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Planning for Regional Trade

by Dr Thomas Geer, Washington, D.C. *

The formation of regional trading blocs has been widely held to be an effective means to increasing the presently low level of intra-trade among developing countries (LDC's)¹. Recently it was noted, however, that preferential trading arrangements tend to generate unequal benefits and costs among the member countries suggesting that imbalances occur directly as a result of imbalanced industrial development and that means should be found to ensure an equitable distribution of benefits generated by expanded regional trade². In this connection, it was felt that "external assistance can make the most constructive contribution to the emergence of common markets and other trading arrangements among developing countries", and it was recommended that: "bilateral donors and international agencies should provide financial assistance to institutions, such as development banks and clearing and payments unions, which are designed to promote trade among developing countries on a regional scale³."

This paper examines the economic background to this request. In its first section, an attempt is made to analyse the intra-regional trade among member countries of existing regional groups to give a quantitative idea of the "observed unequal benefits and costs among member countries generated by preferential trading arrangement". The second part proposes a planning approach with particular emphasis on national and disaggregated planning in the initial stage of a trade bloc agreement to precede any attempt to regional planning.

Trade Performance

A number of regional economic entities have emerged in recent years. The important blocs with substantial experience include the Latin American Free Trade Area (LAFTA)⁴, the Central

American Common Market (CACM)⁵ and the East African Community (EAC, the East African Common Market before December 1967)⁶. In these three cases development banks and payment arrangements were also instituted when the intra-trade agreements were signed. Additionally, regional development banks like the Inter-American Development Bank, the Andean Development Bank, the African and the Asian Development Banks, are also available to the member countries of these three groupings.

Intra-regional trade has grown fastest and has reached the most significant proportion among the Central American Common Market countries, where it rose from 7 p.c. of their total exports in

Table 1
Exports of LAFTA, CACM and EAC, 1960-1967
(in million US\$ and percentages)

	LAFTA		CACM		EAC	
	Intra-exports	Percent of Total Exports	Intra-exports	Percent of Total Exports	Intra-exports	Percent of Total Exports
1960-62	331.0	6.5	40.1	8.1	69.6	15.8
1965-67	658.3	9.5	173.9 ¹	21.3	123.1	16.9

¹ Based on import statistics.

Source: LAFTA-ALALC, *Sintesis Mensual*, February 1968; Comercio Exterior de Mexico, No. 11, November 1968. CACM - *Anuario Estadístico Centroamericano de Comercio Exterior* (various issues). EAC - East African Community, *Economic and Statistical Review* (various issues).

1960 to 25 p.c. in 1967 (Table 1). For the LAFTA countries, intra-trade as of 1967 still represented only 10 p.c. of their aggregate global exports and in fact has not exceeded the level reached in the mid-1950's, before the creation of the Association. Intra-regional trade in East Africa amounted to 18 p.c. of the region's total exports in 1965-67, marginal above the ratio in 1960-62.

The benefits of member country participation through increasing intra-trade are indicated in Table 2, which shows the development of such trade among member countries of LAFTA, CACM

⁴ Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru and Uruguay. Bolivia and Venezuela joined in 1967 but are excluded from figures.

⁵ Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.

⁶ Kenya, Tanzania and Uganda.

* The author is an economist in the Economics Department of the World Bank. This paper presents his personal views and not necessarily those of his employer.

¹ The present value of intra-trade among LDC's accounts for 3-4 p.c. of world trade, while more than US\$ 25 bn worth of food, textiles and manufactures are imported by LDC's from developed countries.

² Lester B. Pearson, et alia (Pearson Commission Report): *Partners in Development*, New York, 1969, pp. 91-95.

³ Op. cit., p. 95.

DEVELOPMENT POLICY

Table 2
Gains and Losses in Trade of Trading Blocs; a Comparison of LAFTA, CACM and EAC
in 1960-62 and 1965-67
(million US\$ and percentages)

	Intratrade ¹								Total Exports		Growth Rates 1960-62 to 1965-67			Intratrade Exports			
	Exports				Imports				Balance		1960-62	1965-67	Exports		Imports	as % of Total Exports	
	1960-62		1965-67		1960-62		1965-67		1960-62	1965-67			Third Countries ²	Intra-trade		Intra-trade	1960-62
	Value	% Share	Value	% Share	Value	% Share	Value	% Share			1960-62	1965-67					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	
LAFTA																	
Argentina	158.7	41.3	283.9	36.8	111.9	29.1	231.5	30.0	+46.8	+52.4	1,086.3	1,516.6	5.9	12.3	15.6	12.4	16.4
Brazil	97.8	25.4	203.0	26.3	94.1	24.5	176.3	22.8	+ 3.7	+26.7	1,295.3	1,663.3	4.2	15.7	13.4	6.7	10.7
Colombia	6.1	1.6	25.1	3.2	9.8	2.5	42.1	5.4	- 3.7	-17.0	454.7	519.0	2.1	32.9	33.9	1.3	4.2
Chile	37.0	9.6	75.0	9.7	85.3	22.2	134.8	17.4	-48.3	-59.8	508.0	824.0	10.0	15.2	9.6	6.8	7.5
Ecuador	9.5	2.5	19.9	2.6	3.6	0.9	9.9	1.3	+ 5.9	+10.0	138.0	188.7	5.9	15.9	22.5	4.6	7.2
Mexico	10.7	2.8	59.8	7.7	4.6	1.2	33.9	4.4	+ 6.1	+25.9	840.0	1,154.6	5.9	41.0	49.1	1.1	4.1
Paraguay	12.2	3.2	23.6	3.1	7.8	2.0	14.7	1.9	+ 4.4	+ 8.9	30.3	51.3	10.5	14.1	13.5	32.7	34.5
Peru	45.5	11.8	56.8	7.3	34.8	9.1	88.6	11.5	+10.7	-31.8	487.3	734.3	8.9	4.5	20.5	7.7	6.4
Uruguay	6.9	1.8	25.4	3.3	32.5	8.5	40.7	5.3	-25.6	-15.3	152.3	178.7	1.7	29.5	4.6	3.7	11.1
Total	384.4	100.0	772.5	100.0	384.4	100.0	772.5	100.0	-	-	4,992.2	6,830.5	5.8	15.0	15.0	6.6	9.6
CACM																	
Guatemala	9.2	22.9	35.6	20.4	10.3	25.7	53.0	30.4	- 1.1	-17.4	112.5	203.6	10.2	31.1	38.9	8.2	17.5
El Salvador	16.8	41.9	49.6	28.5	15.2	37.9	58.9	33.8	+ 1.6	- 9.3	124.1	194.9	6.3	24.2	31.2	13.5	25.4
Honduras	6.8	17.0	32.9	18.9	9.9	24.7	22.4	12.9	- 3.1	+10.5	71.3	142.1	11.1	37.1	17.7	9.5	23.2
Nicaragua	3.7	9.2	31.8	18.3	2.8	7.0	14.6	8.4	+ 0.9	+17.2	73.8	145.7	10.2	53.0	39.2	5.0	21.8
Costa Rica	3.6	9.0	24.3	13.9	1.9	4.7	25.3	14.5	+ 1.7	- 1.0	87.6	130.4	4.8	46.5	67.8	4.1	18.6
Total	40.1	100.0	174.2	100.0	40.1	100.0	174.2	100.0	-	-	469.3	816.7	8.4	34.2	34.2	8.5	21.3
EAC																	
Kenya	43.9	63.1	79.0	64.2	19.9	28.6	33.9	27.5	+24.0	+45.1	162.5	241.2	6.5	12.5	11.2	27.0	32.8
Tanzania	6.3	9.1	13.6	11.0	29.3	42.2	43.8	35.6	-23.0	-30.2	156.5	236.5	58.2	16.6	8.4	4.0	5.8
Uganda	19.3	27.8	30.5	24.8	20.3	29.2	45.4	36.9	- 1.0	-14.9	136.0	214.1	9.5	9.6	17.5	14.2	14.2
Total	69.5	100.0	123.1	100.0	69.5	100.0	123.1	100.0	-	-	455.0	691.8	8.1	12.1	12.1	15.3	17.8

¹ Based on import statistics for CACM and LAFTA and on export statistics for EACM.

² Total exports with the rest of the world.

Note: In the case of LAFTA for the section of the Table dealing with intratrade (Column 1 to Column 10) intratrade exports were derived from reported intratrade imports of member countries. In the section dealing with share of intratrade in total exports (Column 16 and Column 17) intratrade exports were used as reported by countries in their export statistics.

Sources: LAFTA, *El Informativo Alaic*, Santiago, Chile, December 31, 1968, No. 308. CACM, *Anuario Estadístico Centroamericano de Comercio Exterior* (various issues); Bank of London, *South America, Review*, September 1968, No. 21. EAC, *East African Authority, Economic and Substantial Review* (various issues). IMF, *International Financial Statistics* (various issues).

and EAC between the periods 1960-62 and 1965-67. As seen in columns 16 and 17, intra-regional exports in nearly all cases (except Peru) have gained in importance compared with trade with third countries. Such a development was especially pronounced in all CACM member countries, where aggregate intra-regional exports increased to 21.3 p.c. of total exports as of 1965-67 as compared to 8.5 p.c. as of 1960-62. Considerable gains in intra-regional exports were also achieved by Uruguay, Argentina, Brazil, Colombia and Mexico in LAFTA, and Kenya in the case of EAC.

Intra-trade exports of all the individual member countries of the three regional groupings grew faster than exports to third countries, except in Peru. The result in this case was that Peru's pre-agreement regional trade balance shifted from a surplus to a deficit position. However, as a result of the faster growth of intra-regional imports (column 15) compared to intra-regional exports (column 14), many countries besides Peru ex-

perienced deficits in their regional balance of trade (columns 9 and 10). The list of countries in this category includes four member countries of LAFTA, three of CACM and two of EAC. Among the four member countries of LAFTA, in the case of Peru the deficit represented a reversal of a previously positive regional trade balance, while for Colombia and Chile it represented an increase in a deficit which already existed in the pre-agreement period.

Overall, Table 2 indicates considerable inequality in the distribution of trade gains from participation in regional trade arrangements. A correlation between size, wealth of countries and gains from trade, as generally believed, is not easily observable. Evidence suggests that the benefits and costs of integration are more closely related to the prevailing structure of a country's economy, in particular to its industrial base.

The composition of intra-trade among the three regional groupings is varied. Available data in-

Table 3
Trade of LAFTA, CACM and EAC, by Major SITC Classification
 (million US\$ and percentages)

SITC Section	LAFTA 1 (1963-65 average)				CACM (1964-66 average)				EAC 1967			
	Intra-Imports 2		Total Exports		Intra-Exports		Total Exports		Intra-Exports		Total Exports 3	
	Actual	% of Total	Actual	% of Total	Actual	% of Total	Actual	% of Total	Actual	% of Total	Actual	% of Total
0 Food & live animals 1 Beverages & tobacco	287.9	50.9	3,215.0	54.9	36.1	26.3	462.9	61.1	29.7	24.8	301.8	44.2
2 Crude materials, inedible excluding fuels	123.0	21.7	1,340.4	22.9	1.7	1.2	3.0	0.4	8.3	6.9	13.5	2.0
3 Minerals, fuels and lubricants	16.4	2.9	148.8	2.6	5.2	3.8	181.2	23.9	4.2	3.5	162.4	23.8
4 Animal & vegetable fats & oils	15.8	2.8	144.0	2.5	4.0	2.9	4.0	0.5	14.1	11.8	53.5	7.8
5 Chemicals	33.2	5.9	116.8	2.0	3.3	2.4	3.6	0.5	4.2	3.5	5.3	0.8
6 Manufactured goods	71.6	12.7	797.6	13.6	22.0	16.0	25.6	3.4	12.4	10.3	20.7	3.0
7 Machinery & transport equipment	17.2	3.0	52.6	0.9	36.4	26.5	40.1	5.3	34.1	28.4	108.2	15.9
8 Miscellaneous manufactured articles	0.6	0.1	35.7	0.6	4.3	3.1	4.7	0.6	1.8	1.5	2.2	0.3
9 Other transactions	0.1	—	1.8	—	23.4	17.1	23.8	3.2	10.8	9.0	13.1	1.9
Total	565.8	100.0	5,852.7	100.0	0.9	0.7	8.3	1.1	0.3	0.3	2.3	0.3

¹ Excluding Bolivia and Venezuela, not members of LAFTA in the period under consideration.

² Exports not readily available.

³ Excluding re-exports.

Sources: LAFTA — CENCI, Uruguay, ALALC, Intercambio Intrazonal, 1963, 1964 & 1965; UN Statistical Bulletin for Latin America, Vol. V, No. 2; CACM — Anuario Estadístico Centroamericano de Comercio Exterior (various issues); EAC — East African Community, Economic and Statistical Review (various issues).

dicate that manufactures⁷ were more important in intra-trade in the two groupings where intra-trade has assumed some significance in total trade, i.e., in CACM and EAC than in LAFTA (Table 3). It may also be significant that the degree of diversity, and of processing incorporated in the products involved was greater in the intra-trade of these two groupings than in LAFTA: consumer goods appeared to dominate the intra-trade pattern of CACM and EAC, while basic commodities such as refined copper, iron and steel, and wood account for about half of the manufactures exchanged among the LAFTA countries.

Lack of statistics for the pre- and early agreement periods of these three regional groups does not allow an adequate analysis of the change in the structure of intra-trade over time. For the CACM, however, the high percentage (63 p.c.) of goods of SITC groups 5-9 in a total trade volume of US\$ 174.2 mn as of 1965-67 compared with a total intra-trade of US\$ 27.1 mn as of 1958-60, indicates the fast growth which manufactures apparently

achieved during the intra-trade period. CACM has obviously been a success in this respect, belying the early admonitions of sceptics, who argued that countries producing bananas and coffee had nothing to trade among themselves. A similar development apparently has not been achieved by the other two groups, where intra-trade reportedly⁸ continues to reflect the product composition prevailing in the pre-agreement period. The existing pattern of global imports of the EAC and LAFTA countries, however, points to a considerable additional import demand for manufactured products and thus ample scope for intra-trade expansion in such products, if complementary production could be economically expanded in member countries through correct incentives.

Conclusions

The analysis above suggests that:

Regional trade arrangements among developing countries have achieved distinctively different stages of intra-trade relations even in the three

⁷ SITC Groups 5-9.

⁸ See GATT — International Trade, issues 1964-67.

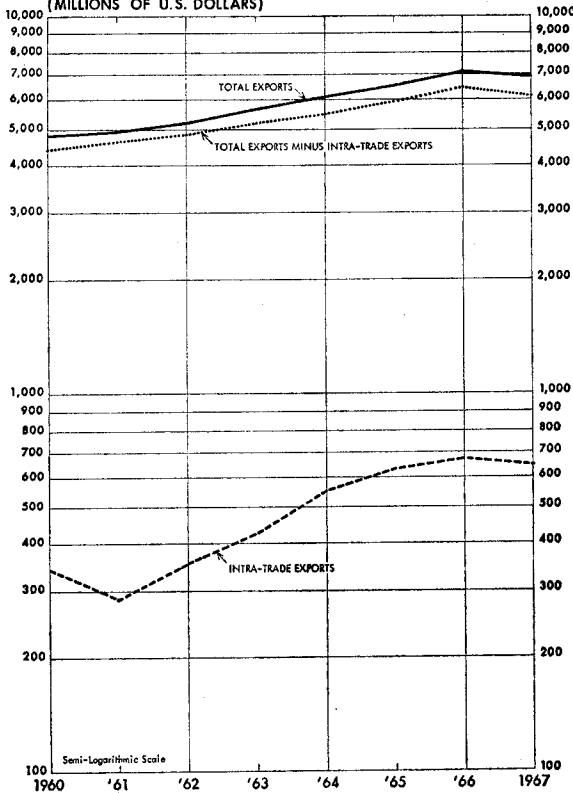


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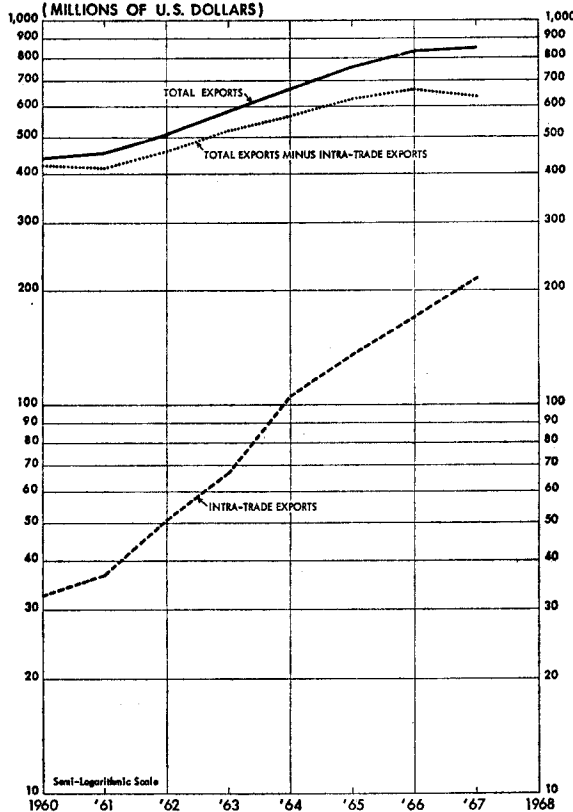
cases discussed, where similar financial and trade institutions were established.

□ The comparative success of CACM indicates the potential for increasing intra-trade beyond products dominating the export trade of individual countries in pre-agreement periods. The increase in intra-trade resulting from the regional trade arrangement, however, was based on products, particularly manufactured and semi-manufactured consumer goods, which were already being produced in each member country for its domestic market. This points to the importance of developing a reasonably broad industrial base in prospective member countries before preferential trade agreements are entered into.

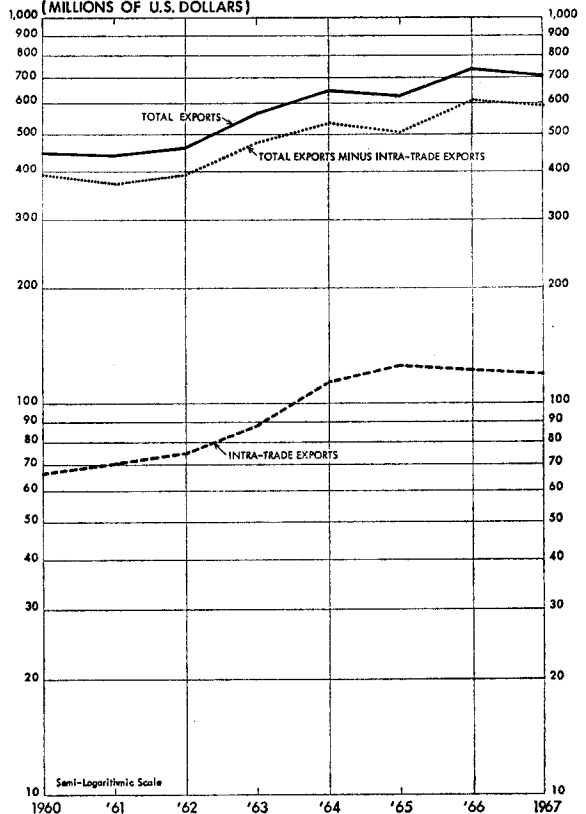
□ The benefits of regional trade arrangements, measured by individual country shares in aggregate intra-trade exports, have not been evenly distributed. As suggested by the Pearson Commission, this could create problems for the long-run stability of such an arrangement.

One step which could be taken, and indeed is indispensable for any assistance activity, is the initiation of studies and an appropriate emphasis on the regional implications of country development plans. Subsequently, the particular subjects on which planning should focus would vary with

CACM: TREND IN VALUE OF TOTAL EXPORTS AND INTRA-TRADE EXPORTS, 1960-1967
(MILLIONS OF U.S. DOLLARS)



EAC: TREND IN VALUE OF TOTAL EXPORTS AND INTRA-TRADE EXPORTS, 1960-1967
(MILLIONS OF U.S. DOLLARS)



the stage of development of the arrangement. The need for a rather equitable level of development between prospective partners of a trade agreement in the initial pre-agreement stages requires a skillful pursuit of planning on a national basis, though at pace with development efforts in other member countries of the prospective regional trade bloc⁹. It is only in the second stage of co-operation that more emphasis should be laid on strictly regional planning. Policy at this stage should aim to remedy deficiencies in intra-trade pattern so as to achieve continuous equality among member countries as well as to dissolve emerging bottlenecks in infra-structure. This would involve a common investment policy and agreements on location and sharing of industries. It is at this secondary stage that the specific problem of inequitable sharing by the partners in the aggregate gains from intra-trade would have to be addressed in concrete terms.

⁹ These bold conclusions have been recently supported by the discussions among member countries of LAFTA on the occasion of its Tenth Anniversary.

Importance of Development Banks

A principal instrument of action along these lines could be the existing development banks. The regional banks could pay special attention to financing of projects which are aimed at expanding the domestic industrial base, facilitating the creation of regional markets. Financing of short-term credit facilities for improving distribution functions, such as inventory management and transport demands may be also required where growth of trade has been successful enough to create correspondingly significant demands upon the banking system¹⁰. In addition, improvement of clearing-house facilities may be viewed as desirable in nearly all existing agreements. While it is obvious that payments unions should facilitate trade between developing countries, our evidence suggests, however, that their existence may remove only one of the many constraints to intra-trade.

¹⁰ On the other hand, successful development of trade in itself is often a stimulus to the private banking system to provide credit facilities of this kind, and assistance may, therefore, be needed only rarely.

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