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Regional Market Integration, Agricultural Transformation, and Poverty Reduction: A review of experiences in selected cases of regional market integration

Isabelle Tsakok

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Policy Center for the New South

Suncity Complex, Building C, Av. Addolb, Albortokal Street, Hay Riad, Rabat, Morocco.
Email : contact@policycenter.ma
Phone : +212 5 37 54 04 04 / Fax : +212 5 37 71 31 54
Website : www.policycenter.ma

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About the Author, Isabelle Tsakok

Isabelle Tsakok is an adjunct professor at SIPA and a Senior Fellow at the Policy Center for the New South, previously known as OCP Policy Center, who focuses on rural development, agricultural economics, policy analysis, food security and poverty reduction. She holds a PhD in Economics. Dr. Tsakok has worked on development issues for over twenty-five years, first as World Bank staff and since retirement as a consultant. She has specialized in policy analysis, program and project formulation and evaluation, research and training activities in agriculture, agro-business, rural development and poverty reduction. She has worked in most regions of the developing world: Africa, Asia - South, Southeast and East, North Africa and the Middle East and Latin America.

Summary

The transformative potential of regional market integration for a large trading bloc is well exemplified by the European Union which started integration on a modest scale. The Association of Southeast Asian Nations (ASEAN) also started on a modest scale and has delivered benefits in terms of promoting growth through greater regional market integration, both within ASEAN and in Asia more generally. ASEAN however runs on different principles to the EU (though there are some similarities). MERCOSUR is different to both the EU and ASEAN. It also delivered benefits to its members in the 1990s in terms of increased intra-regional market integration and overall economic growth, but has stalled since the 2000s.

This diversity of more-versus-less successful experiences of regional market integration provide fertile ground for policy options that the African Continental Free Trade Area (AfCFTA) could consider and either embrace or be wary of. These experiences identify some key decisions which can have a determining impact on whether or not the AfCFTA will have a transformative impact, thus turning vision into action. These are:

(1) Should supra-national institutions be created to support the implementation of the One-Africa market, and if so, how should they designed, manned and empowered?

(2) How should injections of foreign funds, through aid and/or trade, be channeled to build a framework of public goods and services that can promote private business—farm and non-farm—to raise productivity and develop regional/global value chains?

(3) Should weaker countries in the region—economically weaker because they have higher rates of poverty and indebtedness—be assisted by investment funds generated by better-off countries, and if so, how?

(4) What monitoring institutions should be built to increase awareness, responsiveness, and resilience to Africa-wide problems threatening the effective implementation of the AfCFTA so reforms can be timely?

Regional Market Integration, Agricultural Transformation, and Poverty Reduction: A review of experiences in selected cases of regional market integration

Introduction

On January 2021, Africa began implementation of the African Continental Free Trade Area (AfCFTA), signed and ratified March 2018, in Kigali, after a delay of about six months due to the global pandemic of 2020. As of July 07, 2021, 37 countries (or 68.5%) have deposited their instruments of ratification (tralac).

After the heavy economic toll of the pandemic, hopes are high for the AfCFTA. It has been hailed as a game changer for Africa. "The AfCFTA is the largest trading agreement in the world since the creation of the World Trade Organization (WTO) with the potential to unite more than 1.2 billion people in a $2.5 trillion economic bloc and usher in a new era of development. It has the potential to generate a range of benefits through supporting trade creation, structural transformation, productive employment and poverty reduction," (UNECA, Jan 1, 2021). The AfCFTA Agreement lists the following general objectives (African Union, 2018):

- Create a single market for goods and services, facilitated by the movement of persons in order to deepen the continent's economic integration in accordance with the vision of An Integrated, Prosperous and Peaceful Africa, as enshrined in Agenda 2063[1];
- Create a liberalized market for goods and services through successive rounds of negotiations;
- Contribute to the movement of capital and people, and facilitate investment building on the initiatives and developments of the State Parties and Regional Economic Committees (RECs);
- Lay the foundation for the establishment of a Continental Customs Union at a later stage;
- Promote and attain sustainable and inclusive socioeconomic development, gender equality, and structural transformation of the State Parties;
- Enhance the competitiveness of State Parties on the continent and the global market;
- Promote industrial development through diversification and regional value chain development, agricultural development, and food security; and
- Resolve challenges of multiple and overlapping memberships and expedite the regional and continental processes.

This list of objectives is comprehensive and ambitious and naturally leads to more specific objectives, implementation measures, and timetables.

What light, if any, have former attempts at regional market integration shed on factors that are likely to promote or undermine success at achieving the objectives?

1. Agenda 2063: The Africa We Want. (African Union)

This Policy Paper reviews selected global experiences of market integration, agricultural transformation, and poverty reduction following the formation of three major regional markets: the European Union (EU), in particular, its Common Agricultural Policy (CAP); the Association of Southeast Asian Nations (ASEAN); and the Southern Common Market (MERCOSUR).

With respect to each regional market, this Policy Paper addresses two main questions:

i. Has regional market integration promoted economy-wide income growth, agricultural transformation, and poverty reduction in the region? If so, how? If not, why?
ii. What can we learn from these experiences that can inform implementation of the AfCFTA (started in Jan 2021)?

This Policy Paper covers the following points for each regional market:

- Brief history of the main rationale for creating the market, the stated objectives of original members, and its current status in 2020-21, e.g., population size, membership, etc.?
- What were the accompanying enforceable rules and regulations?
- Salient features of the increase in trade and economic growth, agricultural transformation, and poverty reduction?
- Other major socio-economic achievements pursued by the region?

Are there common patterns among these regional markets in terms of success and/or failure to achieve set goals?

What insights, if any, are there from these experiences for Africa's policy makers in the implementation of AfCFTA?

The European Union (GNI/Cap: $35, 873 (2019) (Current $. Atlas Method)

The Coal and Steel Community, a precursor to the European Union: The European Union (EU) has evolved over decades. The European Economic Community (EEC) and the Common Agricultural Policy (CAP) were modeled on the European Coal and Steel Community (ECSC, 1952-2002), the first international organization based on the principle of supranationalism. It was the precursor to today's 27-member strong EU. The ECSC was first proposed in 1950 by the French Foreign Minister, Robert Schuman, as a way to prevent further wars between France and West Germany, considered 'historic enemies.' After the devastation of the Second World War, Schuman, Monnet, and other visionary leaders wanted peace, stability, and prosperity for all in Europe. The ECSC was to create a common market for coal and steel, vital resources for war and peace. This common market would promote industrial development, economic growth, employment, and improved living standards across the Community. The implementation of the ECSC was overseen by four institutions: the High Authority[2], composed of independent appointees; a Common Assembly composed of national parliamentarians; a Special Council composed of national ministers; and a Court of Justice. Over time, these became the

2. The first president of the ECSC High Authority was Jean Monnet (Nov 9, 1888-March 16, 1976). He was president from 1952-55. He was a French entrepreneur (his family business was Cognac Monnet), diplomat, financier, and political visionary who believed in a united Europe. He was the first person to receive Honorary Citizenship of Europe in 1976.

blueprint for today's European Commission, European Parliament, Council of the European Union, and European Court of Justice. The six members of the ECSC which signed the Treaty of Paris (1952) were: France, West Germany, Italy, Belgium, The Netherlands, and Luxembourg.

Integrating agricultural and food markets followed: The Common Agricultural Policy (CAP), introduced in 1962, was born out of the decision of the same six European countries. The Treaty of Rome was signed in 1957 and the European Economic Community (EEC) came into effect on January 1, 1958. The Common Market came into being: a customs union was instituted which progressively dismantled tariffs among the six founding countries. Thus, to ensure food security, the objectives of the CAP (Article 39 of the Treaty of Rome) were to (i) increase productivity through technical progress; (ii) ensure a fair standard of living for the agricultural community, especially farmers; (iii) stabilize markets; (iv) ensure availability of supplies; (v) ensure supplies reach consumers at reasonable prices. The main instruments were price support, community preference, variable import levies (to maintain the high internal price if the import price was less), and export restitutions or refunds (to make up the difference between the high internal price and the lower export price).

Key features added over time to promote market integration: The principle of community preference was introduced in 1960 with the implementation of import levies for grain, sugar, pork, eggs, and poultry, and in the negotiation of trade agreements with third countries. This principle ensured that any trade concession given to a country outside the ECSC could not weaken a European producer in the Community market. By 1965, three principles had been established to guide the CAP. They were: market unity, community preference, and financial solidarity. In 1966, the CAP was completed in that a single market had been achieved, with a single support price system and a uniform tariff against all imports. In the strenuous discussions of December 19-22, 1969, it was finally agreed that agricultural levies would be allocated to the Community; and customs duties allocated progressively to the Community.

From food scarcity to food surplus by the 1980s: Today, the EU bloc, with 27 members[3] and almost 448 million people (2020[4]), is a major exporter of agricultural products (mainly wheat, meat, dairy products, and processed food—beverages, food preparations and essential oils) as well as a major agricultural importer (mainly of soya meal and beans for animal feed), and tropical products from developing countries (such as coffee, cocoa beans, and bananas). In 1955, food scarcity was prevalent when the agriculture/GDP ratio for the six founding members was 11.5%, and agricultural employment 21.2% of total employment. By 2007, the agriculture/GDP ratio declined to around 2%, and total employment to around 6.2% (Fritz, Thomas, 2011). By the 1980s, the CAP produced surplus food (famous butter 'mountains' and milk 'lakes') which had to be 'dumped' (sold at lower prices) in developing countries, thus hurting the competitiveness of small farmers in developing countries who could not compete with such subsidized products.

Key objectives of the Treaty of Rome largely achieved through regional market integration of an expanded EU by the 1990s: Food security, agricultural transformation, and poverty reduction were

3. After the departure of the UK in Jan 2020 the 27 members are: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden. There is a wide range of GNI/cap across countries in the EU (2019): from high $ 116,430 for Liechtenstein, and $73,000 for Iceland to lower levels of $5,300 for Poland, and $16,500 for Hungary. However, following World Bank country classification, all are classified as high-income countries.

4. The EU population grew from 350 million (1960) to nearly 448 million (Jan 2020). The largest population is in Germany—83.2 million, followed by France—67.1 million. The smallest population is in Malta, roughly 520,000. (Eurostat News Release, July 10, 2020). In comparison, the population of the United States is roughly 332.4 million (2020)

the key objectives of a united Europe. They were largely achieved not only through the CAP, but also through other economic programs for reconstruction and recovery. These were undertaken by European governments, aided in the difficult early days of reconstruction by the substantial European Recovery Plan (commonly known as the Marshall Plan[5]). The United States assisted with the Marshall Plan, worth over $13 billion (equivalent to about $114 billion in 2020 dollars), from April 1948 to December 1951. Its objectives were to help rebuild a democratic Europe by containing communism, removing trade barriers among the countries, and investing in the economies. The Plan was offered to 16 European countries[6]. It was also offered to Stalin's Soviet Union and its satellite countries which refused the financial help. The Marshall Plan required European governments to produce their own plan. Agreement on a plan was finally reached by the Committee of European Economic Cooperation in 1947.

Too much food, too costly, too inequitable, and too trade-distorting: United and peaceful Europe largely achieved its objectives, but reforms of the CAP were needed. The 1980s CAP reforms sought to limit overproduction but the budgetary burden continued to mount. There was growing pressure to reform the CAP during the Uruguay Round of the GATT (1986-94) talks. The CAIRNS group[7] (which had grown from 14 to 19 nations by 2011) pressured both the EU and the USA[8] to reduce subsidies to their farmers. Three sets of reform followed: the MacSharry (1992), Agenda 2000, and Fischler (2003) reforms all tried to contain the budgetary burden by reducing subsidies and decoupling payments from production. The Fischler Reforms created another channel for funding, Pillar 2 for Rural Development. Despite these reforms, overproduction was still substantial. Critics point out that nothing really changed except that the CAP reshuffled the money, putting more in the so-called non-trade-distorting Green Box instead of in the Amber Box (trade-distorting) and in the Blue Box (production-limiting). Total domestic farm support has fluctuated at around €80 billion during the last two decades or so—between 1986 and 2007. (Fritz, Thomas, 2011). There are also distributional concerns. The allocation of the large funds favors mainly the rich—the largest food exporting firms and farms, including farms belonging to the Queen of England! (That is before Brexit—the UK left the EU in Jan 2020[9]). They constitute 18% of farms but receive 85% of direct payments (2009)—to the detriment of the majority, small family farms[10]. By 2016, two thirds of EU's 10.5 million agricultural holdings were less than 5 ha in size (Eurostat, July 2020).

Reform of the CAP still ongoing: The CAP is transitioning to the ambitious European Green Deal, which is to start implementation in 2023, pending final agreement between the European Parliament and the Council of the EU. The objectives of the new CAP have greatly evolved from the original CAP, as the food supply and security situation greatly improved from the immediate post World War II years—from scarcity to surplus. Specifically, the objectives have expanded from food self-sufficiency, food security, and a fair income for farmers to include: food safety and nutritional quality; environmental sustainability; preservation of biodiversity; adaptation to climate change; and the dynamism of farm and

5. George C. Marshall, who served under US President Harry S. Truman, was the 50th US Secretary of State.
6. The participating countries were: Austria, Belgium, Denmark, France, West Germany, the United Kingdom, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Sweden, Switzerland, and Turkey.
7. The CAIRNS Group of Fair Trading Nations consisted of highly diverse agriculture exporting nations, but united in their push for trade liberalization and an equitable and rules-based trading system in agriculture. They are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Pakistan, Paraguay, Peru, the Philippines, South Africa, Thailand, Uruguay and Vietnam.
8. The United States also increased both its domestic farm supports and its export subsidies in partial retaliation to the EU subsidies.
9. The UK formally completed its separation from the EU on December 31, 2020, at 11 p.m. GMT.
10. According to the OECD, in 2007, 25% largest farms were allocated 74% of total CAP support whereas the 25% smallest farms received only 3%. Holdings less than 5 ha are considered small, and these constitute 70% of all holdings, operating on around 8 % of all agricultural area of the EU. (2007 data) (Fritz, Thomas, 2011: 24-25, 30)

rural economies in an ageing and highly urbanized EU. The key objectives of the 2021-27 CAP are to:

- Ensure a fair income to farmers;
- Increase competitiveness;
- Balance the power in the food chain;
- Undertake climate change action;
- Maintain environmental care;
- Preserve landscapes and biodiversity;
- Support generational renewal;
- Sustain vibrant rural areas; and
- Protect food and health quality.

The European Green Deal applies not only to agriculture and food, but to all economic sectors of the EU. In its own words, its vision is to "transform the EU into a modern, resource-efficient and competitive economy, ensuring:

- No net emissions of greenhouse gases by 2050
- Economic growth decoupled from resource use
- No person and no place left behind (European Commission)."

ASEAN—Association of Southeast Asian Nations (GNI/CAP of East Asia and Pacific (excluding high income): $8, 362 (2020) (Current $, Atlas Method)[11]

From the ASEAN of five to the ASEAN of ten and above—motivation, objectives, and evolution: On August 7, 1967, there was the recognition that nations in the region must "marry national thinking with regional thinking," and pool their resources if they wanted to succeed in improving the lives of their peoples[12] (at the founding of ASEAN). The impetus for creating ASEAN was political: out of the territorial conflict between close neighbors, Indonesia and Malaysia. The five founding member countries were: Indonesia, Malaysia, Thailand, the Philippines, and Singapore. The goals and basic principles that bound together these founding members were: peace, political stability, and prosperity for the region though resolution of conflicts through non-violent means; and through cooperation in various fields e.g., economic, social, cultural, technical, educational, etc.[13] The founding members feared that without these binding goals and principles, the region would be 'balkanized' as outside actors would interfere in the region and turn internal conflicts into wedges to divide and rule the region. The commitment to a peaceful resolution of regional conflicts is a hallmark of ASEAN. Several other treaties were signed to expand the scope and geographic reach of ASEAN. They are:

11. The average country income of the ASEAN group as such has not been estimated by the World Bank. As in the EU, there is a wide range of GNI/cap in ASEAN. Except for Singapore, no country is in the high-income group category. The World Bank country income classification (July 1, 2020) is: low income: less than $1, 036; lower middle income: $1,036-4,045; upper middle income: $4,046-12, 535; high income: greater than $12, 535. For example, GNI/Cap (2020) for different members are: Singapore: $ 54,920; Malaysia: $10,580; Indonesia: $3,870; the Philippines: $3,430; Lao PDR: $2,480, Vietnam: $2,660; Myanmar: $1,260. The 2020 levels are slightly lower than 2019 levels for these countries (except for Vietnam) due to the COVID-19 pandemic.
12. This recognition was articulated by the then Foreign Minister of Singapore, S. Rajaratnam.
13. These aims and purposes were about cooperation in the economic, social, cultural, technical, educational and other fields, and in the promotion of regional peace and stability through abiding respect for justice and the rule of law and adherence to the principles of the United Nations Charter. It stipulated that the Association would be open for participation by all States in the Southeast Asian region subscribing to its aims, principles and purposes. It proclaimed ASEAN as representing "the collective will of the nations of Southeast Asia to bind themselves together in friendship and cooperation and, through joint efforts and sacrifices, secure for their peoples and for posterity the blessings of peace, freedom and prosperity." (The Founding of ASEAN)

1. The Treaty of Amity and Cooperation in Southeast Asia, signed by the ASEAN founders in 1976. It is a commitment to resolve conflicts in the region by peaceful means and to cooperate with each other. As of July 2019, it has subsequently been signed by 41 countries including the other five ASEAN nations, and the big powers of the United States, the European Union, Russia, China, and India. Except for Morocco and Egypt, no African country has signed it.
2. The ASEAN Free Trade Area (AFTA) was signed in Singapore in 1992. The primary goals of the AFTA are to: (i) increase the region's competitiveness as a production base by eliminating tariffs and non-tariff barriers within ASEAN; and (ii) attract more Foreign Direct Investment (FDI) in the region.
3. After the Asian Financial Crisis (AFC, 1997-98), ASEAN + 3 (China, South Korea, and Japan) was signed in 1999 for cooperation on energy, transport, and information and communications technology.
4. The ASEAN-China Free Trade Area (ACFTA) Agreement was signed in 2005; the ASEAN-Korea FTA in 2007; the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) in 2008; the ASEAN-India FTA (AIFTA) in 2010; the ASEAN-Australia-New Zealand FTA (AANZFTA) in 2010; and most recently the Regional Comprehensive Economic Partnership (RCEP) with long-term trade partners: Australia, China, Japan, New Zealand, and South Korea. (ASEAN Briefing, 2021).
5. The ASEAN Economic Community (AEC) was created on Jan 1, 2016 with the aim of creating a single market and production base for "the free flow of goods, services, investment, capital, and skilled labor within ASEAN (Jones Day/Insights, Feb 2016)."

By 2021, over 50 years after its founding, ASEAN membership has doubled to ten countries. They are (in alphabetical order): Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and the Socialist Republic of Vietnam. Total population is estimated around 656 million (2019). With their increased size, diversity is also increased. ASEAN decision making is based on total consensus. Given the great disparity in country incomes, and diversity among nations, including in terms of (i) development stages within ASEAN, from the high income, urbanized economy of Singapore ($59, 590 in 2019), to low income Myanmar ($1,390 in 2019) (World Bank, WDI); (ii) systems of governance, from the parliamentary system in Singapore based on the Westminster model, to the military government in Myanmar which declared a one-year state of emergency in February 2021; and (iii) diversity of religious and cultural norms; the requirement of consensus ensures that "ASEAN is as strong as its weakest member…ASEAN can only move as fast as its slowest member (Azhari-Karim, 2003)."

The Asian regional market integration started long before ASEAN was created: The Asian region is known for de facto integration preceding de jure integration exemplified by the EU, although both avenues of integration have been proceeding apace (Chen et al, 2017). Given the successive enlargements of free trade agreements, Asian regionalism is characterized as 'open' in contrast to the EU which is considered 'closed' (Fortress Europe). Also, since there is no clear regional leader among all these trading partners, the system is referred to as the 'Asian Noodle Bowl' (Baldwin, 2007). This process of regional integration was started by Japan in the late 1950s, followed by South Korea, Hong Kong, Taiwan, and Singapore during the 1980s, and by China in the 1990s. It is referred to as the 'flying geese' pattern of growth and industrialization as comparative advantage shifts from more labor-intensive to more capital and technology-intensive modes of production as countries progress from low value-added to higher-added activities. Canuto and Sharma (2011) refer to this integration approach as a Quasi-Common Economy Approach (QCE) which they contrast to the politically-driven approach of the EU. Infrastructures were built which facilitated the integration of production networks. Intra-regional trade in manufacturing parts and components increased in the 1980s as Japan continued to lose comparative advantage in labor-intensive manufacturing; and as Japanese businesses sought lower cost manufacturing in Asia for the labor-intensive stages of production. Thus 'Factory Asia' was launched. As competition among Asian countries grew for investment and production within 'Factory Asia,' unilateral FTAs proliferated. Increased market integration was further deepened by advances in communication technology and by falling costs of transportation, in particular, air freight. Intra-Asian and Intra-ASEAN trade were flourishing by the 2000s. Intra-ASEAN trade is completely dominated by computer machinery and electrical equipment as well as substantial trade in lubricants, fuels and oil.

The role of agriculture and food in regional market integration as macro strategies and agricultural policies evolve: Asian market integration has primarily been in the manufacture value chain not in agriculture, raw or processed. In fact, intra-ASEAN trade in agriculture is quite small (Bello, 2004). Unlike the EU, where the drive for food self-sufficiency and food security was a major early motivation for the formation of the European Economic Community (EEC) and the Common Market, the drive for food (mainly rice) self-sufficiency in many ASEAN countries led to high protection for rice. However, it was complemented by export-orientation of high-value agriculture commodities e.g., Malaysia and Indonesia have maintained high protection for paddy and rice but are major exporters (outside the region) of high value agricultural commodities which include palm oil, rubber, coffee, and spices.[14] Meanwhile in the Philippines, the anti-agriculture bias in the macro and trade policies from the 1960s into the 1990s (Balisacan et al, 2004[15]) protected import substitutes like manufactures and rice and taxed high-value exportables like coconut products, fruits (e.g., pineapples) and vegetables[16] (Anderson and Martin, Sept. 2008). Despite the adoption of the import-substitution industrialization strategy in most developing countries, Asia (to a greater or lesser extent depending on the country) invested in and subsidized the adoption of the high-yield value (HYV) technologies of the Green Revolution (GR)—hybrid seeds of rice and wheat, fertilizer, pesticides, irrigation water, and agricultural research and extension. The adoption of the GR, a long-term process (1965-90), was a game changer as densely-populated Asia averted a full-blown Malthusian catastrophe. Absolute poverty ($1/day) was reduced by 28% from 1,125 million (1975) to 825 million (1990) (Tsakok and Guèdègbé, Sept 2019). One of the building blocks of Asia's broad-based growth was the decisive change in agricultural policies from heavy taxation of the sector (as in most of the developing world following import-substituting industry-first strategies) to policy support around the 1980s-1990s. Thus, policy distortions in China and Southeast Asia have shifted from taxation to neutral and positive subsidization. Transfers per farmer during 2000-04 averaged $30 and $70 in China and in Southeast Asia respectively (in 2000 constant $) (Anderson and Martin, Sept. 2008). The adoption of the GR and the change in agricultural policies promoted the transformation of agriculture into a higher productivity sector throughout much of Asia. So, although Asian (including ASEAN) agricultural development may not lead the process of regional market integration as manufactures have done, it has been a major contributor to broad-based poverty reduction and income growth, and therefore to higher purchasing power which in turn expanded markets for high-value agricultural and food commodities which were traded within and outside the region.

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14. Indonesia is famous for spices. Highly valued nutmeg and mace come from the Maluku islands of Indonesia. Other important spices exported include black pepper, turmeric, and cloves.

15. Balisacan et al argue that the high tariffs and overvalued exchange rate typical of an inward-looking strategy were initially in response to the 1949 balance-of-payments crisis. The chapter also analyses the Philippines' economy and the agriculture-cum-rural sector from 1960-97.

16. The Nominal Rates of Assistance (NRAs) for import substitutes versus exportables clearly show the anti-trade bias in agriculture. For five major Southeast Asian nations (Indonesia, Malaysia, the Philippines, Thailand, and Vietnam), the NRAs were positive for import substitutes and negative for exportables (1970-2000) (Anderson et Martin, 2008).

Income growth and poverty reduction in a resilient region: East Asia[17] is known for its dynamism and resilience. According to Nag (2010), "Asia's approach to regionalism has been pragmatic and flexible, as it has largely adopted a bottom-up approach of sub regional cooperation across myriad economic subsets, thereby creating a platform for multitrack and multispeed "open" regionalism. This approach acknowledges different levels of development and needs across the region, and arrives at a consensus on what needs to be done, how to finance it, and how to make it work." Asia has had dynamic economic growth for decades, although it was severely buffeted by the Asian Financial Crisis (AFC, 1997-98) and more recently by the COVID-19 pandemic. Rapid per capita GDP growth, averaging 5–7% per year was sustained for decades (1973-90) and resumed after the AFC (Yusuf, 2001). Roughly two decades after the AFC, the East Asia development experience was again regarded as sustained growth with equity. East Asia is known for its broad-based, labor-intensive, export-oriented growth, especially in manufactures. Extreme and moderate poverty in the region has fallen from over half of the population in 2002 to one eighth in 2015, e.g., in China, the decline has been from 58% to below 7%; in Malaysia and Thailand, it has virtually disappeared; and in Vietnam, from 70% in 2002 to 8% in 2016. (Mason and Shetty, 2019) By 2000, more than 90% of its population lived in 10 middle income countries[18]. Instead of predictions of doom and gloom following the 1997-98 AFC, the economic performance of East Asia has been remarkable since the late 1990s. GDP has almost doubled, rising by almost 9% per year by 2005. Not only economies have been growing, but societies are being transformed and regional integration has been progressing according to An East Asian Renaissance (Gill & Kharas et al, 2007). Moreover:

- Exports have increased to 20% of the world's total, making the region one of the most open trading regions in the world;
- The region has become the largest destination for Foreign Direct Investment (FDI);
- Poverty (at $2/day) has decreased by 300 million, and a middle class is emerging, although the bulk of the population is still low income;
- Regional integration has increased in addition to global integration;
- An increasing share of trade consists of parts and components of the value chains being manufactured in regional production networks which had been initiated for decades; and
- Trade agreements, FDI, and declining transport and communications costs interact synergistically to drive intra-regional and global trade, growing Asian economies, thus household incomes and purchasing power.

The resilience of the region is again being tested post-COVID-19. As of April 2021, the economic recovery has been uneven (World Bank. April 2021). Thus: (i) only the People's Republic of China and Vietnam are experiencing a V-shaped recovery of 8.1% and 6.6% respectively; (ii) most of the other major economies have not yet seen a fully-fledged recovery in terms of either output or growth momentum. Output remained, on average, 5% below pre-pandemic levels; (iii) for the first time in two decades, poverty did not decline, hurting some 32 million people who were prevented from escaping poverty.

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17. In the World Bank classification, East Asia consists of: People's Republic of China, Hong Kong, Japan, Mongolia, South Korea, Taiwan (China), and the 10 ASEAN member countries. It excludes the Pacific Islands, and Papua New Guinea. Eight countries in East Asia–Japan, South Korea, Taiwan, Hong Kong, Singapore, Thailand, Malaysia, and Indonesia–have become known as the "East Asian miracle" countries because of their economies' dramatic growth. In these eight countries real per capita GDP rose twice as fast as in any other regional grouping between 1965 and 1990.

18. These countries are: Cambodia; China, Indonesia, Lao People's Democratic Republic, Malaysia, Mongolia, Myanmar, The Philippines, Thailand, and Vietnam. The World Bank country income classification (Atlas Method): 2019 (old method): lower middle income - $1,026-3,995; 2020 (new method) $1,036-4,045; upper middle income: 2019 (old) – $3,996-12,375; 2020 (new) $4, 046 – 12,535.

MERCOSUR[19]—The Southern Common Market—A range of GNI/CAP from Uruguay at $5,140 to Paraguay at $15, 830, and in between, Brazil at $7,850 and Argentina at $8,930 (2020, Atlas method).

Members: Argentina, Brazil, Paraguay, and Uruguay. The Bolivarian Republic of Venezuela joined in 2012 but has been suspended since 2016.[20]

Brief history of regional market integration attempts in Latin America, with MERCOSUR as the most recent: Ever since independence from the colonial powers of Spain and Portugal was won in the 1820s, there have been several attempts to strengthen the region on political and economic grounds by building regional blocs. The major ones are:

a. The earliest attempt to form a political-cum-economic block was from no other than Simon Bolivar, a hero of independence widely referred to as El Libertador (the Liberator). Unfortunately, the Panama Congress which met to create a treaty of Union, League and Perpetual Confederation (July 25, 1826) was not ratified by the newly independent states of Peru, Central America, and Colombia, with each dealing with its own internal strife. The Panama Congress had to be dissolved (Acosta, 2013).
b. In the 1960s, under the influential leadership of the Argentinian economist Raúl Prebisch[21], the United Nations Economic Commission for Latin America (ECLA) argued in favor of regional integration of Latin America as a way to expand markets in the region, "thus increasing productivity yields and accelerating industrialization [given that] it was protected by high tariffs (Dabene , 2012)." ECLA also promoted the Prebisch-Singer [22] thesis that import-substituting industrialization (ISI) was the strategy that should be adopted by primary commodity exporting nations. These countries should not invest in agriculture because of the long-term deterioration in the terms of trade for agricultural commodities.
c. Thus, in 1960, the Latin America Free Trade Agreement (LAFTA) was established by Argentina, Brazil, Chile, and Uruguay. LAFTA differentiated sensitive goods from non-sensitive goods. For sensitive goods, there was to be a gradual elimination of tariffs, requiring an 8% reduction in the weighted average trade per trade round. It sought to bring down all trade barriers for non-sensitive goods during a 12-year period. It was to function under the Most Favored Nation Principle (MFN) according to which any preferential treatment granted to any non-member also had to be applied to all members of the bloc. However, it did not require a Common External Tariff (CET) and coordination of domestic economic policies. These arrangements did not succeed in meeting their own deadlines and the free trade program had to be extended to 1980. In 1980 however, LAFTA was dissolved.
d. Through the Treaty of Cartagena, the Andean Group (AG) was formed in 1969, composed of Bolivia,

19. In Portuguese, Mercado Común do Sul (MERCOSUL).
20. There are seven associate members: Bolivia (in transition to full membership), Chile, Colombia, Ecuador, Guyana, Peru, Suriname; and two observer members: Mexico, New Zealand (as of June 24, 2021). Total population estimated at around 285 million (2020, full members only). GNI/CAP in Venezuela in 2014, before the collapse of its economy was $13,080 (Atlas method).
21. Raúl Prebisch (April 17, 1901-April 29, 1986) was Executive Director of ECLA (or CEPAL) in 1950. In 1950, he released his study entitled The Economic Development of Latin America and its Principal Problems. He was Secretary General of the United Nations Conference on Trade and Development (UNCTAD) from 1964-69.
22. Sir Hans Wolfgang Singer, a German Jew, (Nov 29, 1910-Feb 26, 2006) was a German-born British development economist. In 1947, he joined the new Economics Department of the United Nations. He was director of the United Nations Industrial Development Organization (UNIDO). He was involved in the creation of the Bretton Woods Framework, and post WWII international financial institutions. In 1950, he published an empirical paper with the fundamental claim that in a world in which poorer nations specialize in primary commodities and richer nations in manufactured goods, all the benefits of international trade go to the wealthy nations. He collaborated with Prebisch, but he had arrived at this conclusion independently. He left the UN in 1969 for the Institute of Development Studies at the University of Sussex, UK. He was knighted in 1994 by Her Majesty Queen Elizabeth II.

Chile, Colombia, Ecuador, and Peru. Venezuela joined in 1973. The AG wanted to coordinate not only on trade but also on social and political policies. At the start, the entire group adhered to ECLA's ISI model. However, Chile under Pinochet (1974-1990) adopted a totally different model: neoliberal, with deregulation, privatization and export-orientation. War broke out between Peru and Ecuador in 1981, and Peru also started following the neoliberal model. Chile left the group in 1976. The Colombian government was already deep in conflict (1964-2016)[23]. The AG was dissolved between 1981-83.

e. In the 1990s, the Andean Group (without Chile) now renamed the Andean Community of Nations (CAN), tried again. The Trujillo Protocol was signed in 1996. The CAN now embraced neoliberalism. This time, in addition to creating a free trade area, they wanted to create a common external tariff (CET). The CAN did experience an increase in intra-regional trade, but it plateaued in the early 2000s.Venezuela (then under Hugo Chavez's second presidential term), however, left the CAN in 2006 when Peru and Colombia signed free trade deals with the United States.
f. On March 26, 1991, four countries—namely Argentina, Brazil, Paraguay, and Uruguay signed the Treaty of Asunción to form MERCOSUR. Venezuela joined in 2012 but was suspended in 2016. MERCOSUR was built on a previous partial trade agreement signed between Argentina and Brazil in 1986 called the Program of Integration and Economic Cooperation (PICE). MERCOSUR is a regional integration platform in three areas: free movement of goods; services; and factors of production. It also has a political objective: the consolidation of democratic institutions in member states.[24] There was a substantial drop in internal tariffs in 1991, and the agreement was to reach zero tariffs by the end of 1994. The Treaty also stipulated forming a common market by Dec. 31, 1994, including the establishment of a CET. The Protocol of Ouro Preto, signed on Dec. 16, 1994, changed MERCOSUR from a free trade area into a customs union. The Ushuaia Protocol signed in 1998 was a commitment of the region to consolidate its democratic institutions[25].

Major MERCOSUR phases, trade agreements, and institutions: The decade from 1991-2001 can be divided into two 5-year sub-periods: the first 1991-96—a free trade area only; the second 1996-2001—adoption of a customs union and CET against third countries (Bown and Tovar, 2016). There are no supranational institutions with the power to arbitrate disputes, administer the bloc, or supervise the provisions of the Treaty. Instead, MERCOSUR is driven by three institutions, all composed of representatives from national governments. They are: the Common Market Council (CMC); the Common Market Group (CMG); and the MERCOSUR Trade Commission (MTC). A Common Market was to be created by 1994, but it has yet to come to fruition. In 2020, the CMC resolution 32/00 re-affirmed the commitment of MERCOSUR states to jointly negotiate as a bloc when it came to trade agreements with third countries or blocs of non-MERCOSUR countries with respect to tariff preferences. In practice, this resolution allowed individual member states to negotiate on issues other than tariffs, such as technical barriers, services, and investments. As of 2020, MERCOSUR had concluded 12 trade agreements with countries, both within and outside the region, and is in the process of negotiating six more (Júnior and Luciano, 2020)[26].

23. This protracted conflict is between the Government of Colombia and several groups: the far-right paramilitary groups; crime syndicates; and far-left guerilla groups. There are other parties in the conflict: the United States; multi-national corporations; the drug industry; and Cuba. It was triggered by the assassination of the liberal political leader Jorge Eliézer Gaitán. He was a left-wing Colombian politician, leader of the Liberal Party. Total number of casualties run in millions by the 2010s-2020.
24. There were political crises on four occasions threatening democratic institutions in MERCOSUR member states: 3 in Paraguay (1996, 1999, 2012); and one in Venezuela (2016).
25. Article 5 of the Ushuaia Protocol states that a member can be suspended in the event of a breakdown of its democratic institutions. Venezuela was suspended under this Protocol in 2016.
26. The trade agreements concluded are with: Chile (1996), Bolivia (1996), Mexico (2002), Colombia (2003, and 2017), Ecuador (2003), Peru (2003), India (2005), Cuba (2006), Israel (2007), Union of South Africa (SACU) (2008), Egypt (2010), and Palestine (2011). Venezuela was suspended in 2016 by the application of the Ushuaia Protocol of 1998. The trade negotiations are with: the EU, the EFTA, Canada, Singapore, Lebanon, and Tunisia.

Trade and socio-economic performance under MERCOSUR: Prior to MERCOSUR, Latin American trade was a small part of the economies of Argentina and Brazil. In 1986, it accounted for 1.5% and 0.9% of the GDP of Argentina and Brazil respectively. From 1990-98, intra-regional trade flows among MERCOSUR members grew from 8.8% to 25% of total international trade. But after its peak in 1998, trade flows decreased and remained around 15-16% of the countries' external trade. Intra-bloc regional exports decreased from 19% in 2000 to 15% in 2017. However, there was an increase in extra-MERCOSUR exports from 81% in 2000 to 85% in 2017. Thus, extra-regional trade has dominated the region's total international trade in the 2000s (Júnior and Luciano, 2020). Intra-regional trade expanded mainly as a result of the significant reductions in tariff levels as these reductions greatly lowered the cost of trade among member states. Thus, between 1985 and 1994-95, average tariffs were reduced from 80% to 12% in Brazil, from 26% to nearly 12% in Argentina, from around 72% to 10% in Paraguay, and from 32% to 10% in Uruguay. During this period, non-tariff barriers were also reduced significantly. Along with the expansion of trade during these earlier years, GDP per capita also rose, while political tensions among the countries decreased and cultural exchanges flourished. Expanded regional trade also contributed to poverty reduction in Brazil. The headcount index (at $1.25/day) fell from 13% (1993) to 7.8% (2005). It also led to a reduction in inequality: the Gini Index fell from 0.597 to 0.576 respectively (Ravallion, 2010). These years—1991-99—are often referred to as MERCOSUR's golden years (Campos, 2016). However, from around the early 2000s, regional integration within MERCOSUR has stalled while Brazil's extra-MERCOSUR exports have increased.

Some factors to explain why intra-regional MERCOSUR trade has stalled since the 2000s: On MERCOSUR's 30th birthday, "there will not be much to celebrate beyond its mere survival" (The Economist, March 27, 2021). Why? One hypothesis (Campos, 2016) is inter-presidentialism—its creation and functioning was primarily state-driven rather than market-driven, with Brazil fulfilling the crucial leadership role[27]. Brazil's leadership was in turn motivated by expected national economic and political gains. Specifically, Brazil's economy in the late 1980s-early 1990s was struggling through a period of trade and debt crisis. Of all the members of the regional bloc, it had the lowest share of intra-regional trade: nearly 5% compared to Argentina's at almost 13%; Uruguay around 41%; and Paraguay around 31%. Brazil thus viewed integration as offering profitable opportunities to expand its markets within the region. Indeed, Brazil experienced a substantial growth in total trade: an average annual growth of nearly 9% (1994-99). During the golden years (1991-99), Brazil's exports to member countries grew by 37% per year. Politically, MERCOSUR has also been beneficial. It reduced regional rivalries and distrust and brought about peace which in turn furthered economic growth. Given the dominant size of its economy in the region, members viewed Brazil as a 'natural' leader. However, in the 2000s, Brazil started setting limits on imports, exports, and non-tariff barriers without consulting other member countries. Brazil increasingly diversified its trade to international markets, in particular with other BRIC countries, China, India and Russia (in order of importance). Other factors cited for the stagnation in regional integration are the economic crises in Argentina and Brazil. More specifically: (a) the devaluation of the Brazilian real (1999) which helped Brazilian exports in regional and global markets but hurt Argentina's; (b) the Asian (1997-98) and Russian (1998) financial crises; and (c) significant decrease in FDI between 1999-2001—from $20 billion to $1 billion (Campos, 2016). Campos argues that Brazil viewed regional leadership through MERCOSUR as a stepping stone to global leadership.

27. Fernando Collor de Melo (1990-92) was the President of Brazil who signed the Treaty of Asunción in 1991. He resigned after a failed attempt to stop his impeachment by the Brazilian Senate. He was preceded by President Sarney (1935-90). The Brazilian presidents that followed were: Itamar Franco (1992-94, Fernando Enrique Cardoso (1995-2002), Luiz Ignácio Lula da Silva (2003-10), Dilma Rousseff (2011-16, impeached and removed from office), Michel Temer (2016-18), and Jair Bolsonaro (2019-current). In Argentina, the presidents who were active in launching and implementing MERCOSUR were: Alfonsin (1983-89) and Menem (1989-99).

Therefore once these political goals were achieved and profitable Asian markets emerged, Brazil increasingly emphasized global trade.

What insights, if any, from these diverse experiences of regional market integration, are there for Africa's policy makers in the implementation of the AfCFTA?

Brief overview: This review of the creation, main goals, and functioning of the EU, ASEAN, and MERCOSUR clearly shows that the deepening of regional market integration can be a powerful engine to promote goals which typically include: (a) income and employment growth and poverty reduction; (b) transformation of agriculture and agri-food; and (c) diversification into higher value-added activities and industrial development. However, it need not be. Whether it is a powerful engine or not, depends on a complex interaction of socio-economic and political factors, not all of which are well understood at this point. Despite recurrent challenges, hence the need for reform, the EU is held up as a model that 'works' while MERCOSUR is seen as one that has not 'worked' since the 2000s, whilst ASEAN shows both strengths and weaknesses.

Main achievements of the three models: Regional market integration through the Common Agricultural Policy (CAP), the Common Market, and, decades later, the policies of the 27-member strong EU have all been instrumental in transforming war-torn Europe of the early 1950s into a high-income, food-secure region. In Asia, East and South East, the impetus for regional market integration started with industrializing Japan searching for neighboring countries with lower cost, labor-intensive resource endowments in the 1950s. This integration was followed and strengthened by the newly industrialized economies (NIEs) in the 1980s (South Korea, Taiwan (China), Hong Kong, Singapore). De facto, preceded de jure open regionalism of East Asia and ASEAN, has developed extensive regional production networks and global value chains (GVC), reducing widespread poverty; transforming predominantly smallholder agriculture; and generating sustained growth with equity. The region has shown its resilience following the AFC (1997-98) and following the COVID-19 pandemic of 2020 (V-shaped recovery at least, in China and Vietnam). MERCOSUR countries benefited from the economic expansion entailed by growth in intra-regional trade, particularly during the golden years. Today, the four founding members have a combined GDP of roughly $3.4 trillion, making MERCOSUR one of the world's largest economic blocs (Felter et al, July 2019).

Selected insights on what works and what does not work (or may be problematic): Despite the inevitable diversity in experiences across the globe, there are some patterns of note:

What works:

- Vision, time, and recurrent experimentation to address challenges and achieve goals: To be a game changer, regional market integration requires time—decades at least, because there are lots of moving parts that must come together, supported by recurrent reforms and experimentation. From the 1950s vision of a united, democratic, peaceful and prosperous Europe, through the setting up of the supra-national institutions of the EU, the mechanisms of the Common Market, the CAP, etc., the integration process deepened and widened to result in a united, high-income EU in the 2010s. ASEAN (and later ASEAN +) chose not to create supra-national institutions like the EU, but it too was propelled by a vision of a peaceful and prosperous integrated region in the 1960s. This vision was progressively achieved by investing in marketing and communications infrastructure and by adopting conducive trade and non-trade measures, among other things, building extensive regional production networks and GVCs by the 2010s.

- A major injection of purchasing power for goods, services, and labor early in the process: In the case of war-torn Europe, the major injection was provided by the Marshall Plan, over $13 billion ($114 billion in 2020 dollars) from 1948 to 1951. In the case of Asia/ASEAN, the process of regional market integration was propelled in the late 1950s by the sustained demand by Japanese firms for labor and services from labor-abundant neighboring countries.
- A conducive political-economic environment which generates benefits for all groups: Initial injections of purchasing power will fizzle out as drivers of regional market integration unless the regional environment is conducive. This environment has included, in particular: (i) A plan of action as the Marshall Plan insisted on Europe developing an agreed plan for the way in which the funds were to be spent; (ii) a return to peace, in large parts of the region at least, and the political will from major regional players to extend peace and political stability through negotiations of conflicting interests; (iii) investments in hard (e.g., bricks and mortar) and soft (e.g., rules for competitive market functioning, contract enforcement, and law and order) marketing infrastructure; (iv) a decrease in the cost of and barriers to market entry such as a reduction in trade tariffs and other trade/non-trade barriers; (v) adoption of other growth promoting policies in agriculture and food; e.g., creation of the single market and support through the CAP in the EU; adoption of GR technologies in Asia/ASEAN; and (v) willingness to review and reform as challenges evolve; e.g., the reform of the CAP to reduce the walls of 'Fortress Europe' and to address urgent demands to counter climate change in a sustainable way, both environmentally and financially.
- Solidarity as wealthier countries assist poorer countries and sub-regions: Only the EU invests heavily in its poorer countries and sub-regions. The EU's Regional/Cohesion Policy, which started at the Treaty of Rome (1957), is viewed as win-win. Over the decades, poorer countries and regions which joined were aided: e.g., Greece (1981); Spain and Portugal (1986); Finland and Sweden (1995); ten new countries mainly from eastern Europe in 2004;[28] Bulgaria and Romania (2007); and Croatia (2013) (EC: History of Policy). For the 2014-2020 period, the largest source of direct EU budget investments came from the Cohesion Policy.

What does not work (or may be problematic):

- Domestic turmoil: Individual countries in disarray is a major threat. The precipitous descent of Venezuela into a failed state since 2014 (Cheatham and Labrador, Jan 2021) with widespread hunger and dislocation was a serious blow to the five-member MERCOSUR, especially as Venezuela,[29] a major oil-exporting nation, was viewed as adding much purchasing power and market dynamism to the group. The high frequency of political crises—in 1996, 1999 and 2012 in Paraguay—taxed diplomatic resources and was problematic.
- If only national politics is in command: The stalling of intra-regional trade as a driver of regional growth in MERCOSUR is attributed to the lack of supra-national institutions coupled with the dominance of Brazil whose leadership in the 2000s de-emphasized regional in favor of global market integration as a major driver of Brazil's economic growth.

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28. These ten countries are: Poland, Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Lithuania, Latvia, Malta, and Cyprus.
29. Venezuela's GNI/Cap in 2014 was $13,080 (Atlas method), a high income country according to the 2019/2020 World Bank classification.

- Lack of supra-national institutions and leadership: ASEAN also does not have supra-national institutions and decision-making is based on total consensus in a very diverse—ideologically and economically—region. And yet the region as a whole has thrived and even been resilient. Critics are concerned, however, about this lack of leadership and cohesion. Baldwin (2007) refers to East Asian regionalism (and therefore ASEAN) as a fragile noodle bowl. According to Baldwin, its vulnerability is due primarily to the following:

1. Each nation's industrial competitiveness depends on the free flow of intra-regional trade due to the smooth functioning of 'Factory Asia.' Should a trade dispute arise anywhere in the system, which body has sufficient credibility and clout to take the lead to solve it?
2. The unilateral tariff cuts can be reversed in a chaotic way because they are not subject to low WTO bindings for many of the Asian economies—the problem of tariff binding overhang.[30] Should several trading nations enter into a trade dispute, where is the WTO discipline that could act as a firebreak? And
3. Lack of top-level management for 'Factory Asia.' Should complex interdependent production and trade problems break out, where is the supra-national body to arbitrate, contain, and solve the dispute? Azhari-Karim (2003) argue that progress in ASEAN is being held back by relying on consensus alone for "...ASEAN can only move as fast as its slowest member."

Conclusion

The launching of the AfCFTA is rightly hailed as a milestone achievement. It is, however, only the first step, albeit a critical one, in a long journey. "The journey of a thousand miles begins with the first step (Laozu, 6th century BCE)[31]."

Diverse experiences of regional market integration show that the next steps which can have a determining impact on realizing the transformative potential of regional market integration must include decisions on:

1. Whether to create and empower supra-national institutions, as in the EU;
2. What constitutes public goods and services to which Africa as a whole must contribute to (perhaps including through foreign funds) and invest in, and what remains the responsibility of national African governments;
3. What is the responsibility of Africa-wide institutions towards weaker/poorer countries to assist them to integrate; and
4. What institutions are needed for timely monitoring of policies targeted at promoting regional market integration and informing policy reform.

30. This binding overhang refers to the big differences between actual levels of tariffs applied and bound levels by the WTO; e.g., China's average tariff was 2.7% (2005) but its WTO binding is 10%; for Indonesia, Malaysia, the Philippines and Thailand, the bound tariffs are 15%-35% whereas the MFN tariffs of Malaysia and Thailand averaged 3% for their biggest traders; 1% for Indonesia; and 5% for the Philippines. (Baldwin, 2007)

31. This famous phrase has also been translated as "The journey of a thousand miles starts with a single step". The phrase in classical Chinese is "将扼滩圃览赊顽牌"(qian li zhi xing shi yu zu xia) is translated literally as" The journey of a thousand miles starts beneath one's feet"

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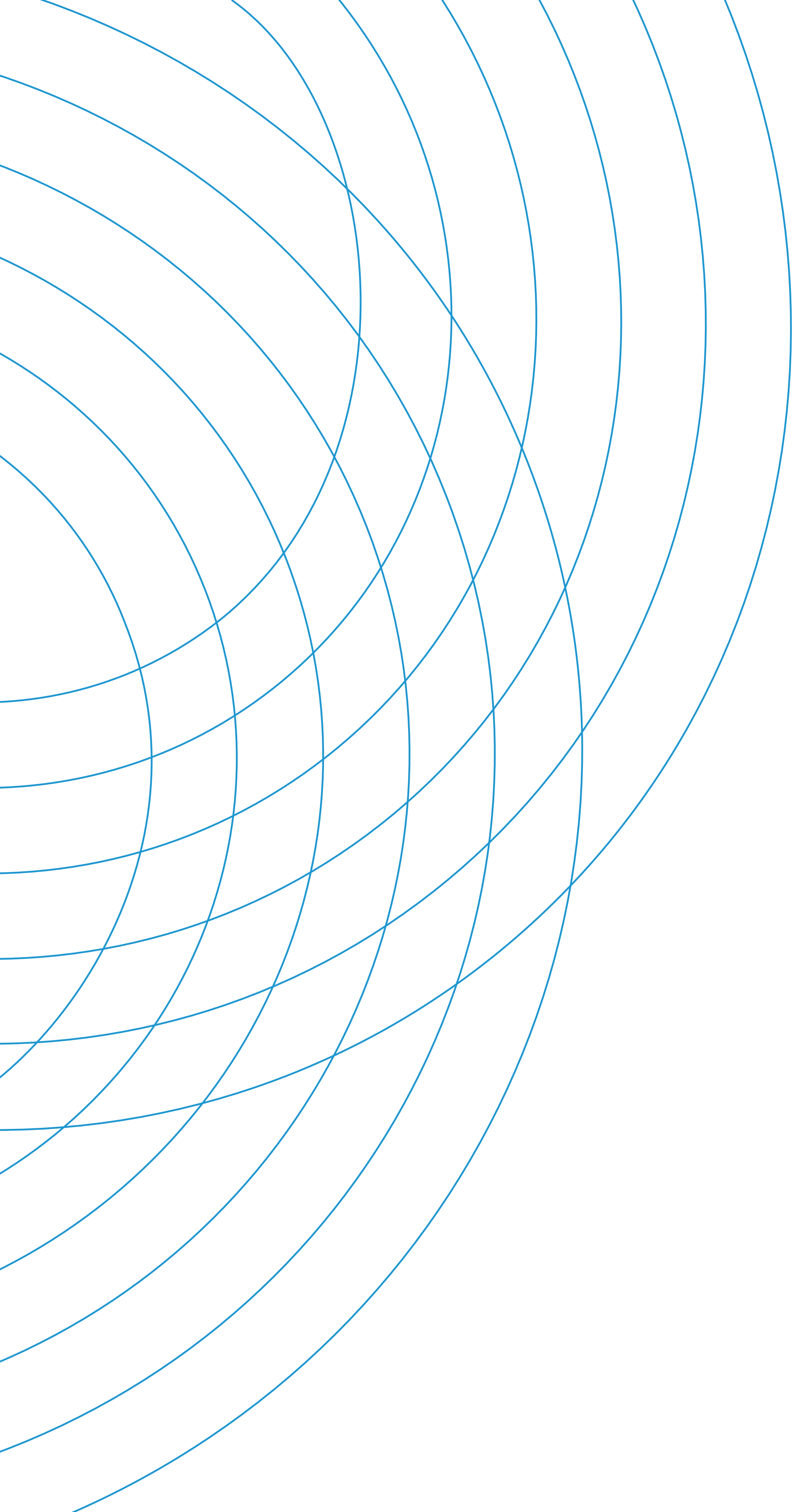

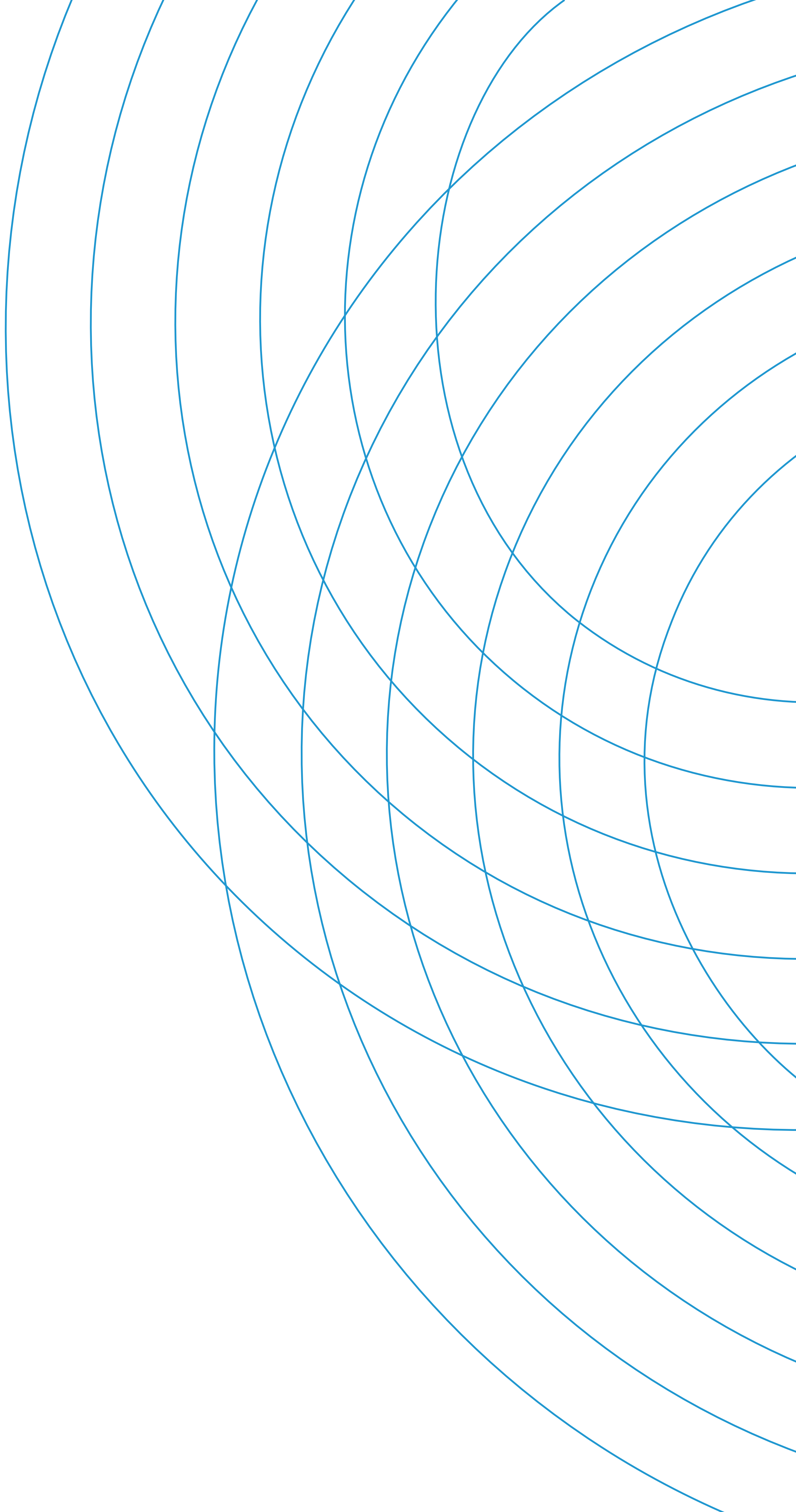

Policy Center for the New South

Complexe Suncity, Immeuble C,
Angle Boulevard Addolb et rue Albortokal,
Hay Riad, Rabat - Maroc.

Email : contact@ocppc.ma
Phone : +212 5 37 27 08 08
Fax : +212 5 37 71 31 54
Website : www.policycenter.ma