms. The Board heads the permanent secretariat and has the responsibility of formulating proposals for consideration and decision by the Commission, an intergovernmental body comprised of one representative from each member state. In several areas, the Commission can only act on the basis of a proposal formulated by the Board, and even when the Commission may act on its own, the Board may submit a proposal. The Board is charged with representing the overall interests of the community as opposed to the separate interests of the individual member states.

The Cartagena Agreement contains provisions for the creation of a customs union, and progress has been made in the elimination of obstacles to intraregional trade and the establishment of a common external tariff. Trade within the Andean region, however, has never been very extensive. At the time of the treaty signing, intraregional exports accounted for less than 3 percent of the members' total exports, and though this proportion has increased with the creation of the customs union, as of the late 1970s, it had not attained the level of 10 percent.

The Andean Group's more significant accomplishments have been in other areas. The group has adopted industrial development programs for such sectors as metalworking, petrochemicals, and the automotive industry. It has also adopted a common code for foreign investment that contains relatively stringent provisions concerning the proportion of national participation required, the amount of profits that may be remitted, and the extent to which technology must be transferred. This regulation is widely regarded as one of the Andean Group's most important achievements. It was also the cause of Chile's withdrawal from the group in 1976. After Augusto Pinochet came to power in 1973, he began to reverse the policies of his predecessor. As part of his drive to attract foreign investment, he requested that provisions of the group's foreign investment code be softened. When this suggestion was refused by the other members of the group, Chile withdrew.

The members of the Andean Group, like the member states of the other regional economic cooperation schemes that we have been considering, export more to the United States and the members of the European Communities than to any other state or group of states.

Africa

Africa is similar to Latin America and the Caribbean, in that it contains a large number of states with relatively small populations. Both areas offer many possibilities for regional economic cooperation. There are important differences between the two areas, though, that have significant consequences for attempts at cooperation. The predominant number of African states gained their independence in the 1960s. While some states in the Caribbean area became independent only recently, most of the states in Latin America and the Caribbean achieved this status early in the nineteenth century. As a consequence, national political institutions are less firmly rooted in Africa which can both facilitate and hinder regional economic cooperation. There may be fewer powerful groups who would attempt to block regional cooperation to protect their personal interests. On the other hand, there are no well-developed national bureaucracies to implement joint decisions. A second important difference is that the level of economic development is lower in Africa. The average GNP per capita in 1976 in South America was $1,230, in Central America it was $1,000, but in Africa it was only $420.(29) The limited purchasing power in African states restricts opportunities for intraregional trade.

The members of the African Development Bank include virtually all of the states in the area except Rhodesia/Zimbabwe and South Africa. Although the treaty creating the bank was signed in 1963 and went into effect the following year, the bank did not begin operations until 1966. Its mandate is to contribute to the individual and joint economic and social development of its members. Through the projects that it has financed it has sought to increase the complementarity of the economies of its member states and to stimulate expanded trade among them. The bank's resources are relatively modest. Its ordinary capital is less than $1 billion, in comparison with the Inter-American Development Bank's almost $6 billion. Since membership in the bank is limited to independent African states, the major donor countries have been reluctant to provide large sums of money to an organization in which they would have no voice. Difficulty in raising money was among the reason's for the African Development Bank's slow start.

There have been four important attempts to create customs unions in Africa: the East African Community (EAC); the Central African Customs and Economic Union (which is known by the acronym for its name in French, Union Douaniere et Economique de l'Afrique Centrale, UDEAC); the West African Economic Community (Communaute economique de l'Afrique Ouest, CEAO); and the Community of West African States (ECOWAS). The first three represent attempts to maintain links that were created in the colonial era. The last is an ambitious attempt to override divisions left from the colonial era and join anglophone and francophone states.

Under British colonial rule, Kenya, Uganda, and Tanganyika (now Tanzania) were united in a customs union. The three territories also had a common tax collection service and operated joint rail, air, port, and postal and telecommunication services. There was also monetary co-operation. When the three territories became independent in the early 1960s, their leaders made many rhetorical commitments to maintaining this unity. In 1967, the presidents of the three countries signed a treaty creating the East African Community.

The treaty created an elaborate institutional structure headed by the East African Authority (which consisted of the presidents of the three countries), which was responsible for the general direction of the community. Three East African Community ministers, one from each country, resident at community headquarters in Arusha, Tanzania, were responsible for the supervision of the day-to-day functioning of the community. There were various ministerial councils to provide policy guidance in functional fields. A secretariat headed by a secretary-general performed the essential administrative functions. In addition, there was an East African Legislative Assembly and several judicial bodies. East African Airways, East African Harbors, East African Posts and Telecommunications were established as autonomous corporations and were required to operate on a commercial basis.

Despite this elaborate institutional structure, EAC soon foundered, and in 1977 it completely collapsed. The process of disintegration had begun even before the community was established. In 1966, the three countries established their own central banks and abandoned the joint East African monetary board. In 1970, restrictions on the exchange of currencies were imposed. Kenya consistently exported more to its partner states than it had imported from them. To counter this tendency and because of payments difficulties, obstacles to trade were imposed. Kenya and Tanzania adopted very different approaches to managing their economies. Kenya chose to rely on a market approach while Tanzania opted for extensive planning and governmental control. When Idi Amin came to power in Uganda (1971), the community was put in a state of crisis that lasted until the final collapse in 1977. Because President Julius Nyerere of Tanzania refused to meet with Amin, the East African Authority could not be convened. Expedients were found so that essential community business could be conducted, but in 1977 an impasse was reached on budgetary issues causing the collapse.

In 1965, intracommunity exports were 20 percent of the three countries' total exports.(30) This proportion declined steadily thereafter; by 1977 they were only 11 percent. Like the members of the other regional economic cooperation schemes, Kenya, Tanzania, and Uganda export more to the United States and the nine members of the EEC than to any other single source. The concentration of their exports on these two markets, however, has been smaller than in the other cases. Given the extent to which the East African Community disintegrated during the 1970s, its collapse will probably have little impact on the trading patterns of the former member states.

The Central African Customs and Economic Union and the West African Economic Community bring together respectively most of the states that formerly were administered as French Equatorial Africa and French West Africa. The UDEAC treaty was signed in

1964, and it was revised and strengthened a decade later. UDEAC replaced the Equatorial Customs Union which was created in 1959 just before independence was granted to the states of French Equatorial Africa. Cameroon, the Central African Republic, Congo (Brazzaville), and Gabon are members of UDEAC. Chad was a member until 1968 when it withdrew. Difficulties concerning the distribution of benefits between the land-locked and coastal states were among the reasons for its withdrawal.

A customs union is the central feature of UDEAC. Since the three coastal states have a greater opportunity to collect customs duties than land-locked Central Africa, the three have established a solidarity fund from which an annual lump sum payment is made to Central Africa. There is a "single tax" regime for industrial products that are manufactured in one member state for sale within the region. The state where the product is manufactured collects the tax and distributes the proceeds to its partner states in proportion to sales. UDEAC has also taken steps after the revision of the treaty in 1974 in the direction of industrial programming.

Intraregional exports as a proportion of the member states' total exports have increased from a level of less than three percent at the time that the treaty was signed to a level of eight or nine percent.(31) UDEAC's exports are heavily oriented toward the European Economic Community, and particularly toward France.

This is even more the case with respect to the West African Economic Community. The CEAO came into effect in 1974. As in the case of UDEAC, the new treaty replaced a rudimentary customs union that dates to 1959. The members of CEAO are: Ivory Coast, Mali, Mauritania, Niger, Senegal, and Upper Volta. The CEAO treaty provides for the free movement of goods that originate in the area and have not undergone industrial processing, a preference scheme for industrial products that originate in the region, and a common external tariff. These features are to be imposed gradually over a 12-year period. The treaty also provides for other types of economic cooperation through joint industrial programming, the formation of multinational corporations, and the conduct of joint projects. Intra-CEAO exports have never been even 10 percent of the member states' total exports, and since the signing of the treaty, they have been less than 5 percent.

The Economic Community of West African States was formed in 1975. It is an ambitious attempt to join together nine states that were former French colonies (Benin, Guinea, Ivory Coast, Mali, Mauritania, Niger, Senegal, Togo, and Upper Volta), four that were British colonies (Gambia, Ghana, Nigeria, and Sierra Leone), two that were Portuguese (Cape Verde and Guinea-Bissau), and one state that escaped colonial rule (Liberia). The treaty aspires to create a full common market, but at this stage too little has been accomplished to estimate how successful the attempt will be.

Asia

The average per capita GNP in Asia in 1976 (excluding Japan and the Middle East) was $290, making it the poorest area of the world. The large populations and territories of several Asian states diminish the need for regional economic cooperation. Nevertheless, there has been some regional economic cooperation within the area.

The Asian Development Bank was established in 1966. As of the late 1970s, it had 42 members: 28 from the region, and 14 from outside the region.(32) With ordinary capital resources of almost $10 billion, its resources were greater than those of the other regional development banks. Japan is the largest contributor. The headquarters are in Manila, the Philippines.

Beyond the Asian Development Bank, there are two regional economic cooperation schemes that merit attention: the Regional Cooperation for Development (RCD) and the Association of South East Asian Nations (ASEAN). RCD was created among Iran, Pakistan, and Turkey in 1964. The declaration on which RCD is based included a commitment in principle to freer trade among the three states, and some trade liberalization has occurred. In addition, RCD sponsors other cooperative activities. The member states have been able to establish joint-purpose enterprises in which the equity is shared or there is a commitment to purchase the enterprise's products. Intraregional trade, however, accounts for only a miniscule portion of the three countries' exports.

ASEAN was established in 1967 by Indonesia, Malaysia, the Philippines, Singapore, and Thailand. ASEAN operates with a minimal institutional structure. Each member country has a national secretariat, headed by a Secretary-General. An ASEAN Secretary-General was not appointed until 1976. ASEAN has eleven permanent committees that prepare recommendations for projects in specific sectors, for example air transport and meteorology. There is also a Committee of ASEAN Central Banks and Monetary Authorities and the Special Coordinating Committee of ASEAN (SCCAN). SCCAN is responsible for the joint negotiations with the EEC. Intraregional trade within ASEAN has actually declined relative to the member countries' total exports, though it has increased in absolute terms. The organization's most significant accomplishments are in coordinating the policies of the members in negotiations with the EEC, Japan, and the United States, the destination of most of their exports.

Other Third World Organizations

This important accomplishment of the ASEAN countries provides an appropriate conclusion for this brief survey of regional economic cooperation among less developed countries. It underscores what has been obvious in each case: the most important trading partners of the member states of the cooperation efforts are not the other members of the economic communities to which they belong, but instead are the industrialized states of the northern hemisphere – particularly the United States, the European Economic Community, and Japan. For this reason, the countries that belong to the regional economic cooperation schemes among LDCs have devoted at least as much attention, and probably more, to IGOs in which they can collectively confront the industrialized states of the northern hemisphere with their economic situation, present proposals for bettering their condition, and attempt to negotiate agreements for joint action. The organizations that figure most prominently in this strategy are the United Nations itself and the United Nations Conference for Trade and Development (UNCTAD). In negotiations in such bodies, the LDCs seek to achieve a unified position through the caucus that is known as the Group of 77. This caucus originated at the first session of UNCTAD in 1964, and its name is derived from the fact that at that time it brought together 77 LDCs. Now the caucus includes more than 100 states. For many purposes, the LDCs of the southern hemisphere as they are joined in the Group of 77 must be considered a regional grouping. In the UN and UNCTAD, the Group of 77 has constantly sought to improve the trading position of the LDCs vis-a-vis the industrialized states of the northern hemisphere. They have gained a generalized system of preferences whereby specific manufactured goods that they export to the developed countries receive preferential tariff treatment. They have also attempted to gain programs to stabilize at a high level the prices that they receive for the commodities that they export, but they have been less successful in this endeavor.

The some 50 African, Caribbean, and Pacific states that are associated with the EEC through the Lome Agreement have pursued similar strategies in that setting. Through the Lome Agreement they have gained a system for stabilizing their earnings from their commodity exports.

Finally, LDCs that export commodities have banded together in the hope they could improve their earnings through acting as a cartel. The members of the Organization of Petroleum Exporting Countries (OPEC) have pursued this strategy with spectacular success. OPEC has had more profound consequences for its members, and for the world economy, than any of the other international organizations that have been formed to unite southern hemisphere countries. As in the case of the OECD, functionally defined ties are more important with respect to OPEC than geographic propinquity. The 13 members of OPEC are located on three continents.(33) What unites them is their common interest in achieving the highest possible price for the petroleum that they export.

REGIONAL ECONOMIC COOPERATION AND INTERDEPENDENCE IN THE CONTEMPORARY WORLD ECONOMY

The mere length of the list of regional economic cooperation efforts that have been launched since World War II ought to leave no doubt about their prominence in contemporary world politics. Regional economic cooperation clearly has become a salient feature that must be considered in analyses of the contemporary global political system. Having made this point, though, various caveats are also in order.

First, some regional cooperation schemes have clearly been more important than others. There can be no doubt about the preeminence of the European Communities. Whether or not the Communities eventually lead to a federal government among their member states, their consequences, both for their member states and for the rest of the world, have already been profound. The European Economic Community is now the largest single trading unit in the world economy. The member states of the EEC are no longer free to act individually in international economic relationships such as tariff-cutting negotiations, but must act jointly. The Council of Mutual Economic Assistance (Comecon) ranks next in importance because of the extensive trade among its members. No other economic cooperation efforts have been as significant as EEC and Comecon.

A second point that needs to be made is that geography and economic logic only partially explain the membership in the regional economic cooperation schemes that have been created. To point out the prominence of regional efforts is not to argue that geography has been the determining force in the world economy. Membership in contemporary economic cooperation schemes inevitably has been determined by factors other than geographic propinquity and economic logic. To underscore the point one need only ask why Switzerland is not a member of the EEC, why Yugoslavia is not a full member of Comecon, why Panama and Belize are not members of CACM, why Gambia is not a member of CEAO, why Equatorial Guinea is not a member of UDEAC, and why Brunei is not a member of ASEAN? The answer in each case would be found in the historical relationships between the particular country and the members of the regional cooperation agreement. The broad point is that human choices can ignore or override geographic and economic logic, and frequently they do.

Finally, the prominence of regional economic cooperation in contemporary world politics must be seen in the perspective of growing global interdependence. The issue is most apparent with respect to less developed states. Although trade with their geographic neighbors can be important to them, trade with northern hemisphere states is far more important. For the LDCs, regional economic cooperation can only be an element in a broader economic strategy, and it is unlikely to be the most important element. Even the member states of the European Communities and the Council for Mutual Economic Assistance cannot solve all of their economic problems in isolation; instead they must trade and cooperate with nonmembers as well.

At the same time that the several regional cooperation schemes have been launched, great progress has also been made in the direction of creating an open world economy. Obstacles to trade have been reduced substantially since the end of World War II. As a consequence, international trade has increased phenomenally, and production processes have been internationalized.

It is true that protectionist pressures increased in the 1970s in the developed states with market economies, and these countries moved to establish quantitative controls in various sectors through voluntary agreements.(34) Some analysts have expressed fears that these might be a prelude to a reinstitution of the nationalistic economic policies of the 1930s. Their arguments, however, ignore the general open trading systems that constitute the broad context within which these restrictive agreements have been established and the continuing increase in levels of international trade. The quantitative restrictions established on international trade in the last two decades are more properly viewed as efforts to manage the structural transformations involved in the growth of manufacturing capacity in the countries of the southern hemisphere. The fact that the governments of developed states with market economies are not willing to allow this process to occur without their intervention, to minimize the domestic social costs of transformation, does not negate the argument that interdependence is increasing. Even the countries with centrally planned economies which completely control foreign trade are becoming more interdependent.

These trends toward the internationalization of production process and interdependence have simple explanations. People throughout the world desire to improve their material conditions. They judge the performance of their governments in terms of the economic progress that is made. Modern technology offers unparalleled opportunities for better material welfare, but deploying this technology is often impossible without cooperation among states. These pressures explain growing interdependence and why states and regions are driven to cooperate with others. Because of these pressures, regional economic cooperation is unlikely to become an alternative to global interdependence. Rather, it will continue to be part of a strategy for dealing with interdependence, an important instrument to affect how the gains of interdependence will be distributed.

NOTES

(1) For broad reviews of the economic issues involved in regional economic cooperation see: Bela Balassa, The Theory of Economic Integration (Homewood, Ill.: Richard D. Irwin, 1961); and Sydney S. Dell, Trade Blocs and Common Markets (New York: Knopf, 1963).

(2) Jacob Viner, The Customs Union Issue (Washington, D.C.: Anderson Kramer Associates, 1961), p. 43.

(3) The Council of Mutual Economic Assistance adopted an official elaboration of these principles in 1964. Extracts from the text of this decision, which was entitled "Basic Principles of International Socialist Division of Labour," are reprinted as Appendix VI in Michael Kaser, Comecon: Integration Problems of the Planned Economies (London: Oxford University Press, 1967), pp. 249-54. Kaser's study remains one of the best analyses of CMEA.

(4) For a convenient summary of his view on this and other issues relating to the position of less developed states in the world economy see: United Nations, Towards a New Trade Policy for Development: Report by the Secretary-General of the United Nations Conference on Trade and Development (New York: UN, 1964, Sales No. 64.II.B.4).

(5) P. Lamartine Yates, Forty Years of Foreign Trade (London: Allen and Unwin, 1959), p. 28.

(6) These calculations are based on data found in League of Nations, Economic Intelligence Service, Review of World Trade, 1938 (Geneva: League of Nations, 1939), p. 32.

(7) Belgium, Brazil, Canada, Colombia, Costa Rica, Czechoslovakia, Cuba, Ecuador, El Salvador, France, Finland, Guatemala, Haiti, Honduras, Netherlands, Nicaragua, Sweden, and Switzerland.

(8) The Atlantic Charter, as reprinted in Ruhl J. Bartlett, ed., The Record of American Diplomacy (New York: Knopf, 1948), pp. 623-25, on p. 624.

(9) "Lend-Lease: Report of President Roosevelt to Congress, June 11, 1942. House Document No. 779," as reprinted in Ibid., pp. 643-47, on p. 647.

(10) For a good historical survey of the development after World War II of economic regionalism in Western Europe see: Richard Mayne, The Recovery of Europe (Garden City, N.Y.: Anchor/Doubleday, Rev. ed., 1973).

(11) Austria, Belgium, Denmark, Federal Republic of Germany, France, Greece, Iceland, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, and the United Kingdom.

(12) The 24 members of OECD are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States. Yugoslavia is an associate member.

(13) The text of his speech may be found in Royal Institute of International Affairs, Document on International Affairs, 1949-1951, selected and edited by Margaret Carlyle (London: Oxford University Press, 1953), pp. 315-17, on p. 316.

(14) See Jean Monnet, Memoirs (Garden City, N.Y.: Doubleday, 1978), pp. 290 ff.

(15) For a discussion of the functioning of the institutions of the European Communities see: Roy Pryce, The Politics of the European Community (London: Butterworths, 1973).

(16) See Ernest H. Preeg, Traders and Diplomats: An Analysis of the Kennedy Round of Negotiations Under the General Agreement on Tariffs and Trade (Washington: Brookings, 1970), pp. 220-23.

(17) United Nations Secretariat, Department of Economics and Social Affairs, Statistical Office, Yearbook of International Trade Statistics (New York: UN, 1978), vol. I, p. 30.

(18) For a trenchant analysis of the European Communities attempts and the failures of these attempts see Ernst B. Haas, The Obsolescence of Regional Integration Theory (Berkeley: University of California, Berkeley, Institute of International Studies, 1975).

(19) United Nations Secretariat, Department of Economic and Social Affairs, Statistical Office, Statistical Yearbook, 1961 (New York: UN, 1962), p. 420.

(20) United Nations Secretariat, Department of Economic and Social Affairs, Statistical Office, Yearbook of International Trade Statistics, 1977 (New York: UN, 1978), vol. I, p. 30.

(21) See Frederic L. Pryor, The Communist Foreign Trade System (Cambridge, Mass.: MIT Press, 1963).

(22) United Nations Secretariat, Department of Economic and Social Affairs, Statistical Office, Statistical Yearbook, 1963 (New York: UN, 1964), p. 451.

(23) As of 1976 the members of IDB were: Argentina, Barbados, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, United States of America, Uruguay, and Venezuela.

(24) Argentina, Barbados, Bolivia, Brazil, Colombia, Costa Rica, Cuba, Chile, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Surinam, Trinidad and Tobago, Uruguay, and Venezuela.

(25) UN Document TD/B/609 (Vol. II), "Economic Cooperation and Integration among Developing Countries," May 20, 1976, Annex V.

(26) UN Secretariat, Department of Economic and Social Affairs, Statistical Office, Yearbook of International Trade Statistics, 1977 (New York: UN, 1978), vol. I, p. 30.

(27) UN Document TD/B/609.

(28) For a description and analysis of the institutions of regional cooperation efforts among LDCs see UNCTAD, Current Problems of Economic Integration: The Role of Institutions in Regional Integration among Developing Countries (by Dusan Sidjanski) (New York: UN, 1974, Sales No. E.73.II.D.10.).

(29) International Bank for Reconstruction and Development, World Bank Atlas, 1978 (Washington, D.C.: IBRD, 1978).

(30) UN Document Td/B/609.

(31) Ibid.

(32) Afghanistan, Australia, Bangladesh, British Solomon Islands, Burma, Cook, Fiji, Gilbert and Elice Islands, Hong Kong, Indonesia, Japan, Korea, Laos, Malaysia, Nepal, New Zealand, Pakistan, Papua New Guinea, Philippines, Republic of China (Taiwan), Republic of Korea, Republic of Vietnam, Singapore, Sri Lanka, Thailand, Tonga, and Western Somoa; and Austria, Belgium, Canada, Denmark, Finland, France, Federal Republic of Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom, and United States of America.

(33) The members of OPEC are: Algeria, Gabon, Libya, Nigeria, Ecuador, Venezuela, United Arab Emirates, Indonesia, Iran, Iraq, Kuwait, Qatar, Saudi Arabia.

(34) See Susan Strange, "The Management of Surplus Capacity: Or How Does Theory Stand up to Protectionism 1970s Style?", International Organization, 33, no. 3 (Summer 1979): 303-34.

II

Globally Central Regional Systems