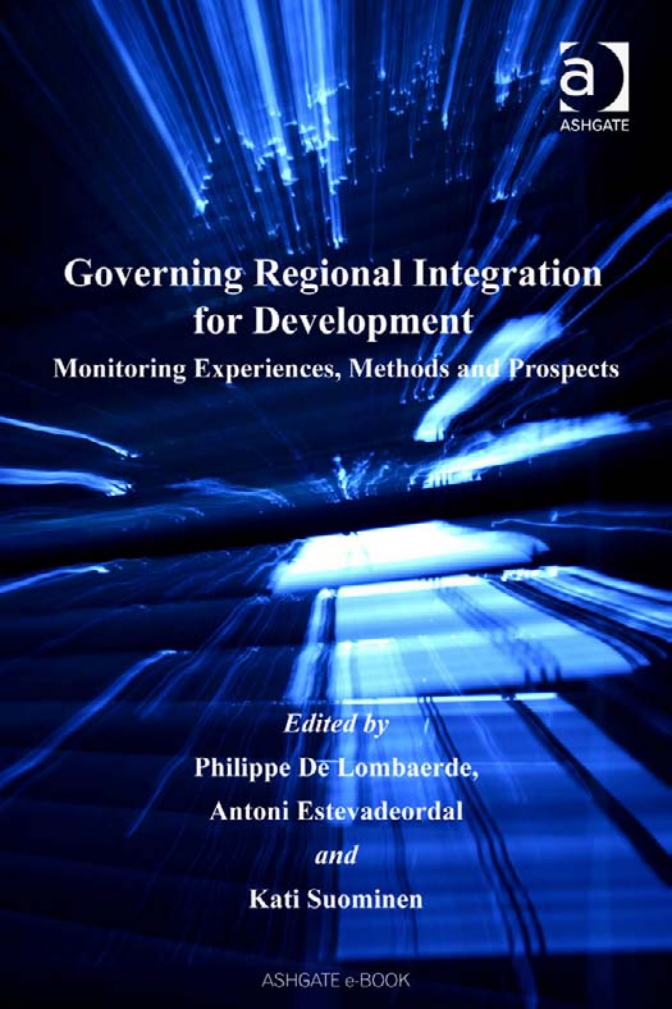

ASHGATE
Governing Regional Integration for Development
Monitoring Experiences, Methods and Prospects
Edited by
Philippe De Lombaerde,
Antoni Estevadeordal
and
Kati Suominen
ASHGATE e-BOOK

GOVERNING REGIONAL INTEGRATION FOR DEVELOPMENT

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Governing Regional Integration for Development

Monitoring Experiences, Methods and Prospects

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Contents

List of Figures *vii*
List of Tables *viii*
List of Boxes *x*
List of Contributors *xi*
List of Acronyms *xiii*

1 Governing Regional Integration for Development: Introduction
Philippe De Lombaerde, Antoni Estevadeordal and Kati Suominen 1

PART 1: LATIN AMERICA AND THE CARIBBEAN

2 Monitoring Regional Integration and Cooperation in the Andean Region
Fernando Prada and Alvaro Espinoza 11

3 'Learning to Integrate': The Experience of Monitoring the CARICOM Single Market and Economy
Norman Girvan 31

4 Monitoring Regional Integration: The Case of Central America
Kati Suominen 57

5 Monitoring Regional Integration and Cooperation: The Case of Mercosur
Ricardo Rozemberg and Carlos Bozzalla 85

PART 2: ASIA AND THE PACIFIC

6 Results-Based Monitoring of Regional Integration and Cooperation in ASEAN
Cuong Nguyen and Clay Wescott 103

7 Regional Monitoring in the Pacific: The Pacific Islands Forum
William Sutherland 125

8 Monitoring Regional Integration and Cooperation in South Asia
Rodrigo Tavares 141

PART 3: AFRICA AND THE MIDDLE EAST

9 Monitoring Regional Integration and Cooperation in the Gulf Region
Bernard Savage 163

10 Monitoring Regional Integration and Cooperation in the South: The Arab Maghreb Union
Thouka Al-Khalidi 179

11 Monitoring Regional Integration in Eastern and Southern Africa
Dirk Hansohm and Jonathan Adongo 191

PART 4: EUROPE AND NORTH AMERICA

12 Monitoring and (Good) Governance of the Integration Process in the European Union
Ana-Cristina Costea, Philippe De Lombaerde, Wouter De Vriendt and Birger Fühne 211

13 Seasoned Monitoring: The Case of North America
Kati Suominen 247

14 Governing Regional Integration for Development: Summary and Conclusions
Philippe De Lombaerde, Antoni Estevadeordal and Kati Suominen 275

Index *285*

List of Figures

3.1	The Learning Loop and Monitoring	32
3.2	Governance Structure of the Caribbean Community	36
4.1	Structure of SIECA	62
4.2	Monitoring System in Guatemala	68
4.3	Monitoring System in El Salvador	73
4.4	Monitoring System in Costa Rica	77
6.1	ASEAN Organization Structure	111
6.2	Organizational Structure of the ASEAN Secretariat	112
7.1	(Diagram) The Forum Process	127
12.1	Role of the Different Institutions in Internal Monitoring of EU Activities	217
12.2	Transposition Deficits of EU-15, EU-25 and EFTA, Situation as per 30 April 2006	231
13.1	Monitoring System in NAFTA	251
13.2	Monitoring System in Mexico-Northern Triangle, Central America-Panama, and Central America-Chile FTAs	254
13.3	Monitoring System in DR-CAFTA	255
13.4	Monitoring System in Mexico	257

List of Tables

2.1	Regional Integration and Cooperation Agreements in the Andean Region and their Monitoring Instruments	14
3.1	Basic Statistics on Member Countries of the Caribbean Community (Caricom)	33
3.2	Grand Anse Targets and Outcomes	38
3.3	Protocols for the Revised Treaty of Chaguaramas and the Establishment of the CARICOM Single Market and Economy (CSME)	40
3.4	Summary of Scheduled Removal of Restrictions on Services, Capital and Right of Establishment	42
3.5	CSME Implementation Summary as at June 2006	45
3.6	Unit Capacity and Capability, National Focal Points	47
3.7	Main Methods used by NFP Unit to Monitor CSME Implementation by Government Ministries and Agencies	48
3.8	NFPs Views on Requirements for Improving the Flow of Information on CSME Implementation from Government Ministries and Agencies	48
3.9	Questionnaire Responses – Forms of Communication with CARICOM	49
4.1	Central American FTAs and Their Monitoring Mechanisms	67
6.1	(Annex) Generic Criteria for Monitoring Aggregation of Impact of the Vientiane Action Program	123
7.1	Major Pacific Regional Organizations	126
7.2	Pacific Plan Implementation Strategies	138
10.1	Key figures of Maghreb region	180
11.1	Regional Integration Monitoring Initiatives in Eastern and Southern Africa	193
11.2	Membership in the Regional Blocs of Eastern and Southern Africa	201
12.1	Structural Indicators Covered in the Annual Progress Report of the European Commission on the Lisbon Strategy	225
12.2	Three-level Design of the SDI and Targeted Users	226
12.3	Good (Regional) Governance Indicators Included in the SDI	227
12.4	Overview of Main Topics Covered in the Standard Eurobarometer Surveys	228
12.5	Main Findings of Internal Market Scoreboard No. 15	230
12.6	Stages in Audit Procedure of European Court of Auditors	236

13.1 Mexican FTAs and Their Monitoring Mechanisms 248
13.2 US FTAs 249
13.3 Main US Federal Agencies Involved in Monitoring 265

List of Boxes

2.1	The Andean Community Court of Justice	23
5.1	Action Plans and Objectives	88
5.2	Work Programs of the CMG Forums and the Trade Commission	89
5.3	Toward Setting up the Mercosur Parliament (MP)	91
5.4	The Bilateral Trade Monitoring Commission (Argentina-Brazil)	94

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List of Acronyms

ACCP	Assembly of Caribbean Community Parliamentarians
ACFAM	Andean Council of Foreign Affairs Ministers
ACMECS	Ayeyarwady-Chao Phraya-Mekong Economic Cooperation Strategy
ACTPN	Advisory Committee for Trade Policy and Negotiations
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AERC	African Economic Research Consortium
AFMM	ASEAN Finance Ministers Meeting
AFTA	ASEAN Free Trade Area
AIS	Andean Integration System
AMBDC	ASEAN-Mekong Basin Development Corporation
AMU	Arab Maghreb Union
ANEP	National Association of the Private Enterprise *Asociación Nacional de la Empresa Privada*
AOI	Andean Observatory for Integration
AP	Andean Parliament
APAC	Agricultural Policy Advisory Committee
APEC	Asia-Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASC	ASEAN Security Community
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of South-East Asian Nations
ASOCODE	*Asociación de Organizaciones Campesinas Centroamericanas para la Cooperación del Desarrollo*
ATPDEA	Andean Trade Promotion and Drug Eradication Act
AU	African Union
AUPRICA	*Asociación de Universidades Privadas de Centroamérica y Panamá*
BCIE	Central American Bank for Economic Integration *Banco Centroamericano de Integración Económica*
BIMP-EAGA	Brunei Darussalam, Indonesia, Malaysia, Philippines–East ASEAN Growth Area
BIMSTEC	Bengal Initiative for Multisectoral Technical and Economic Cooperation
CACIF	Coordinating Committee of Agricultural, Trade, Industrial, and Financial Associations *Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras*
CACM	Central American Common Market

CAF	*Corporación Andina de Fomento*
CAFTA	Central America Free Trade Agreement
CALRE	Conference of the European Regional Legislative Parliaments *Conférence des Assemblées Legislatives Régionales Européennes*
CAN	Andean Community of Nations
CAPRE	*Comité Coordinador Regional de Instituciones de Agua Potable y Saneamiento de Centroamérica, Panamá y República Dominicana CAPRE*
CARICOM	Caribbean Community and Common Market
CARIFTA	Caribbean Free Trade Association
CCC	*Confederación de Cooperativas del Caribe y Centroamérica*
CCIE	Consultative Council of Economic Integration *Comité Consultivo de la Integración Económica*
CCP	*Comisión Centroamericana Permanente para la Erradicación de la Producción, Tráfico, Consumo y Uso Ilícitos de Estupefacientes y Sustancias Psicotrópicas*
CCS	Caricom secretariat
CCT	*Confederación Centroamericana de Trabajadores*
CCVAH	*Comisión Centroamericana de Vivienda y Asentamientos Humanos*
CEAC	*Consejo de Electricidad de América Central*
CEAD	Coordination, Evaluation, Assurance and Development
CEIE	Executive Committee of Economic Integration *Comité Ejecutivo de Integración Económica*
CEMAI	Mexican Business Council for International Affairs C*onsejo Empresarial Mexicano para Asuntos Internacionales*
CEN-SAD	Community of Sahel-Saharan States
CEPA	Comprehensive Economic Partnership Agreement
CEPREDENAC	*Centro de Coordinación para la Prevención de Desastres Naturales en América Central*
CER	CARICOM Enterprise Regime
CET	Common External Tariff
CFSP	Common Foreign and Security Policy
CIPS	CARICOM Industrial Programming Scheme
CMA	Common Monetary Area
CMC	Common Market Council
CMG	Common Market Group
CMPI	*Capítulo Centroamericano del Consejo Mundial de Pueblos Indígenas*
COCATRAM	*Comisión Centroamericana de Transporte Marítimo*
COCENTRA	*Coordinadora Centroamericana de Trabajadores*
COCESNA	*Corporación Centroamericana de Servicios de Navegación Aerea*
COCISS	*Consejo Centroamericano de Instituciones de Seguridad Social*
CODICADER	*Consejo del Istmo Centroamericano de Deportes y Recreación*
COE	Committee of Experts
COECE	Council of Foreign Trade Business Organizations

	Coordinadora de Organismos Empresariales de Comercio Exterior
COFCOR	Council for Foreign and Community Relations
COMCE	Mexican Foreign Trade Council *Consejo Mexicano de Comercio Exterior*
COMESA	Common Market for Eastern and Southern Africa
COMIECO	Council of Central American economic integration ministers *Consejo de Ministros de Integración Económica*
COMTELCA	*Comisión Técnica de Telecomunicaciones de Centroamérica*
CONACEX	National Foreign Trader Council *Consejo Nacional de Comercio Exterior*
CONAPEX	National Export Council *Consejo Nacional de Exportaciones*
CONATCO	National Administration Commission of Trade Agreements *Comisión Nacional Administradora de Tratados Comerciales*
CONCAPE	*Confederación Centroamericana y del Caribe de la Pequeña y Mediana Empresa*
CONCATEC	*Consejo Centroamericano de Trabajadores de la Educación y la Cultura*
CoR	Committee of the Regions
COREPER	Committee of Permanent Representatives *Comité des représentants permanents*
COSAC	Conference of Community and European Affairs Committees of Parliaments of the European Union *Conférence des Organes Spécialisés dans les Affaires Communautaires et Européennes des Parlements de l'Union européenne*
COTED	Council for Trade and Economic Development
CRNM	Caribbean Regional Negotiating Machinery
CROP	Council of Regional Organizations in the Pacific
CRRH	*Comisión Regional de Recursos Hidráulicos*
CSME	Caricom Single Market and Economy
CSUCA	*Consejo Superior Universitario Centroamericano*
CTCA	*Confederación de Trabajadores de Centroamérica*
CTCAP	*Comisión de Ciencia y Tecnología de Centroamérica y Panamá*
CTCB	Committee on Trade Capacity Building
DAACI	Directorate for the Application of International Trade Agreements *Dirección de Aplicación de Acuerdos Comerciales Internacionales*
DACE	Directorate of Administration of Foreign Trade *Dirección de Administración de Comercio Externo*
DATCO	Directorate of Administration of Trade Agreements *Dirección de Administración de Tratados Comerciales*
DG	Directorate-General
DR-CAFTA	Dominican Republic-Central America Free Trade Agreement
DSM	Dispute settlement mechanism

EAC	East African Community
EAEC	East Asia Economic Caucus
EC	European Community *and* European Commission
ECA	Economic Complementation Agreement *and* European Court of Auditors
ECB	European Central Bank
ECCAS	Economic Community of Central African States
ECLAC	Economic Commission for Latin America and the Caribbean
ECOWAS	Economic Community of West African States
ECSC	European Coal and Steel Community
EDA	European Defense Agency
EDF	European Development Fund
EEA	European Economic Area
EEC	European Economic Community
EESC	European Economic and Social Council
EFTA	European Free Trade Association
EIB	European Investment Bank
EMU	European Monetary Union
EOP	Executive Office of the President
EP	European Parliament
EPA	Economic Partnership Agreement
EPC	European Political Co-operation
EPG	Eminent Persons Group
EPR	Environment Policy Reviews
ESA	European System of Integrated Economic Accounts
ESCB	European System of Central Banks
ESCF	Economic and Social Consultative Forum
ESS	European Statistical System
EU	European Union
EUROPOL	European Police Office
EUROSTAT	Statistical Office of the European Communities
FAS	Foreign Agricultural Service
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FECAICA	Federation of Industrial Chambers and Associations of Central America and the Dominican Republic *Federación de Cámaras y Asociaciones Industriales Centroamericanas y de República Dominicana*
FECAMCO	*Federación de Cámaras de Comercio del Istmo Centroamericano*
FECATRANS	*Federación Centroamericana de Transporte*
FEDEPRICAP	Federation of Private Sector Entities of Central America and Panama *Federación de Entidades Privadas de Centroamérica y Panamá*
FEMICA	*Federación de Municipios del Istmo Centroamericano*
FEMM	Forum Economic Ministers Meeting
FIC	Forum Island Countries

FLAR	Latin American Reserve Fund *Fondo Latinoamericano de Reservas*
FP	Flemish Parliament
FOC	Forum Officials Committee
FTA	Free Trade Agreements
FTAA	Free Trade Area of the Americas
FTC	Free Trade Commission
GAFTA	Greater Arab Free Trade Area
GAN	High-level group *Grupo de alto nivel*
GAO	Government Accountability Office
GATT	General Agreement on Tariffs and Trade
GATS	General Agreement on Trade in Services
GCC	Gulf Co-operation Council
GDP	Gross Domestic Product
GMS	Greater Mekong Subregion
G-3	Group of Three *Grupo de los tres*
HDI	Human Development Index
HPA	Hanoi Plan of Action
HR	High Representative
IADB/IDB	Inter-American Development Bank
IAS	Internal Audit Service
ICAITI	*Instituto Centroamericano de Investigación y Tecnología Industrial*
ICAP	*Instituto Centroamericano de Administración Pública*
IE	Impact evaluation
IGAD	Intergovernmental Authority on Development
IGD	Institute of Global Dialogue
IGPAC	Intergovernmental Policy Advisory Committee
IIRSA	Initiative for the Integration of Regional Infrastructure in South America
ILO	International Labor Organization
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IMS	Internal Market Scoreboard
IMS-EFTA	Internal Market Scoreboard – EFTA States
INCAP	*Instituto de Nutrición de Centroamérica Y Panamá*
INTAL	Institute for the Integration of Latin America and the Caribbean
IOC	Indian Ocean Community
IOPM	Input and output process monitoring
IOR-ARC	Indian Ocean Rim Association for Regional Cooperation
ITA	Information Technologies Agreement *and* International Trade Administration
JAMM	Joint ASEAN Ministerial Meeting
JHA	Justice and Home Affairs

JPC	Joint Parliamentary Commission
KAF	Konrad Adenauer Foundation
LAC	Labor Advisory Committee
LAIA	Latin American Integration Association
LAS	League of Arab States
MCPR	Mercosur Commission of Permanent Representatives
MEP	Member of European Parliament
MERCOSUR	Southern Common Market *Mercado Común del Sur, Mercado Comum do Sul*
MFN	Most Favored Nation
MNCs	Multinational corporations
MOU	Memorandum of Understanding
MRC	Mekong River Commission
MS	Mercosur Secretariat
MTC	Mercosur Trade Commission
NACE	Statistical Classification of Economic Activities in the European Union *Nomenclature Générale des Activités Économiques dans I`Union Européenne*
NAFTA	North American Free Trade Agreement
NEPAD	New Partnership for Development in Africa
NEPRU	Namibian Economic Policy Research Unit
NFPs	National Focal Points
NGO	Non-governmental organization
NPT	Non-Proliferation Treaty
NUTS	EUROSTAT Nomenclature of Statistical Territorial Units *Nomenclature des Unités Territoriales Statistiques*
OBM	Output-Based Management
ODASP	Organization of Support of the Productive Sector for International Trade Negotiations *Organización de Apoyo del Sector Productivo para las Negociaciones Comerciales Internacionales*
ODECA	Organization of Central American States *Organización de Estados Centroamericanos*
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OIRSA	*Organismo Internacional Regional de Sanidad Agropecuaria*
OLAF	European Anti-Fraud Office *Office Européen de Lutte Anti-Fraude*
OSAI	Organization of Supreme Audit Institutes
PACER	Pacific Agreement on Closer Economic Relations
PCR	Project completion report
PCU	Programme Coordination Unit
PDI	Pacific Development Indicators
PFD	Post-Forum Dialogue
PICTA	Pacific Island Countries Trade Agreement

PIFS	Pacific Islands Forum Secretariat
PPP	Purchasing Power Parity
PPTF	Pacific Plan Task Force
PTG	Permanent Technical Group
RBM	Results-Based Management
RI	Regional integration
RI/C	Regional Integration and Cooperation
RTA	Regional Trade Agreements
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SACU	Southern African Customs Union
SAEU	South Asian Economic Union
SAFTA	South Asian Free Trade Area
SAHR	South Asians for Human Rights
SAIIA	South African Institute of International Affairs
SAPES	Southern African Political and Economic Series
SAPTA	South Asian Preferential Trade Arrangement
SARDC	Southern Africa Research and Documentation Centre
SARPN	Southern African Regional Poverty Network
SAT	System for Administration of Agreements *Sistema de Administración de Tratados*
SCAC	*Secretaría del Consejo Agrícola Centroamericano*
SDI	Sustainable Development Indicators
SEA	Single European Act
SELA	Economic System of Latin America *Sistema económico latinoamericano*
SE-CCAD	*Secretaría Ejecutiva de la Comisión Centroamericana de Ambiente y Desarrollo*
SECMCA	*Secretaría Ejecutiva del Consejo Monetario Centroamericano*
SE-COCATRAM	*Secretaría Ejecutiva de la Comisión Centroamericana de Transporte Marítimo*
SG-CECC	*Secretaría General de la Coordinación Educativa y Cultural Centroamericana*
SICA	Central American Integration System *Sistema de la Integración Centroamericana*
SIECA	Secretariat of Central American Economic Integration *Secretaría Permanente del Tratado General de Integración Económica Centroamericana*
SII	SADC Integration Index
SIPRI	Stockholm Peace Research Institute
SIRI	System of indicators of regional integration
SIS	Secretariat of Social Integration *Secretaría de Integración Social*
SITC	Standard International Trade Classification
SITCA	*Secretaría de Integración Turística de Centroamérica*
SMC	SAFTA Ministerial Council

SPP	Security and Prosperity Partnership
SPS	Sanitary and phytosanitary standards
SRF	SAARC Regional Forum
STP	Temporal Secretariat *Secretaría pro-tempore*
TAC	Treaty of Amity and Cooperation in Southeast Asia
TEN-T	Trans-European Networks (in the area of transport)
TEPAC	Trade and Environment Policy Advisory Committee
TPA	Trade Promotion Act
UAE	United Arab Emirates
UN	United Nations
UNCTAD	United Nations Conference for Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission of Africa
UN-ESCWA	United Nations Economic and Social Commission for Western Asia
UNU	United Nations University
UNU-CRIS	United Nations University-Comparative Regional Integration Studies
UPROCAFE	*Unión de Pequeños y Medianos Productores de Café de México, Centroamérica y del Caribe*
US	United States
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USTR	United States Trade Representative
VAP	Vientiane Action Program
WDI	World Development Indicators
WICOM	West Indian Commission
WTO	World Trade Organization

Chapter 1

Governing Regional Integration for Development: Introduction

Philippe De Lombaerde, Antoni Estevadeordal and Kati Suominen

Developing countries have joined the rapidly growing global system of regional trade agreements (RTAs) *en masse* over the past few years.[1] While many developing country RTAs are today bilateral and formed with more developed economies, the traditional cornerstone of developing countries' insertion into the global trading system have been RTAs formed with groups of other, geographically proximate developing country neighbors. The drive toward regional integration surged with the formation of the Central American Common Market in 1961; several further groups sprung up in Latin America and Africa, followed by Asia, the Middle East, and Oceania.[2] Few developing countries remain outside such schemes. Indeed, Mongolia is the only country without an RTA of any kind. The immediate economic significance of RTAs is notable, as well, as about one-half of global trade is carried out under them.

Some 50 years ago, mainstream development thinkers advocated the formation of RTAs with high barriers to extra-regional trade and active intra-regional industrialization policies. The idea was to exploit regional scale economies by having each member state specialize in the production of distinct goods and parts of the value chain. These experiments yielded lackluster results. Keeping regional producers from accessing cheap, high-quality inputs and shielding industries from international competition, they resulted in inefficiencies and welfare losses. What is more, intra-regional liberalization was often half-hearted at best, with partners retaining tariffs and other barriers against each other.

In contrast, formed against the backdrop of multilateral trade liberalization, today's RTAs are inherently outward-oriented. Although not unchallenged, the contours of these initiatives are promising: they feature deep intra-regional liberalization and tend to go well beyond tariffs to regulate a host of trade-related areas, such as investment, services, and government procurement. Many developing country groupings are also aiming at producing regional public goods conducive to commerce, such as regional transportation networks and common institutions aimed at enhancing the members' adherence to international product standards, and to stability and development, more

1 RTAs here refer to customs unions and free trade agreements.

2 Unless otherwise stated, in the rest of the book 'region' and 'regional' will refer to supra-national groupings.

generally speaking. Developing country RTAs, in short, are today conceived as springboards for their members' global competitiveness *by way of* regionalism.

While regional integration around the developing world promises to be much more dynamic today than during the era of import substitution industrialization, its potential and actual contribution to the members' economic development and global trade remains unclear.[3] Analysts and practitioners alike tend to concur that many developing country RTAs have failed to live up to their liberalizing and welfare-enhancing potential, and that one of the key factors behind this performance is slow and incomplete implementation of the common integration commitments.[4] Indeed, poor implementation is widely viewed as *the* Achilles heel of developing country RTAs. It stems from various sources, such as domestic political sensitivities, lack of technical capacities in government agencies, and the cascading workload of the implementation – and negotiation – of multiple trade agreements simultaneously. Moreover, that today's RTAs cover great many issue areas implies an expansion in the number of players, such as government bureaucrats and interests groups, that have a role and stake in the implementation process. This, in turn, can render the entire implementation process hostage to political imperatives and weakest links, and multiplies the demands of inter-agency coordination.

This is where governance of regional integration comes in. This volume is based upon the notion that 'getting governance right' is a central element for successful RTA implementation. This volume operationalizes governance in the context of RTA implementation with a more narrow and technical term of 'monitoring', which here refers to the *processes* carried out by national and regional public and private sector institutions – rules, roles, and actual physical organizations – to ensure and/or scrutinize the implementation of the regional integration process. Monitoring takes place in the 'monitoring system', or the framework of national and regional public and private sector institutions that are involved and/or employed in monitoring.

In the context of RTAs, the purpose of monitoring is to ensure that the contractual obligations assumed by all parties will be implemented. However, over time, monitoring can also come to include activities aimed at propelling the development of new strategies and initiatives that guide regional integration project in the right directions. And it may imply attending to the intended or unintended effects of regional integration policies and their contribution to overall developmental goals. Monitoring of regional integration thus touches on various policy levels, and can take place in different stages of integration and with various degrees of institutionalization.

Monitoring is crucial for the implementation of RTA commitments both at the national and regional levels. But it can also engender positive externalities beyond the process of implementing the regional agreements.

At the national level, monitoring keeps various bureaucratic players up-to-date on the legal and administrative actions that are to be carried out in order for the country and its partners to live up to their regional commitments. It centralizes and organizes the implementation agendas of the government bureaucracies, and

3 See, for example, Schiff and Winters (2003).

4 See, for instance, World Bank (2005).

helps shame laggards into compliance. As such, it enhances the preparedness of the primary users of RTAs, the private sector players, to plan for the future and use the wider economic space created by integration. Conversely, a well-delineated governmental monitoring system provides a single window for private sector actors to resort to in the face of inadequate or inconsistent implementation, and, as such, greases trouble-shooting in the monitoring system. The trust generated in the process can encourage and enhance public-private sector cooperation. Instilling transparency in the regional integration process, monitoring can also help build domestic political momentum for deepening the integration process.

At the regional level, monitoring helps synchronize the member countries' implementation agendas, and, crucially, provides an institutionalized channel of information-sharing, regular communications, and problem-solving between the members. Disputes can and do arise in any trade relationship; monitoring helps the partners to put out fires early and, as such, avoid the RTA's politicization. More generally, engendering repeated interactions among the partners, monitoring can induce trust and further cooperation between them. Indeed, the prospects for deepening and widening the integration process hinge to a large extent on the success of the monitoring of the initial integration agreements.

In the longer-run and more generally, good RTA monitoring can produce positive feedback effects. It can contribute to good regional governance practices, such as accountability, participation, and effectiveness.[5] The deepening and widening of the regional integration process, one of the outcomes of successful monitoring, can also help consolidate regional governance, as well as facilitate inter-regional interactions, something of particular importance to small, less developed countries. In turn, the further development of the integration process can lead to more diverse and complex forms and processes of monitoring and participation, leading to a richer understanding of it.

Our investigation which is focusing on the monitoring of mainly economic integration schemes should therefore be seen in the wider context of the discussion on the importance of good governance for development. Although a consensus view about the crucial character of the latter nexus seems to have emerged since the 1990s, the discussion and empirical research have mainly concentrated on the contribution of (good) governance to development at the national level. The Governance Group of the World Bank Institute (WBI), for example, defines governance as "the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies, and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them".[6] The assessment of each of these three components of governance requires some form of monitoring. Governance is thus broader than 'government' and refers also to the interactions between the traditional actors and institutions of government, on the

5 See Best (2006).

6 See www.worldbank.org/wbi/governance. See also the Governance Matters reports and other studies of the WBI Governance Group.

one hand, and civil society actors and institutions, on the other (Corkery, 1999:15; Best, 2006:185). In addition, it is stressed that we should move away from a traditional hierarchical view on the interactions between the governmental and non-governmental sectors in the direction of a more horizontal or networking perspective on roles and relations among actors and institutions.

With the notion of governance came also, logically, the notion of 'good governance'. Although different interpretations of the notion exist, the following building blocks or principles of good governance are usually mentioned (Kondo, 2002:7; European Commission, 2001; Best, 2006:185-193; Blagescu and Lloyd, 2006: 215-217):

- *Openness and transparency*: public institutions should provide reliable and relevant information on their activities in a timely manner and actively communicate about their activities and decisions to the citizens;
- *Participation*: public institutions should take the opinions, input and feed-back from citizens and businesses into account when designing and implementing public policies; participation should be in place in all phases of the policy cycle;
- *Accountability:* public authorities should be held responsible for their actions and omissions, not only by those actors and institutions from which they received their mandate (traditional view of accountability) but also from the citizens in general (stakeholder view of accountability).[7]

Our view is that although undeniably the national policy level is still the most important policy level in many policy areas, the developing world is moving in the direction of a world in which governance is taking place and shape at different levels, whereby the regional level is gaining more importance. The discussion on the contribution of good governance to development should therefore take place at these different levels. As far as we can see, apart from the often skeptical opinions on the effectiveness of developing country regional schemes or the technical reports on specific problematic aspects of existing economic integration schemes (customs procedures, implementation of common tariffs, implementation of agreed technical standards, etc…) there is not much systematic work done to evaluate the quality of governance at the regional level so far. At the conceptual level, the recent work by Best (2006) and Blagescu and Lloyd (2006) should be mentioned. The former suggests that, in order to take the specificities of the emerging regional governance level into account, two additional good governance principles should be used.[8]

- *Effectiveness*: the regional institutions should efficiently deliver what is needed on the basis of clear objectives;

7 In the Global Accountability Framework of One World Trust, four dimensions of accountability are considered: transparency, participation, evaluation, and complaints and redress. See: www.oneworldtrust.org.

8 These two additional principles are an adaptation of the European Commission's proposal (2001).

- *Appropriateness*: the regional institutions should take the decisions at the most appropriate level, "they [should] 'match' the real needs of the integration process in a functional perspective, [and they should] satisfy legitimacy requirements in ways which 'fit' the political context" (Best, 2006:191-193).

The purpose of this volume is to take stock of the quality and effectiveness of monitoring of developing country RTAs (or slightly deeper integration schemes built around an RTA) around the world, and to generate policy recommendations for governments and regional organizations to foster their monitoring systems and improve the quality of regional governance. Ranging from South-East Asia to the Southern Cone of South America, from Southern Africa to the Middle East, the case studies also strive to identify appropriate interventions for international donors to support RTA members and regional organizations to overcome constraints to effective monitoring. The global and interdisciplinary team of authors combines senior expertise with young talent, and academic rigor with hands-on experience in the different regions.

In each chapter the author(s) were asked to answer the following questions for the most relevant regional integration initiatives in the respective regions:

- Which are the actors involved (regional organizations, international/multilateral organizations, national authorities, academics, civil society, …), instruments used (review processes, indicators, questionnaires, …), and outputs generated (internal circulars, external reports, yearbooks, …) in the processes and actions that have been taken for monitoring the regional integration process in the respective region?
- Which are the specific institutional and/or legal structures and instruments built-in in the agreements (or institutions) for monitoring purposes?
- Which are the underlying conceptual and methodological frameworks, if any?
- How can the monitoring processes be evaluated in terms of their policy relevance and effectiveness, and in terms of their contribution to (good) regional governance and the dynamics of the regional integration process?
- Are there specific technical issues (problems and solutions) that are of relevance to other regions?
- What are the factors underlying the lack or deficiencies in monitoring?
- Which are the monitoring needs that can be identified for the future? What should be on the research and policy agenda and which are the conditions and major obstacles for implementing the agenda?

Each contributor had the freedom, however, to attach appropriate weights to the different questions and choose appropriate methods to answer the research questions. As far as the conceptual framework is concerned, the possibility was provided to present 'regional' interpretations of the monitoring and (good) governance concepts. The resulting variation in length and contents of the different chapters reflects the different realities in the different regions and the different disciplinary (and cultural) backgrounds of the authors. The editors opted for not imposing too rigid a template

upon the different chapters in order to preserve the richness of the collection of chapters.

While primarily focusing on developing country RTAs, we have also included two case studies focused on monitoring in developed country regional agreements – European Union's monitoring of its intra-regional integration and US monitoring of its various RTAs signed over the past few years. Although we are fully aware of the specificities and social construction of the different regional schemes around the world and of the dangers of comparison and exporting models, we think that it may be possible to extract 'lessons' from these experiences, both from a political economy and from a technical perspective. The EU case, which is the most far-reaching integration scheme in the world, may be relevant for relatively deep forms of regional integration that involve the building of supra-national regional institutions, or for processes that might evolve in that direction. The cases of US and Mexico, meanwhile, may help guide developing countries in monitoring their rapidly proliferating portfolios of intra- and extra-regional new generation free trade agreements (FTAs).

This volume is organized by the main world regions. The regions and their respective regional integration processes that are covered in this book are the following: in the 'Latin America and Caribbean' region the Andean sub-region (Fernando Prada and Alvaro Espinoza, Chapter 2), the Caribbean (Normal Girvan, Chapter 3), Central America (Kati Suominen, Chapter 4), and the Southern Cone (Ricardo Rozemberg and Carlos Bozzalla, Chapter 5) are included. In the 'Asia and the Pacific' region chapters on South-East Asia (Cuong Nguyen and Clay Wescott, Chapter 6), the Pacific Islands (William Sutherland, Chapter 7) and South Asia (Rodrigo Tavares, Chapter 8) are included. The part on 'Africa and the Middle East' counts contributions on the Gulf region (Bernard Savage, Chapter 9), the Maghreb (Thouka Al-Khalidi, Chapter 10), and Eastern and Southern Africa (Dirk Hansohm and Jonathan Adongo, Chapter 11). Chapters 12 and 13 deal with Europe (mainly the European Union) and North America (monitoring of the various RTAs signed over the past few years), respectively.

In Chapter 14 we provide a summary of the findings for each chapter and we extract the more general cross-chapter conclusions of this project.

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PART 1
Latin America and the Caribbean

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Chapter 2

Monitoring Regional Integration and Cooperation in the Andean Region

Fernando Prada and Alvaro Espinoza

Introduction

This chapter addresses the question of how to adequately monitor integration and cooperation in the Andean Region. Monitoring regional integration and cooperation has become more complex as more elements have been included to the concept of regional integration. The 'new regionalism' approach defines regional integration as a multidimensional process that goes beyond trade and economic integration and entails other dimensions such as politics, diplomacy, security, culture and policy harmonization (Hettne, Inotai and Sunkel 1999). In fact, regional agreements in the Andean Region are progressively evolving towards more interdependent and integral schemes, whose evolution and implementation becomes ever more difficult to monitor. Furthermore, these schemes coexist with other traditional trade agreements, configuring an interesting ground to analyze the institutional framework for monitoring regional integration.

Monitoring is a problem of collective action, and it has been mainly understood as a tool to enhance compliance with rules and common agreements among individuals within a group. However, monitoring activities are only a piece of a compliance system, and need preceding and subsequent conditions to be effective. For monitoring to work, it is necessary that the rules and agreements are clearly understood by all, and that the individuals subject to such rules and agreements have the capacity to comply with them. Furthermore, when our individuals are states and our rules are regional integration and cooperation agreements, monitoring is not just an enforcement tool, but also part of a political process where domestic and international politics influence the outcomes. This set of problems, known as the 'management approach' in the literature on compliance with international regulations, concentrates more on problem-solving strategies for compliance, rule interpretation and transparency (Talberg 2002).[1]

1 This approach also considers that complexity and scope of international arrangements, as well as the management capacity limitations, explain a great portion of non-compliance. See also Young (1992), Levy, Keohane, and Haas (1993) and Jacobson and Brown Weiss (1998). This literature is mostly based on empirical research – for example, on monitoring international environmental agreements.

On the other hand, once monitoring activities expose violators, there have to be some mechanisms to determine and enforce sanctions. This set of problems, known as the 'enforcement approach' in the literature on compliance with international regulations, refers to the traditional theoretical developments around monitoring, which rely on concepts such as cooperative games, transaction costs and incentives to comply.[2] Starting from Olson (1965), the theory on collective action suggests that the costs of monitoring and enforcement are typically related to the group size. Hechter (1984, 1987) suggests that monitoring and formal controls comprise three types of costs: metering costs (associated to the development of indicators and information systems); sanction costs (to enforce agreements); and allocation costs (the ability to distribute sanction and reward compliance).

Monitoring integration and cooperation in the Andean Region should take into account not only the actions of heterogeneous countries in size, economic performance and expectations. It is also important to consider the contribution of multiple stakeholders' actions and their interests within these countries. These parties (countries and internal stakeholders) can put into practice – or not – the integration and cooperation agreements.[3]

In sum, monitoring international cooperation agreements in the Andean region comprises all mechanisms and procedures to ensure that the contractual provisions of the agreement are complied with. Nevertheless, the chapter argues that the complexity and variety of integration fields included in the agreements could be enforced only through a pragmatic combination of mechanisms considered in the enforcement approach and the management approach.

Regional Integration and Cooperation (RI/C) Agreements in the Andean Region

The regional integration and cooperation agreements that have been implemented or that are presently being implemented in the Andean Region can be classified based on their complexity and scope as follows:

- Trade agreements mostly involving quotas or tariffs (Type I). This is the case of the 'Group of Three' – which includes Colombia and Venezuela of the Andean Region plus Mexico and Panama since 2005 – and the implementation of the Mercosur-Andean Community trade agreement;
- 'Enhanced' trade agreements (Type II). This is the case of the bilateral agreements between Peru and Colombia with the United States. These agreements include an agenda for trade liberalization but also specific sector

2 See also Axelrod (1984), Axelrod and Keohane (1986) and Yarbrough and Yarbrough (1992).

3 Venezuela has withdrawn from both international agreements, the Group of Three and the Andean Community of Nations, in order to join the Mercosur free trade pact as a permanent member (July 4th 2006). Nevertheless, we are still considering this country in the analysis since these treaties contain exit clauses that specify timeframes and obligations even after Venezuela formalizes its withdrawal. Current members of the Andean Community of Nations are: Bolivia, Colombia, Ecuador and Peru.

policy accords such as intellectual property and investment, public sector procurement, and labor standards, among others;

- Comprehensive economic and political integration schemes (Type III). This is the case of the Andean Community of Nations (CAN), including the Andean Integration System, which involves a wide range of sectors, policy harmonization guidelines and, most importantly, the establishment of supra-national institutions (Andean Parliament, Latin America Fund of Reserves, and the Andean Development Corporation, among others).

There are different degrees of complexity and scope of the Andean region agreements regarding outcomes, responsibilities, sequences, and information mechanisms. It is possible to group these elements in four integration fields: (i) *trade instruments*, including the establishment of tariffs, quotas, custom unions plus homogeneous trade regulations and free mobility of factors; (ii) *sector policy harmonization*, such as economic policies; (iii) *sector cooperation schemes*, referred to common international tasks such as the provision of regional public goods (border controls, anti-drug policies, money laundering, among others); and (iv) *political commitments*, such as the protection of human rights or the promotion of democracy. As a rule, the more complex the integration and cooperation agreement, the more integration fields it addresses.

The differences in complexity and scope have an impact on monitoring costs and the kind of institutional arrangements available to monitor an agreement. Monitoring integration and cooperation agreements in the Andean region has been made mainly through: (i) built-in institutions and mechanisms composed by country members' bureaucracy of monitoring activities of a specific field of integration; it can be self-monitoring, when an agency that is in charge of implementation has also the monitoring function or external-monitoring, when the agreement establishes an institution different to those signing members; and (ii) third-party institutions that monitor specific parts of the agreements according to their own interests.

Each of these mechanisms has a multiplicity of components and faces different challenges, such as the availability of indicators, the specificity of monitoring mandates, and the administrative capacities of the monitoring bodies. However, the effectiveness of such monitoring mechanisms *as a tool to enhance compliance* is also related to the instruments available for improving interpretation of rules and transparency, on the one hand, and the deterrence and enforcement mechanisms on the other.

Table 2.1 summarizes and contrasts some of these factors, allowing us to draw a preliminary hypothesis: the more specific the integration field (for example, trade instruments as opposed to political commitments), the better defined its monitoring system. Ideally, when the outcomes, responsibilities, sequences and information mechanisms are *clearly defined* in the regional agreement (i.e. clear property rights over the benefits or losses, existence of mechanisms and institutions to enforce compliance and resolve conflicts, and adequate information disclosure mechanisms and availability of data), each of the parties involved have incentives to monitor

Table 2.1 Regional Integration and Cooperation Agreements in the Andean Region and their Monitoring Instruments

Regional integration and cooperation agreements		Integration field	Binding	Monitoring instruments			Instruments to enforce compliance
				Built-in monitoring	Availability of indicators	Third party monitoring	
Type I	**Group of Three**	Trade instruments	Yes	Yes (S)	Yes	Yes	Yes
		Sector policy harmonization	No	Yes (S)	No	No	No
	CAN-Mercosur	Trade instruments	Yes	Yes (S)	Yes	Yes	Yes
Type II	**Bilateral free trade agreements**	Trade instruments	Yes	Yes (S)	Yes	Yes	Yes
		Sector policy harmonization *	Yes	Yes (S)	--	--	--
Type III	**CAN**	Trade instruments **	Yes	Yes (S,O)	Yes	Yes	Yes
		Sector policy harmonization	Yes/No	Yes (S,O)	Yes	Yes	No
		Sector cooperation	Yes	Yes (S)	No	Yes	No
		Political commitments	No	No	No	No	No

* The working groups and Committees have not yet been established. ** In this case, the goal is a common market.

Integration field

- *Trade instruments:* Tariffs and quotas agreements, custom union, homogeneous trade regulations and free mobility of factors.
- *Sector policy:* Harmonization of economic and political policies (Macroeconomic convergence, common agrarian policy, social policy, among others).
- *Sector cooperation schemes:* Provisions of regional public goods (Arms control, borders development, anti-drugs policy, biodiversity, disaster prevention and management).
- *Political commitments:* Human rights, democracy (recently incorporated to the CAN protocol), security and peace.

Criteria

- *Binding:* The agreements correspond to formal decision or are political declarations without formal binding.
- *Monitoring instruments:* Monitoring of implementation process, performance, sequences, and responsibilities.
  + *Built-in monitoring*, when the agreement establishes an institution in charge of monitoring activities of the specific filed of integration. It can be *self-monitoring (S),* when an agency that is in charge of design and implementation has also the monitoring function; or ***e****xternal-monitoring (O)* when the agreement establishes an institution different to those signing members.
  + *Availability of indicators*, existence of quantifiable performance and follow up indicators.
  + *Third party monitoring*, by third parties outside the integration scheme and their monitoring activities are not included in the agreement (e.g. civil society monitoring.
- *Instruments to enforce compliance*, such as courts, respond to legal action filed for non-compliance.

them, and they will tend to focus on their specific area of interest and defend their interests and benefits in the case of conflict.[4]

Description of the Regional Integration and Cooperation Agreements

a) The Group of Three (G-3)

Objectives and structure Colombia, Mexico and Venezuela signed the Group of Three economic treaty on June 13th 1994, which came into effect on January 1st, 1995. Panama joined the G-3 in 2006, just before Venezuela announced its withdrawal – which it has not formalized yet. The Group of Three agreement calls for the total elimination of tariffs over a 10-year period with some exceptions in the textile, petrochemical and agricultural sectors.[5] In addition, the agreement calls for sector policy harmonization in topics such as a common framework for intellectual property rights, provision of services, government procurement, and mutual protection of investment.

The G-3 governing structure comprises the *Administrative Commission* (AC), which is supported by a Pro-Tempore Secretary (STP in Spanish); and several *high-level groups* (GAN in Spanish) to discuss specific policy harmonization issues. The AC, according to the agreement's Chapter 20, is composed by the countries' trade ministers and its functions include the follow up of agreements, outcome evaluation, and participation in conflict resolution. In addition, it monitors and evaluates the outcomes of the high-level groups. The STP is the management body in charge of coordinating and executing the mandates of the Group, and each country presides it every two years. The GAN, which recommends policy harmonization measures for different aspects of the agreement, is composed by public officers and, in some cases, private sector representatives. These groups are: Trade, Science and technology, Energy, Telecommunications, Transport, Finance, Culture, Environment, Education, Tourism, Fishing and aquiculture, Natural disaster prevention, and Cooperation with Central America and the Caribbean. The G-3 has also established some technical working groups regarding rules of origin, custom procedures, temporary entry, and professional services.

Monitoring mechanisms In general, there are three types of processes that require monitoring. First, the process of tariff elimination; second, the implementation of agreements reached in the high-level and technical groups; and third, the monitoring

4 The case studies will show that it is common to find third-party institutions monitoring trade mechanism agreements (for example, chambers of commerce monitoring the implementation of tariff agreements), while monitoring policy harmonization agreements is usually made through self-monitoring mechanisms. Moreover, trade agreements have usually less room for rule interpretation than political commitments and therefore, it is less probable to find well-established monitoring bodies for the latter.

5 These restrictions were clearly defined in the treaty, as in the case of the agricultural sector on Chapter 5 that calls for obligations only between Mexico and Venezuela – most of the bilateral trade between Colombia and Venezuela was still to be governed by CAN agreements.

of unfair trade practices. The process of tariff elimination is clearly defined in the G-3 agreement – a gradual and automatic elimination at a rate of at least 10 per cent per year during a ten-year span.[6] The G-3 also anticipates mechanisms of conflict resolution to enforce the agreements, which can be initiated upon request of the country members.[7] Regarding the implementation of GAN agreements, the decisions reached by these groups are not binding, and its recommendations on policy harmonization measures usually require the modification of national normative in order to be implemented.

In both cases, self monitoring mechanisms are the most important. The G-3 Presidents meet periodically to evaluate and promote solutions and corrections. Similarly, these meetings take place at the ministerial and vice-ministerial level.[8] Nevertheless, there is limited public information about the outcomes of these meetings and there is no official web site – because of the uncertain situation of the G-3 Agreement after the Venezuelan attempt of withdrawal.[9] Regarding the GAN, the lack of information impedes any attempt at monitoring.

On the other hand, monitoring unfair trade practices (export subsidies and dumping) has standard procedures (Chapter 9). A country can apply quotas or request compensations after presenting proofs of misconduct – actions that must be channeled through the country's representatives. In this context, the importer/exporters usually invest significant resources to monitor other partner's obligations (third-party monitoring).

Monitoring in context The G-3 agreement is mainly a trade and economic integration agreement. Multilateral institutions such as the Inter-American Development Bank (IADB), the Latin American Integration Association (LAIA), the Economic System of Latin America (SELA in Spanish) and the Economic Commission for Latin America and the Caribbean (ECLAC), among others, provide periodic monitoring of trade trends between members and in comparison with other similar trade agreements in the region, using national data. Nevertheless, it is difficult to asses the relative

6 Some restrictions were negotiated later. The three countries postponed in 2004 the liberalization of some sectors – due in 2005 – to 2011. It was argued that asymmetries exist because Mexico's higher degree of trade liberalization due to its Free Trade Agreement with the US, especially in the automobile sector (DPA-German News Agency 8/29/2004 in mensual.prensa.com/mensual/contenido/2004/08/29/hoy/negocios/18678.html).

7 See Chapter 19 of the Free Trade Agreement. In sum, the procedure is similar compared with other trade related issues which were signed under the basic procedures established by GATT. In case of a controversy, the first instance is a round of consultations upon request of any party; the second instance requires the participation of the Administrative Commission; and finally an Arbitral Tribunal could be set up.

8 Until 2001, 16 presidential and 37 ministerial summits took place (www.sre.gob.mx/dgomra/gtres/g3_1.htm).

9 To withdraw, the G-3 members should communicate its decision to the Latin American Integration Association Secretariat, and it will enter into force after 180 days – during which all previous obligations are still valid. This decision does not invalidate other member's obligations.

contribution of the G-3 Agreement since most of the trade between Colombia and Venezuela is regulated under the CAN agreement.[10]

The main challenge for monitoring purposes is the lack of information and transparency. There is no public information about the decisions and resolutions of the instances which difficult any attempt to monitor the results. This situation is especially severe in the case of the high-level groups and their attempt to regulate aspects beyond trade. Moreover, there is a degree of uncertainty about the future of the agreement, even though Panama has accepted to join the G-3.

b) Andean Community of Nations (CAN) – Mercosur Agreements

Objectives and structure Two Economic Complementation Agreement (ECA) have been signed as part of the negotiations to conform a free trade area between Mercosur and CAN[11]: ECA N°58 (08/05/03) regulates trade liberalization between Peru and Mercosur and ECA N°59 (10/18/04) between Colombia, Ecuador and Venezuela and Mercosur.[12] The former agreement is not in force because the notarization in LAIA is still pending.[13] In the case of Colombia and Ecuador the agreement has been enacted and Venezuela is now a Mercosur permanent member. In all other cases, the signing countries are just associate members.

The governing structure is similar to the G-3 regarding trade mechanisms. With minor differences, the agreements established an Administrative Commission (AC) in charge of monitoring and evaluate the agreements' objectives – tariff elimination, regulation of trade practices and their respective schedules and conflict resolution procedures.

Monitoring mechanisms These agreements have created self-monitoring mechanisms managed through AC's annual meetings, attended by the representatives of every signing country. Regarding the availability of indicators and information, the signing countries have negotiated specific schedules of tariff elimination which can be easily tracked by all parties through the information gateways in the CAN and Mercosur websites.[14] Moreover, these websites also contain information about trade evolution

10 Chapters 3 (National treatment and access to good markets), 4 (Automobile sector), 5 (section A regarding the agricultural sector), 6 (rules of origin), 8 (Safeguards), 9 (Unfair trade practices), 16 (public sector enterprises) and 18 (Intellectual property).

11 These agreements are also considered a step towards the creation of the South American Community of Nations, which has been agreed during the III South American Summit in Cuzco, Peru (12/08/04).

12 ECA N°36 (12/17/96) is in force since 1997 and regulates trade liberalization between Bolivia and Mercosur.

13 The Peruvian ministry of agriculture declared that 'there is no rush to implement the agreement', suggesting the necessity to renegotiate the agreement regarding some agro-industrial products (*Gestión* 11/25/05, p. 20).

14 See for example the CAN-MERCOSUR current negotiations available in the Andean Community of Nations website (http://www.comunidadandina.org/exterior/can_mercosur.htm).

between signatory members. In case of controversies, the mechanisms of conflict resolution and procedures are also clearly established in the agreements.[15]

Monitoring in context Monitoring international agreements whose main objective relates to trade mechanisms such as tariff elimination has the advantage of the availability of information and indicators that can be easily tracked. Moreover, the CAN and Mercosur websites include all information about negotiations, conflict resolution decisions and evolution of trade patterns. In this case, the main challenge for monitoring purposes is the systematization of this information in order to facilitate the access to a wider audience.

c) Bilateral Free Trade Agreements: Peru, Colombia and the United States

Objectives and structure The Andean Countries and the United States started negotiations of a Trade Promotion Agreement (TPA) in the second half of 2004.[16] Initially Peru, Colombia, Ecuador and Bolivia – this latter as an observer – were invited to negotiate as a group, but only the first two have ended negotiations.[17] Both TPAs will extend and make permanent the benefits that the US unilaterally and temporarily granted to the Andean Countries under the Andean Trade Promotion and Drug Eradication Act (ATPDEA), consisting on preferential tariff treatment that will expire on December 31st, 2006.[18]

Each TPA has a simple and similar governance structure, defined in Chapter XX of both documents.[19] First, a *Free Trade Commission* (FTC) composed by each country's trade ministers and a US Trade Representative, plus an appointed coordinator; and second, *working groups* whose responsibilities and mandates will be defined by the FTC representatives.[20] In addition, the parties establish a *Committee on Trade Capacity Building* (CTCB) whose primary mandate relates to the implementation

15 See Chapter IX in the ECA N°58 and ECA N°59.

16 The United States, under its Trade Promotion Authority Track, can negotiate bilateral trade agreements called Trade Promotion Agreements (TPA). Unlike the Free Trade Agreements (FTA), which constitutes a Treaty under the American Legislation, a TPA does not permit any emendation by signing countries after it has been negotiated. Therefore, it is more flexible and requires fewer steps to be approved ('fast-track'). Colombia and Peru will be the first countries in the region to negotiate a TPA, unlike Chile, Mexico, Panama and the Central American countries which negotiated a FTA.

17 To come into force, a TPA must be ratified by both Congresses. Peruvian TPA was signed on April 12th, 2006 and the Peruvian Congress ratified it on June 28th, 2006. In the case of the Colombian TPA, it was signed on February 27th, 2006 and the Colombian Congress has not approved it yet. In both cases, US Congress ratification is still pending.

18 See http://www.ustr.gov/Document_Library/Fact_Sheets/2002/New_Andean_Trade_Benefts.html.

19 See http://www.ustr.gov/Trade_Agreements/Bilateral/Peru_TPA/Final_Texts/Section_Index.html (Peru) and http://www.ustr.gov/Trade_Agreements/Bilateral/Colombia_FTA/Draft_Text/Section_Index.html (Colombia).

20 The only working groups suggested in the ATP refer to those that will evaluate the impact of the TPA over small and medium-sized business (Article 20.1.5).

of Chapter Five 'Customs Administration and Trade Facilitation'. The CTBC might also establish ad-hoc working groups.

Monitoring mechanisms Only self-monitoring mechanisms have been considered under the agreement as built-in monitoring mechanisms. The FTC – which has to meet at least once a year – has the mandate to supervise the implementation of the whole Agreement, but also oversees the activities of all committees, councils and working groups that might be created, including the CTCB and the working groups that it might establish.[21] Moreover, the FTC has also authority to accelerate the tariff elimination schedule, modify the rules of origin for textiles and other specific items and the rules of government procurement, and has also the power to issue interpretations of any aspect of the Agreement.[22] Any modification must be consensual among FTC members and could require modifications of the countries' legislation. Therefore, parties have committed to inform of any modification that might affect the terms of the Agreement, including legislation, procedures and regulation.[23]

Although these TPAs are still not in force, the transparency mechanisms implemented during the negotiation process constitute a good experience on promoting third-party monitoring. For example, parties provided on-line information about negotiations, including background documents and summaries of related newspaper, academic institutions and think-tanks articles.[24] Moreover, Colombia and Peru launched several mechanisms of consultation with interest groups, inviting their representatives to participate as observers during the negotiations. Other mechanisms of consultation were launched for civil society organizations and citizens (interviews, consultations on-line, and polls, among others).

Regarding mechanisms to enforce compliance, Chapter 21 provides a three-tier mechanism of dispute settlement: First, cooperation and consultation process; second, the intervention of the FTC; and third, the request of an Arbitral Panel. Sanctions could include compensations or suspension of benefits. Nevertheless, it is still not clear how these mechanisms would be applied regarding policy harmonization matters.

Monitoring in context Two factors have contributed to the operation of monitoring mechanisms during the negotiation process – which are expected to be also available during the implementation stage of the Agreements. First, the relative importance of the United States on Andean Countries total exports and the different degree of competitiveness between them. Second, the 'enhanced' nature of these agreements that include agreements beyond trade mechanisms, clearly affecting other spheres

21 In order to accomplish these tasks, each country has the obligation to devote financial and human resources to establish these working groups, which directly report to the FTC.

22 Article 20.1.3.b and 20.1.3.c.

23 Chapter 19 'Transparency'.

24 See http://www.tlcperu-eeuu.gob.pe (Peru) and http://www.tlc.gov.co (Colombia). See footnote 19 for information provided by the American government.

of integration.[25] These two factors have promoted the expansion of third-party monitoring, something that have not been experienced in other regional agreements such as the G-3 or CAN-Mercosur agreements.

d) Andean Community of Nations (CAN)

Objectives and structure The Andean Community of Nations has its origins in the Cartagena Agreement signed in 1969 by five South American countries, which established the goal of creating a customs union in a period of ten years. However, the inward looking conception of integration implicit in the original agreement made little progress over the following two decades. It was not until the mid-90s that such a scheme was substituted by an open regionalism approach and a new institutional structure allowed the integration process to move forward and establish a partial custom union. The new institutional framework created the Andean Community (made up by Peru, Bolivia, Ecuador, Colombia and Venezuela and the bodies and institutions comprising the Andean Integration System – AIS)[26] and extended the scope of the integration process beyond de and economic areas.

The key goals of the CAN are: i) to promote the balanced and harmonious development of the member countries under equitable conditions; ii) to boost their growth through integration and economic and social cooperation; iii) to enhance participation in the regional integration process with a view to the progressive formation of a Latin American common market; and iii) to strive for a steady improvement in the standard of living of their inhabitants.[27] In other words, these objectives set the Andean Community's priorities as completing the customs union scheme and moving forward to form a common market[28] and beyond, towards a deeper economic and political integration. This means that the process of integration among country members includes not only trade mechanisms, policy harmonization and sector cooperation but also political commitments regarding democracy, security, human rights, social issues and the like.

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25 For example, a Peruvian Trade and Tourism Ministry report has estimated that Peru should modify or create 37 norms to comply with their ATP obligations. These include the modification of the Custom Law, Origin Rules and Intellectual Property; and the creation of new legislation for financial services regarding bank regulation, for the telecommunication sector and also intellectual property. Moreover, Peru should ratify five international agreements such as the Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure, the Information Technologies Agreement (ITA) and the Trademark Law Agreement, among others (Gestion 06/30/06, pp. 12-13).

26 The AIS is formed by the Andean Presidential Council, the Andean Council of Foreign Ministers, the Commission of the Andean Community, the Court of Justice of the Andean Community, the General Secretariat, the Andean Parliament, the Andean Development Corporation (CAF), the Latin American Reserve Fund (FLAR), the Andean Business Advisory Council, the Andean Labor Advisory Council, the Simon Bolivar Andean University, and Social Conventions.

27 http://www.comunidadandina.org/ingles/who/who.htm.

28 A common market is understood here as a custom union with common policies on product regulation, and freedom of movement of all the factors of production.

The expansion of the CAN objectives has added a great deal of complexity to the integration process, hence the establishment of the AIS. However, the decision-making process within the AIS remains relatively straightforward: The Presidential Council issues guidelines about different spheres of Andean integration, 'which are then implemented by the bodies and institutions of the System in accordance with the spheres of responsibility and mechanisms established in their respective treaties and instruments'.[29] The Foreign Ministers Council and the Commission constitute the executive arm of the AIS, and regulate the process through binding by-laws, called Decisions. The Foreign Ministers Council also signs binding treaties and make non-binding declarations. The General Secretariat oversees the whole integration process by preparing Resolutions regarding specific issues, by drawing up Draft Decisions, and by providing technical support to the sector committees created (by Decisions) to implement specific agreements on policy or programs. Finally, there are three Conventions that regulate the communitarian cooperation in the areas of education, labor and health.

Monitoring mechanisms The CAN has several mechanisms to monitor different facets of the Andean integration process. These entities have, at least in their formal mandates, well-defined procedures to channel their concerns and conclusions to the highest decision-making communitarian bodies.

- *Built-in ad-hoc monitoring bodies.* A first group of built-in mechanisms is formed by ad-hoc bodies created with explicit and exclusive monitoring functions. However, the nature of these bodies varies widely from issue to issue. Thus, there are: a technical multilateral entity called the Permanent Technical Group (PTG) that monitors the process of macroeconomic convergence, a network of national tripartite committees established to monitor the social development agenda, a special unit of the General Secretariat in charge of overseeing the communitarian commitments on security and peace, and a government official designated by each country member to oversee the common foreign policy, including extra-regional affairs. Among these entities, only the PTG30 has well established procedures, namely the assessment of compliance with the Annual Convergence Plans including inflationary, fiscal and public debt goals, and the preparation of a Monitoring Report including opinions from private sector representatives.
- *Built-in self-monitoring*. Unlike the ad-hoc entities, the rest of built-in monitoring within the CAN is carried out by the same institutions that are in charge of designing and implementing each of the policies, projects or commitments agreed by country members. Thus, monitoring activities on motor vehicle policy, disaster relief, biodiversity, borders' development and energy services are just one of the functions of the respective sector committees

29 http://www.comunidadandina.org/INGLES/sai/estructura_1.html.

30 The GTP is composed by a delegate from each finance ministry, central bank and economic planning agency of the region, plus a delegate from the General Secretariat, the FLAR and the CAF.

created by CAN Decisions.[31] Such committees are usually called to report annually before the Andean Council of Foreign Affairs Ministers (ACFAM), which in turn directly oversees a few communitarian agreements, as is the case for arms control, human rights, and anti-drugs strategy. It is worth to note that in all the fields mentioned here, the General Secretariat provides technical backing for the groups, committees or individuals designated to monitor and implement common policies, projects and commitments, usually in the form of a technical secretariat.

- *Built-in advisory bodies*. Different sources of monitoring within the CAN are the three advisory bodies that are part of the Andean Integration System: the Andean Parliament (AP), the Andean Business Advisory Council, and the Andean Labor Advisory Council. The Andean Parliament has among its functions 'to inspect the progress of the integration process and the accomplishment of its objectives'. In order to do so, the AP has established a mechanism called the Andean Observatory for Integration (AOI) in which members of the Parliament join government officials at the vice-ministerial level to assess the progress made in different areas of the integration process. The conclusions of such hearings are published in a report after each meeting of the AOI. Similarly, the business and labor advisory councils are entitled to review programs and activities of the integration process that are of interest to the business community or the trade unions, respectively. In order to do so, these councils issue official opinions directly to the ACFAC assessing the progress of different communitarian initiatives.
- *Third-party monitoring agents*. There is a vast array of independent institutions that ranges from universities to multilateral organizations or local business associations, which produce relevant opinions and assessment tools. Such monitoring outputs, which usually take the form of studies, conferences and the like, do not have formal channels of communication with the CAN governing bodies but can, nevertheless, be very influential within each country member.

Among the institutions that fit this category are the CAF and FLAR, both part of the AIS but autonomous in nature. The CAF produces a number of reports, articles, studies and working papers focused on the evolution and prospects for economic and institutional development of the region, while the FLAR focuses on macroeconomic monitoring. Outside the AIS some multilateral institutions, like LAIA, the IADB and ECLAC also produce reports, studies and conferences on the most varied issues related to the integration efforts in Latin America. Similarly, many universities and academic institutions devote significant resources to research the CAN processes.[32] Finally, many civil society organizations, especially those related to the private

31 These committees are usually composed by sector authorities from each country member.

32 See for example, the Simon Bolivar Andean University and its Department of Integration Affairs, and the Andean Observatory initiative of the Universidad Javeriana of Bogotá.

sector, such as local chambers of commerce, closely follow the developments in the region.

Monitoring in the CAN is reinforced by the existence of a key institution to enforce compliance, the Andean Community Court of Justice, which does so mainly through two spheres of its jurisdiction: 'Action to declare noncompliance' and 'action due to omission or inactivity' (see Box 2.1).

Box 2.1 The Andean Community Court of Justice

The 'action to declare noncompliance' is a binding ruling imposed to a member country who has failed repeatedly to comply with its obligations under the Decisions, Resolutions or Conventions comprising the legal system of the Andean Community. Such a ruling can result in the partial or total suspension of the communitarian benefits of the member country at fault or other punitive measures such as compensation for damages. An 'action due to omission or inactivity' can be issued when the Andean Council of Foreign Ministers, the Andean Community Commission or the General Secretariat 'fail to carrying out an activity for which it is expressly responsible under the legal system of the Andean Community. The ruling should stipulate the form, way and period in which the body in question shall fulfill its obligation' (Treaty creating the Court of Justice of the Andean Community, Lima 03/10/96).

Two features of the Court are of particular relevance for the monitoring tasks. First, complaints can be filed by private individuals and companies, as well as by member countries. The inclusion of private agents in the Andean court system greatly expands the number and variety of stakeholders. Second, the Court has the authority to interpret communitarian norms. The clarification of rules allows stakeholders to comply with them in the first place. These two features ought to improve the scope and depth of monitoring activities in the CAN.

Monitoring in Context This quick and general description of CAN's existing monitoring mechanisms should be understood within a wider institutional and economic framework. A regional project as CAN has to deal with the weakness of the state apparatuses and institutions of its member states countries in permanent social, political and economic turmoil, where long-term national policies are a rarity, and the civil service often lacks the managerial capacities to design and implement policies. Each country is trying to find answers to its own problems at the domestic level, dealing not only with managerial limitations but even trying to find its own political grand vision.

It is not an accident that CAN's 'golden age' was during the 1990s, when stability and a minimum policy consensus permeated the whole region. However, today it is difficult to talk about a shared vision for the economic and political future of CAN. Moreover, the more differing are the political visions of each member country, the more regional cooperation and harmonization becomes a lower priority in national

projects. The decision of President Chavez of Venezuela to leave CAN and to join MERCOSUR epitomizes such dilemmas.[33]

Even though such administrative and political weaknesses are the origin of many implementation problems, the CAN as an institution has managed to establish a rather coherent system of monitoring and compliance that propelled the integration process during the past decade. This system relies in two pillars: transparency and data availability, and bureaucratic management. Unfortunately, the monitoring and compliance system works properly regarding trade issues, whereas control and enforcement in other integration fields (sector cooperation, policy harmonization and political commitments) has been clearly lagging behind. For example, even though the Andean Community Court of Justice's jurisdiction includes all of CAN's Decisions, Resolutions, conventions and treaties, the overwhelming majority of the Court's noncompliance rulings and rule interpretation actions deal exclusively with trade issues (tariffs, taxes, phito-sanitary standards and the like), which speaks for the difficulties this mechanism faces regarding non-commercial issues.[34]

Towards a Framework for Monitoring RI/C in the Andean Region

Factors underlying the lack or deficiencies in monitoring Table 2.1 identifies four elements to analyze the monitoring of regional integration and cooperation agreements in the Andean Region: the integration field, the existence of binding commitments, the type of monitoring instruments, and the availability of instruments to enforce compliance.

The first element determines the complexity of the monitoring tasks. There are marked differences in the monitoring requirements, conditions and tools for different integration fields, depending on two main areas: availability of information (quantifiable indicators, transparency, systematization of data) and specificity of the goals and implementation sequence of the integration field. The more information available, the easier to monitor the activities, and the more likely that the monitoring process might yield results and compliance – which in turn becomes an incentive for enhancing monitoring schemes and promote third-party monitoring.

In this sense, it is clear that trade mechanisms – that in general are well defined in the Agreements and for which indicators are relatively easy to build – tend to be monitored rather satisfactorily and hence to be enforceable. Nevertheless, the lack of transparency of the G-3 and insufficient data systematization in the CAN-Mercosur agreements poses major challenges for monitoring even in this integration field. In contrast, political commitments, an integration field enacted only by the CAN,

33 In order to withdraw from the CAN, a country member must announce its decision to the Commission of the Andean Community – Venezuela formalized its decision on April 22nd, 2006. The Article 113 of the Cartagena Agreement establishes that this country will lose all its benefits and obligations, but requires to abide to the current regional trade liberalization program for at least five more years. A task force shall determine the mechanisms that would make that possible.

34 Between 2000 and 2005, all the 'actions to declare noncompliance' issued by the Court referred to trade issues, as did over 95 per cent of the Court's 'actions due to omission or inactivity' and rule interpretations.

is relatively difficult to monitor. Such statements tend to be purposefully blurry and loosely defined, and its outcomes are very hard to quantify. However, there are arguably other institutions, both national and international, that have done a good job in monitoring subjects such as human rights and democracy.

Sector policy harmonization and sector cooperation, which are becoming more common as regional integration agreements move beyond trade mechanisms, poses the major challenges for monitoring and enforcement purposes. Since the agreements usually involve changes in domestic legislation, regulation and procedures (intellectual property, rules of origin, or macroeconomic framework, among others), the outcomes are less tangible and hence less enforceable. Moreover, the implementation of those accords depends on the internal political process. Here, the experience of CAN and the dilation of implementation of agreements such as the common external tariffs is a good example. The Peruvian and Colombian ATPs provide an interesting approach: Commitments on these integration fields are integral parts of the agreements.

A second element is the existence of binding commitments, which facilitate the process of enforcement. In general, trade commitments are mandatory in all RI/C agreements though this is not true in the case of other integration fields – except in the case of the ATPs and in some cases in the CAN agreement regarding common intellectual property regulation and the Conventions regulate the communitarian cooperation in education, labor and health. Still, progress on such areas depends on the availability and use of enforcement mechanisms. For example, the Andean Court of Justice has not frequently ruled on these issues.

The third element relates to the type of monitoring instruments. Built-in mechanisms have usually taken the form of self-monitoring, which has the advantage of flexibility and easiness to setup since it is composed by country member's bureaucracy. Nevertheless, without transparency, their decisions and recommendations are difficult to track, as in the case of the G-3 agreement. But in the case of the CAN, although decisions are published and frequently discussed in background reports, a greater degree of systematization and summarization is desirable to avoid 'document bombardment' and also to distinguish what constitute simple declarations and what constitute agreements whose implementation shall be monitored.

Though still not implemented as an agreement, the approach taken during the negotiations of ATPs regarding trade mechanisms and the working groups on sector cooperation and policy harmonization issues constitutes an interesting experience. It is clear that the openness of negotiations and the systematization of information have promoted third-party monitoring, since interest groups and stakeholders could follow negotiations and participate in several participation mechanisms that were setup. However, this approach could require massive financial and human resources.

The fourth element is the availability of instruments to enforce compliance. As mentioned before, monitoring activities are ineffective unless they ensure the implementation of previously agreed commitments. All treaties have set up mechanisms of dispute settlement using the standard three-tier mechanisms of consultations, intervention of the body in charge of the Agreement administration and the setup of an external tribunal. Only the CAN have implemented a supranational

institution (the Andean Court of Justice), which has dealt mostly with trade related disputes. In this case, the main challenge is how to design these mechanisms to adequately deal with disputes regarding other integration fields.

In general, the pre-eminence of built-in self-monitoring mechanisms in these integration schemes places a specific operative constraint to all monitoring efforts: since such activities are pursued by the same institutions in charge of implementing the agreements, the lags and faults in the implementation process will be somehow mirrored by the monitoring process. That is the case, for example, when the national officials in charge of implementing the agreements lack managerial, material resources or power to do it properly – as might be the case when trade officials try to introduce changes in other sector's domestic legislation, a common problem known as inter-agency coordination; or when there are conflicting national policy agendas for the implementation of an agreement – e.g. Peru and Colombia's TPAs deregulation requirements compared to Bolivia and Venezuela's regulatory policies within the CAN. In this case, the restrictions of the domestic political process pose the major challenges to ensure compliance.

However, these restrictions could be surpassed when a truly political commitment to comply is available. Hence, a robust political commitment for implementation precedes any effective monitoring effort, as in the case of the Andean-U.S. TPAs. The Peruvian and Colombian government pledges toward the agreement were explicit, as was their willingness to adjust domestic legislation and accept most terms and conditions introduced by their counterpart – including the set up of effective monitoring mechanisms. The reasons for such political will are clear: in 2005, Perú and Colombia exported $6.5 billion and $9.4 billion to U.S. markets, respectively. In contrast, their exports to other members of the Andean Community reached $1.0 and $4.1 billions, respectively. In this case, the perceived importance of the agreement constitutes the most powerful tool for compliance.

More important, the marked interest of the business community and other organizations of civil society in the negotiations outcomes made up for the kind of third-party monitoring that reinforces transparency and formal built-in monitoring itself. The incentive, hence, was mainly economic and broadly appealing, and it is difficult to imagine a set of conditions that would woo the members of the G-3, CAN-MERCOSUR, and CAN integration schemes to invest themselves into these processes to the same degree that Peru and Colombia did when negotiating – and soon implementing – their TPAs with the United States.

Public sector agencies, usually in the Trade Ministry, have to report to the Administrative Commissions of several treaties in operation not only in the Andean Region, not to mention the evident overlapping of some integration schemes. The implications for the public administration at the national level of the current setup of the monitoring systems can be of two types. First, as the treaties and their working groups increase, the limitations of the Andean Countries' public sector arise. Not only the lack of human or financial resources is apparent, but these activities also imply limitations to participate – e.g. difficulties for public officers to assist to international meetings, the organization of high-level commissions, and the heavy load of reports and follow up activities, among others. It is usually argued that most of these tasks are more protocol than real monitoring activities.

Second, the public sector is mostly organized to monitor trade related activities, and this is a crucial monitoring problem that has not much to do with internal managerial capacities but with the design of institutional arrangements. As the international agreements have become more complex, there is no indication that public agencies have evolved to integrate other integration fields in their monitoring activities. Moreover, the international treaties have not evolved either – the institutional arrangements for monitoring purposes of the CAN-Mercosur, ATPs and G-3 treaties are similar.

Research and Policy Agenda for Monitoring RI/C Agreements in the Region

A necessary condition for any monitoring agenda in the Andean region is that the integration schemes stay in place, i.e. survive the shock of Venezuela's withdrawal and overcome the political disputes among members. In general, political and economic stability in the region, a renewed interest in regional integration, and a minimum consensus on sector policies, are all conditions to make the process move forward and reinforce the incentives to monitor it.

The agenda for monitoring should be focused on two aspects: First, how to develop mechanisms to oversee policy harmonization and sector cooperation schemes; and second, how to promote third-party monitoring in all integration fields. In parallel, the more developed monitoring mechanisms in the case of trade mechanisms should be enhanced and systematized to become more apprehensible to wider audiences.

How to oversee policy harmonization and sector cooperation schemes? The programs, projects and processes need: (i) More and better information, including more transparency on the decision-making process, especially in the case of self-monitoring mechanisms; (ii) better definition of goals, jurisdictions and schedules; and (iii) development of enforcement mechanisms. One key aspect refers to political commitment to implement the reforms to achieve policy harmonization: in general, the working groups recommend several reforms which are not necessarily binding and affects other policy spheres. Without political commitment at the highest level, these reforms could not be completed.

How to promote third-party monitoring? The experience during the ATPs negotiations teaches that transparency is key, but systematization of this information helps as well. This effort was made at a significant cost, which it is not clear that is going to be sustainable over time – several public officers participated in the negotiations and information disclosure and the consultation mechanisms such as polls, focus groups and other could be unaffordable during the implementation stage. Nevertheless, this is a cost-effective strategy since Colombia and Peru are promoting third-party monitoring, especially from those private agents whose interests could be affected by the decisions made by the public officers. In the longer term, they would assume a significant part of the monitoring activities.

Finally, multilateral actors such as the IADB could play an important role in strengthening monitoring capacities in the Andean Region. First, they can increase knowledge about how to monitor commitments regarding other fields of integration than trade mechanisms, which is a field that has received more attention. Second, they can promote transparency and information from national governments and

the Administrative Commissions through grants to strengthening local monitoring capacities – which is the approach taken by the TPAs' Committee on trade and capacity building. Third, they should invest some resources on monitoring the monitoring schemes and their disclosure and transparency mechanisms, probably developing some sort of transparency ranking; e.g. timely publication of reports, availability of information, degree of systematization of information, among others.

Conclusion

Regional integration and cooperation agreements in the Andean Region are evolving and including more concerns than purely trade. The academic literature proposes two main approaches to monitoring compliance with international agreements – the 'enforcement' and 'management' approach. The first works better with well-defined agreements, where it is possible to link sanctions to the evolution and accomplishment of agreed indicators and targets. This clearly is the case of trade mechanisms.

Is it possible to develop well-defined targets for less tangible commitments such as democracy, human rights, protection of investor's rights, and provision of regional public goods? Probably not. In this case, the second approach could work better. But here the main obstacles are the lack of local managerial capacity, inadequate allocation of jurisdictional competences and limitations of internal politics. International cooperation to improve these capacities should be available so that monitoring mechanisms could evolve at the same pace as integration mechanisms are evolving in the Andean Region.

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Chapter 3

‘Learning to Integrate’: The Experience of Monitoring the CARICOM Single Market and Economy

Norman Girvan[1]

Introduction

Monitoring of regional integration processes is a key element, we would argue, in ‘learning to integrate’. Properly used, monitoring is a component of the action-information-action loop that begins with the fixing of goals, objectives and targets (ends); proceeds with policy interventions, programmes and policies (means); and continues with evaluation of target fulfilment and other outcomes (monitoring) (Figure 3.1). The loop is closed by updating of ends and modification of means. Monitoring is especially important for developing countries, due to the formidable hurdles that they face in making a success of integration schemes. Differences in size and levels of development, limited possibilities for trade creation and institutional weaknesses are some of the main problems encountered. Although the European Union (EU) is often held up as a successful model of integration for developing countries to follow, conditions in the latter differ vastly from those in the EU. Much of pressure for regional integration among ACP developing countries, however, comes from the EU itself within the framework of the Cotonou Agreement the Economic Partnership (EPA) negotiations (De Lombaerde 2005). This strengthens the tendency to rely on the EU integration experience as a guide, and introduces EU conditionalities into the integration process. This could militate against the success of regional integration schemes, insofar as success depends on the extent to which they are rooted in internal processes and respond to internal circumstances and needs.

This chapter examines the experience of the Caribbean Community (Caricom) in monitoring regional integration. Caricom has no formal monitoring system in the form of organs and procedures that are established explicitly for this purpose. It is one of the contentions of this chapter that monitoring is, nonetheless, embedded in the structures and practices of the Caricom integration system. We argue that this monitoring has a demonstrated potential to become an element in ‘learning to integrate’; an element which could be strengthened with positive effects on the Caricom integration process.

1 The author wishes to gratefully acknowledge the assistance of Denyse S. Dookie in the research undertaken in the preparation of this chapter.

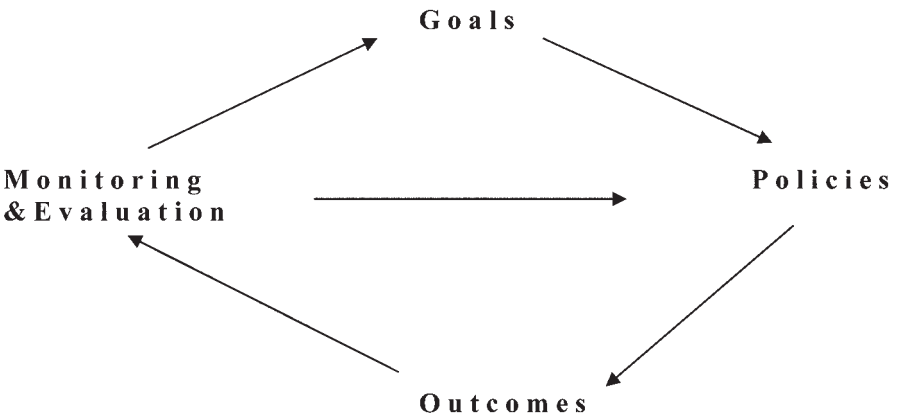


Figure 3.1 The Learning Loop and Monitoring

The chapter is organized as follows. First, we summarize the historical background and present status of the project to create a Caricom Single Market and Economy (CSME). Then we present and discuss six case studies of monitoring instruments in the Caricom experience. Finally, we discuss the lessons to be drawn from the case studies, the policy implications, and the wider implications for monitoring instruments in integration schemes.

A Short History of the CSME

In 1958 10 British territories in the Caribbean, supported by the U.K. Government, came together to form the West Indies Federation.[2] The Federation broke up in 1962 as a result of disputes over the distribution of power between the Federal centre and the individual island administrations, taxation, freedom of movement, and customs union. Thereafter, most of the British colonies in the Caribbean region proceeded separately to political independence, beginning with Jamaica and Trinidad & Tobago in 1962. Initiatives for regional economic cooperation began shortly thereafter. In 1963, a Conference of the Heads of Government of the Commonwealth Caribbean convened by the Prime Minister of Trinidad and Tobago affirmed the need for close cooperation with Europe, Africa and Latin America and mooted the possibility of a Caribbean Community consisting of the 10 members of the former Federation, the other island states and territories in the Caribbean Sea and British, French and Dutch Guiana on the mainland.

In 1965 the Governments of Antigua and Barbuda, Barbados and Guyana agreed to establish a Caribbean Free Trade Association (Carifta) having signed the Dickenson Bay Agreement on December 15th 1965. They were soon joined by most of the remaining English speaking territories and as of August 1st 1968, Carifta was

2 These were Antigua & Barbuda, Barbados, Dominica, Grenada, Jamaica, Montserrat, the then St Kitts-Nevis-Anguilla, Saint Lucia, St Vincent and Trinidad & Tobago.

Table 3.1 Basic Statistics on Member Countries of the Caribbean Community (Caricom)*

Countries[a]	Area in Thousands of Km^2	Population Thousands of inhabitants 2004	HDI value 2003	HDI ranking 2003	GDP – US$ Millions (Current Market Prices) 2003	GDP Per capita 2003	GDP Per Capita Annual Growth Rate of GDP (%) 1990-2003[c]	Merchandise Exports US$ Millions, f.o.b. 2003	Merchandise Imports US$ Millions, c.i.f. 2003
CARICOM[b]	459.78	15,580	…	…	34,122	2,190	…	12,657.7	21,290
Bahamas	14	317	0.832	High	5,280	16,656	0.3	1,256	6,309
Barbados	0.43	271	0.878	High	2,628	9,697	1.4	280	1,016
Belize	23	261	0.753	Medium	843[d]	3,230[d]	2.2	723	1,487
Guyana	216	767	0.720	Medium	742	967	3.6	581	638
Haiti	28	8,988	0.475	Low	2,745	305	-2.8	362	1,330
Jamaica	11	2,676	0.738	Medium	7,817	2,921	0.9[g]	1,591	4,153
Suriname	164	439	0.755	Medium	952[d]	2,169[d]	0.9	598	663
Trinidad and Tobago	0.44	1,307	0.801	High	10,201	7,805	3.2	6,574	3,617
OECS	*2.91*	*554*	...	...	*2,914*	*5,260*	...	*692.7*	*2,077*
Antigua and Barbuda	0.44	73	0.797	Medium	757	10,370	1.6	260	632
Dominica	0.75	79	0.783	Medium	255	3,228	1.2	56	192
Grenada	0.34	80	0.787	Medium	439	5,488	2.4	45	245
St. Kitts and Nevis	0.27	42	0.834	High	370	8,810	3.1	72	252
St. Lucia	0.62	150	0.772	Medium	693	4,620	0.3	54	252
St Vincent & the Grenadines	0.39	121	0.755	Medium	371	3,066	1.8	205	487
Montserrat	0.10	9	…	…	29[de]	3,400[de]	…	0.7 [f]	17 [f]

Notes: [a] Totals include only those countries with information; [b] OECS figures exclude the Anguilla and British Virgin Islands; [c] Sourced from the HDR 2005; Please refer for actual caveats with data inconsistencies; [d] 2002 statistics; [e] Based on purchasing power parity; [f] 2001 statistics; [g] 1991-2001 figures.
*The Bahamas, Haiti and Monsterrat are members of Caricom but are not participating in the Caricom Single Market and Economy (CSME).

Source: Based on data from the ACS website, CIA World Fact-Book website (Montserrat data); HDR 2005, and ECLAC publication “Main Trends, Trade Policy and Integration in the Greater Caribbean”.

signed by 11 governments.[3] In April 1973 the Georgetown Accord among Carifta members called for its transformation into the Caribbean Community and Common Market (Caricom). On July 4th 1973 Caricom was formally established through the Treaty of Chaguaramas signed by the four Commonwealth Caribbean independent states,[4] with provisions for the eight other territories which signed the Accord to become full members of the Community by May 1st 1974. The Bahamas acceded to the Caribbean Community, but not the Common Market in 1983; while Suriname and Haiti became full members of Caricom in 1995 and 2002 respectively.[5]

During the 1970s progress in making the Caribbean Common Market a reality was halting and uneven. Two of the largest members[6] imposed restrictions on intra-regional imports in response to balance of payments difficulties and this impacted severely on the extent and pace of intra-regional trade liberalisation. Little progress was made in establishing the Common External Tariff; and plans for sectoral cooperation in mining, agriculture, industry and transport, for the harmonisation of fiscal incentives, and for establishing a Caricom Enterprise Regime, were never realized. Nonetheless, Caricom was sustained by functional cooperation across a range of social services including health and education, by a common interest in joint economic negotiations with extra-regional trading partners, particularly the European Economic Community, and by an underlying sense of common West Indian identity. With the shift towards worldwide trade liberalisation and the formation of regional trading blocs organized around the principles of open regionalism in the latter part of the 1980s, the stage was set for a new initiative in Caricom regional integration.

In July 1989 the heads of government of the Caribbean Community, by means of the Grand Anse Declaration, agreed to establish the Caricom Single Market and Economy (CSME) by July 4, 1993. It soon became evident that this goal could not be accomplished within the context of the existing legal, administrative and political arrangements of the Community. By 1992, Caricom decision-makers had concluded that what was needed was a complete overhaul of the Treaty of Chaguaramas in order to reform the structure of governance of the Community and to provide a legal framework for the CSME.[7] This was effected through the adoption of nine Protocols of Amendment to the Treaty, a legal process that took the better part of a decade to complete. The Protocols of Amendment were incorporated into the Revised Treaty of Chaguaramas (Caricom 2002; hereinafter 'The Revised Treaty'). This was provisionally applied in 2002 and came into force in 2006. The Caricom Single Market was officially inaugurated among 12 participating member states in

3 CARIFTA retained the membership of the original WI Federation, and also included founding member Guyana. Belize (then British Honduras) joined the Association in 1971, and The Bahamas, although not a member of CARIFTA, began participation in the Heads of Government Conferences of the Commonwealth Caribbean in 1966.

4 The original signatories to the Treaty were Barbados, Guyana, Jamaica and Trinidad & Tobago. The Treaty of Chaguaramas came into effect on August 1st 1973.

5 Basic statistics on the member states of the Community are given in Table 3.1.

6 i.e. Jamaica and Guyana.

7 This was prompted by the Report of the Independent West Indian Commission on the future of CARICOM (WICOM 1992).

July 2006.[8] There is an 'indicative target' to establish the Caricom Single Economy by 2008.[9]

Caricom leaders are currently studying further reforms of the governance of the Community that would enable critical policy decisions of the heads of government to have legal force within the Community, establish an executive commission to further the implementation of Community decisions, and provide automatic financing of Community institutions (Caricom 2003b; 2005a, b). These initiatives respond to the extended period of time taken to revise the Treaty and to the numerous delays and missed deadlines in implementing decisions taken by the heads of government. The basic issue is the appropriate balance between the principle of national sovereignty, which is enshrined in the Caricom arrangements, and that of supranationality, which is implicit in the design of the CSME. Caricom's 'sovereignty dilemma' is the subject of on-going deliberations within the Community.[10]

Monitoring the CSME

The Revised Treaty makes no explicit provision for the monitoring function, and the word itself does not appear in its text. We believe, however, that the existence of *de facto* monitoring instruments can be inferred from the governance structure set up under the Revised Treaty and other practices associated with CSME project. We group these into three categories.[11]

- *Implicit* monitoring instruments, which are embedded in the institutional arrangements for governance, administration or implementation of the integration process. These are processes and mechanisms that serve a de facto monitoring function, or have the potential to do so. An example would be the annual Conference of heads of government of the Community.
- Monitoring instruments associated with *time-bound indicators*. An example would be a target of establishing a uniform common external tariff by a particular date; which could be used as an indicator of implementation, or of progress in regional integration.
- Monitoring instruments associated with *open-ended indicators*, or goals that are specific in content but have an open-ended time frame. An example would be the current goal of harmonizing company law within the Community.

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8 The 12 states participating in the CSME are: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Trinidad and Tobago, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname. The Bahamas, Haiti and Montserrat are members of Caricom but are not now participating in the CSME.

9 For a review of the evolution of Caricom trade and the state of implementation of the CSME, see INTAL (2005).

10 See Girvan (2005: 19-23); Brewster (2003).

11 In formulating this categorisation, we reviewed the following sources on the use of indicators in monitoring regional integration: De Lombaerde and Van Langenhove (2006); Hansohm et al. (2004); NEPRU (2002); and SADC (2003); and drew on the specifics of the Caricom experience.

We examine six cases: one of implicit monitoring instruments, three of instruments associated with time-bound indicators, and two of instruments associated with open-ended indicators.

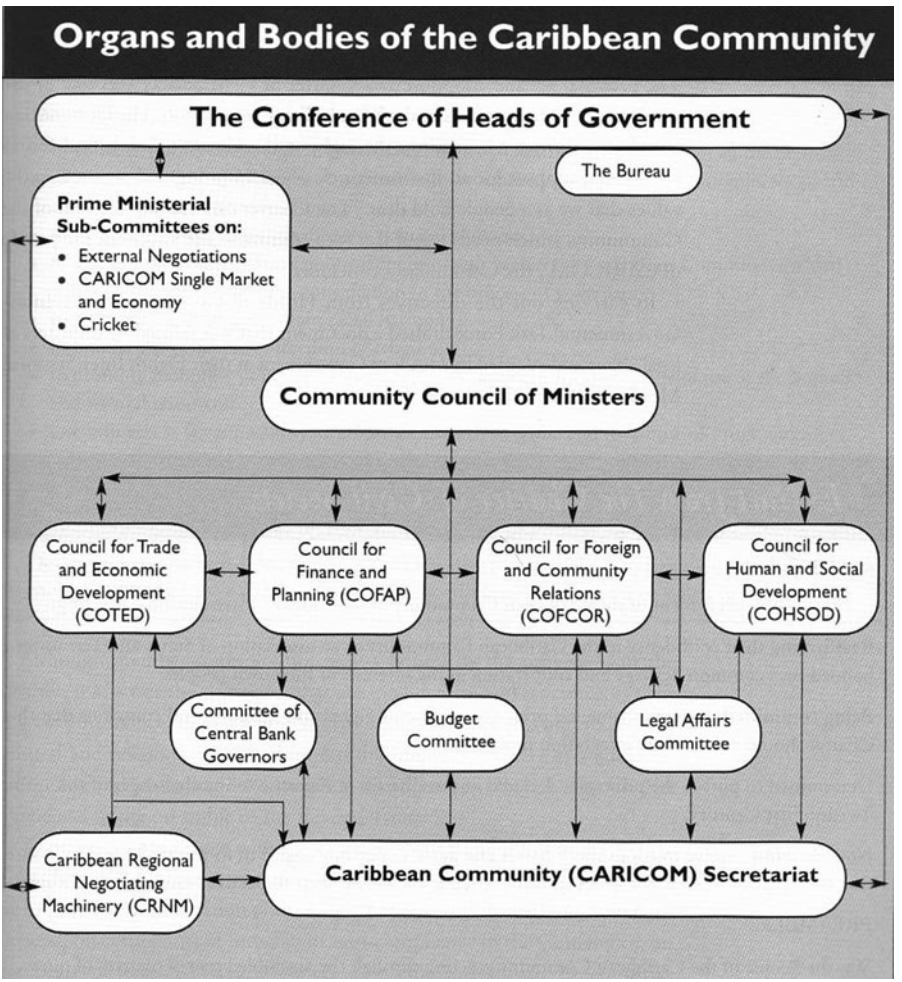


Figure 3.2 Governance Structure of the Caribbean Community
Source: CARICOM (2005c: 233).

Case 1: Implicit monitoring instruments embedded in the governance of Caricom

There are several mechanisms set up under the Revised Treaty by which implementation of the CSME could be regularly reviewed, adjusted and updated. This is especially evident in the governance arrangements and institutional structure set up by the Revised Treaty, shown in Figure 3.2. At the apex of the structure is the Conference of Heads of Government. This is the supreme decision-making organ

and meets in regularly scheduled sessions at least twice yearly (a February inter-sessional meeting and an annual conference in July) and sometimes more frequently as a result of special or extraordinary meetings. The Bureau of the Conference, consisting of the current, outgoing and incoming Chairman heads of government, acts as a kind of executive committee and consultative mechanism in between full meetings. The Community Council of Ministers consists of one minister of Cabinet rank from each member state who has been designated with the responsibility for Caricom affairs. This organ undertakes strategic planning and coordination in the areas of economic integration, functional cooperation and external relations.

Next come four principal organs with responsibilities corresponding to the main areas of the CSME and functional cooperation: finance and planning, foreign and community relations, human and social development, and trade and economic development. Three specialized bodies provide advice and recommendations to these organs respectively on legal affairs, the community's budget and on monetary and financial cooperation. The Caricom secretariat (CCS) is the principal administrative organ of the community. In addition, Caricom organs frequently set up *ad hoc* bodies and convene special meetings to deal with specific matters. Also not shown in the formal structure is the participation of non-governmental actors in the consultative and decision-making processes, which has grown in recent years.

The structure, therefore, is complex and multi-layered. It provides for involvement in formal decision-making by a wide variety of governmental stakeholders, and also allows for inputs from non-governmental actors. This has the merit of fostering ownership of Caricom decisions at various levels of national governance structures. The main disadvantage is that decision-making and implementation can be subject to delays; in order to ensure that all relevant organs have played their assigned role.

The arrangements provide for implicit monitoring by means of both horizontal and vertical information flows. These can be identified by means of the lines connecting bodies in Figure 3.2. Horizontal flows take the form of documentation (e.g. minutes of meetings and technical reports) circulated among successive meetings of a given organ or among organs of equivalent levels in the structure. Vertical flows take the form of documentation submitted from subordinate organs to superior organs. An example may be had from the operation of the Council for Trade and Economic Development (COTED), the main organ with political oversight over the CSME implementation. A COTED meeting may consider the record of decisions taken at the previous COTED meeting on the removal of an unauthorized restriction on trade, or a record of a meeting from the Council for Finance and Planning on macroeconomic convergence; both being examples of horizontal information flows. It might consider a comment from the Legal Affairs Committee on a proposed trade agreement; a vertical flow from a subordinate organ. Finally, it may forward recommendations on any of these matters to the Community Council; a vertical flow to a superior organ.

The structure provides ample opportunities for decision-makers to review the progress made in implementing decisions taken at the previous meeting, to identify delays and bottlenecks, and to take further decisions on remedial action. In effect, decision-making and monitoring are melded. This has both advantages and disadvantages. On the one hand, it facilitates responsiveness of the various organs to obstacles encountered in implementation. On the other hand it can lead

Table 3.2 Grand Anse Targets and Outcomes

	Grand Anse Targets	Outcomes
	Gran Anse Declaration: to ensure that the following steps are taken not later than 4 July 1993 -	
1.	The Common External Tariff, the Rules of Origin, and a Harmonised Scheme of Fiscal Incentives to be fully revised, agreed and effective by January 1991	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
2.	Customs cooperation and strengthening of Customs Administrations to prepare for a Customs Union	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
3.	Signature of Agreement establishing the CARICOM Industrial Programming Scheme (CIPS) by 30 September 1989	NOT ACHIEVED; ABANDONED
4.	The enactment, by January 1990 of the legislation required to give effect to CIPS and the CARICOM Enterprise Regime (CER)	NOT ACHIEVED, ABANDONED
5.	A scheme for the movement of capital introduced by 1993 starting with the cross-listing and trading of securities on existing stock exchange	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
6.	Technical work on the establishment of a regional Equity/Venture Capital Fund	WORK INITIATED
7.	The CARICOM Multilateral Clearing Facility to be strengthened and re-established by December 1990	ABANDONED
8.	Intensified consultation and cooperation on monetary, financial and exchange rate policies by July 1990	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
9.	The removal of all remaining barriers to trade by July 1991	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
10.	Consultation, cooperation and coordination of policies at the macro-economic, sectoral and project levels	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
11.	Arrangements by January 1991 for the free movement of skilled and professional personnel as well as for contract workers on a seasonal or project basis	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
12.	Action to develop, by 4 July 1992, a regional system of air and sea transportation including the pooling of resources by existing air and sea carriers	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty
13.	Collective effort for joint representation in international economic negotiations and the sharing of facilities and offices to this end, with immediate effect	NOT ACHIEVED; incorporated into Protocols of Amendment and Revised Treaty

Source: Targets based on Grand Anse Declaration, document sourced from CARICOM website www.caricom.org on 6 March 2005. Outcomes based on author's research.

to conflicts of interest, as decision-makers are in the position of monitoring their own effectiveness. It fails to provide for the degree of detachment and objectivity that would strengthen problem identification in implementation. The results of the other case studies suggest that this defect operated to weaken the monitoring functions exercised by the various organs and diminished the flow of information that otherwise be generated by the processes of governance.

Case 2: Monitoring instruments associated with time-bound indicators (i): The Grand Anse Declaration

The Grande Anse Declaration by Caricom heads of government in July 1989 was a significant development both in objective and in method. The leaders set an objective of establishing a Single Market and Economy by July 1993 and committed to undertaking 13 steps to give this effect. The public adoption of specific time-bound targets was a major departure from previous Caricom practice. It reflected a sense of urgency on the need to respond to the challenges of globalization and a recognition that the 'business as usual' approach to integration would no longer suffice. The targets would constitute a source of collective pressure on governments to stick to a pre-determined time-table. One by-product was provision of a set of indicators, or *de facto* monitoring instruments, for measuring the progress of implementation.

For the targets to truly serve this purpose, it would have been necessary for information to have been regularly published by official sources on the extent to which the specified actions were actually being carried out. However, neither the heads of government nor the Caricom Secretariat followed up the Declaration by establishing such a reporting system, either internally or for public information. Subsequent references to the Grand Anse targets in Communiqués from Conferences of the Caricom heads of government are fragmentary and random. Only these targets that were brought to the attention of the Conference for political decision are mentioned and these were a small sub-set of the total. Further, the references are not always made in ways that permit comparison with the original target. Hence the potential for the targets to serve as the basis of a system of monitoring was never fully realized.

Table 3.2 shows our summary of the Grand Anse targets and their outcomes. The majority of the contemplated actions were not completed and were incorporated into the Protocols and the Revised Treaty; in two cases, the actions were abandoned as being no longer relevant. One reason for the shortfall was that conditions changed during the course of scheduled implementation. The main reason, however, was that the Grand Anse targets had under-estimated the legislative, regulatory and administrative tasks involved in establishing a Single Market and Economy. The Report of the West Indian Commission (WICOM 1992) recommended that a thorough revision to the Treaty of Chaguaramas would need to be undertaken to reform the governance of the Community and to give effect to the CSME. This was accepted by the heads of government in October 1992, setting in motion the long process of revising the Treaty. Grand Anse, therefore, could be regarded as a learning experience for Caricom.

Case 3: Monitoring instruments associated with time-bound indicators (ii): the Single Market and Economy, 1992-2005[12]

The drive to establish the CSME after 1992 did not rely initially on the adoption of time-bound commitments. It was not until July 1997 that a new target date was mentioned in the Communiqués. The Gran Anse experience may have induced some caution on making commitments to time-bound targets without first making an informed estimate of the amount of work involved. Moreover, the legal method employed by Caricom to bring the CSME into effect after 1992 was time-consuming and not amenable to the maintenance of a rigid time-schedule.

That method was to revise the Treaty of Chaguaramas revised by the adoption by member states of nine Protocols of Amendment (shown in Table 3.3). The process starts with the preparation of the draft protocol by the CCS and its despatch to the 12 CSME participating member states for their consideration. Each state then solicits comments on the draft from their relevant sector ministries. Meetings of regional officials are then convened to examine the comments of all member states and agree on changes to the draft; this process continues until the texts were agreed. The text then passes through several organs of the Community; usually the Legal Affairs Committee, COTED, and the Community Council; before final submission to the heads of government for signing. After this is a further process of ratification by member states, incorporation of the protocols into the Revised Treaty, and ratification of the Revised Treaty so that it comes into force.

Table 3.3 Protocols for the Revised Treaty of Chaguaramas and the Establishment of the CARICOM Single Market and Economy (CSME)

Protocol	Subject
I	Organs and Institutions of Governance
II	Provision of services, rights of establishment and movement of capital
III	Industrial Policy
IV	Trade Policy
V	Agricultural Policy
VI	Disadvantaged Countries, Regions and Sectors
VII	Transportation Policy
VIII	Competition policy
IX	Disputes settlement

Source: CARICOM website, http://www.caricom.org.

12 For this section our principal data source continues to be references to the CSME contained in Communiqués issued by the Caricom Heads of Government at their regular, inter-sessional and extraordinary meetings.

The drafting and negotiation of the texts of the protocols occupied a large part of the effort of the Community over the period from 1992 to 1998. In the latter year a new target for the establishment of the CSME by the end of 1999 was officially declared. This target was set back on several occasions by the heads of government. In addition, the meaning of 'establishment of the CSME' was continually re-interpreted in subsequent official statements, so that this objective appeared to be a moving target. For instance, it was not clear whether the 1999 target date referred to the signing, ratification and bringing into force of all nine protocols, or of only some; and if the latter, which protocols were essential to effective establishment of the single market and economy. In the event, the protocols had all been signed and incorporated into the Revised Treaty of Chaguaramas by the end of 2001 and in February 2002 the heads of government signed a 'Declaration of Provisional Application' of the Revised Treaty. However, it was not until January 2006 that the Revised Treaty was declared as having come into force. Even then, not all member states have actually met the obligation of enacting the Revised Treaty into their domestic law.

Other definitional issues have arisen. As the legal process neared completion, official statements introduced a distinction between the 'legal establishment' of the CSME – adoption of the Revised Treaty – and 'implementation' of the CSME. The latter involved member states undertaking a large number of changes in laws, regulations and administrative procedures to give effect to treaty obligations. Furthermore, in implementation a distinction had to be made between the 'single market' and the 'single economy'. The former refers to the programme for achieving full freedom of movement of goods, services, skilled labour, capital, and business enterprise within the Community; the latter to the coordination of macroeconomic and sectoral policies, monetary union, and harmonisation of business and labour laws. Initially the two components tended to be lumped together in official statements, under the general rubric of the CSME acronym. However, the actual work programme of the Community after 2002 focused on implementing the single market. The target date for this was set at the end of 2005, with an 'indicative target' of 2008 for the single economy (CARICOM 2004b). The precise content of what is to be achieved by that date has not yet been specified.

To summarize, there was considerable 'elasticity' in the specification of targets for creating the CSME, both with regard to content and to time-frame. This would have diluted the credibility of the targets with stakeholders. It also severely qualifies their utility for monitoring purposes. We conclude that in setting time-bound targets, there is a trade-off between (a) the benefits of rigid target specification, in the form of pressure on actors and heightened accountability and monitoring, and (b) the losses, in the form of diminished credibility and morale when targets are continually adjusted and re-defined.

Case 4: Monitoring instruments associated with time-bound indicators (iii) removal of restrictions on services, capital and right of establishment

Implementation of the Caricom Single Market was expressed in the form of an agreed programme among member states for the removal of restrictions on the movement of services, capital, and the right of establishment within the Community.

Table 3.4 Summary of Scheduled Removal of Restrictions on Services, Capital and Right of Establishment

Country	Existing restrictions by Mode						Scheduled removal				
	1	**2**	**3**	**4**	**Legal**	**Total**	**2003**	**2004**	**2005**	**Total**	**Percent**
Antigua & Barbuda	9	0	14	14	18	**55**	4	7	2	13	**24**
Barbados	37	24	41	40	30	**172**	31	0	3	34	20
Belize	4	0	30	28	35	**97**	8	2	19	29	**30**
Dominica	10	1	38	37	45	**131**	22	1	4	27	**21**
Grenada	3	0	52	24	53	**132**	5	1	15	21	**16**
Guyana	12	6	25	42	39	**124**	5	8	30	43	**35**
Jamaica	9	1	68	74	60	**212**	34	26	9	69	33
St. Kitts & Nevis	3	1	6	7	11	**28**	2	0	4	6	**21**
St. Lucia	6	0	50	20	52	**128**	25	12	9	46	**36**
St. Vincent & Gren.	3	0	14	5	16	**38**	5	4	2	11	**29**
Suriname	16	6	22	25	12	**81**	10	1	24	35	**43**
Trinidad & Tobago	10	1	13	15	19	**58**	2	4	4	10	**17**
Totals	**122**	**40**	**373**	**331**	**390**	**1256**	**153**	**66**	**125**	344	**27**

Mode 1: Cross Border; 2: Consumption Abroad; 3: Commercial Presence; 4: Movement of Natural Persons

Source: Author, compiled from CARICOM Document "Programmes for the Removal of Restrictions", October 2004.

This consisted of three stages. First, each member state inventorized its existing restrictions in force and notified the CCS. Second, a scheduled programme for the removal of restrictions by each member state stage was negotiated and approved by the Community. Third, each member state undertook to carry out its scheduled programme, notifying the CCS at regular intervals of the actions completed. The first two stages were completed in 2002-2003, and schedules for the removal of existing restrictions on a phased, annual basis over the period 2003-2005 by each member state were approved. A 'negative list' approach was agreed, so that restrictions not in the list were assumed to have been removed. The schedules were obtained from the CCS and are summarized in Table 3.4. Hence, they had the potential to be used as time-bound indicators for monitoring purposes.

This potential was not realized, because no information was published on the extent to which member states actually met their scheduled obligations in each of the three years. Caricom communiqués indicate that there was significant slippage in meeting the targets on the part of several member states. For example, in March 2004 it was stated that 'Trinidad & Tobago has met its 2003 commitments while Antigua & Barbuda, Guyana and St Vincent & the Grenadines have gone part of the way. A number of Member States have indicated that they were treating their 2003 and 2004 commitments as "a package for removal in 2004"' (CARICOM 2004a: 4). A subsequent communiqué refers to the need of some member states for technical assistance to help them meet their commitments to be met.[13] In the event, in January 2006 six member states signed a declaration of single market compliance, followed by the six members of the O.E.C.S. in July 2006 (Caricom 2006a; 2006b). The logical assumption is that all the scheduled removal of restrictions have been carried out. However, this has not been stated in a manner that permits comparison with the approved schedules. Considerable doubts remain as to whether all member states have in fact met all their commitments; doubts which appear to be confirmed by other reports from the CCS (see Case 5 below).

This case reaffirms the principle that, for time-bound indicators to have value for monitoring, then timely information must be provided by member states on the extent of fulfilment, and this information should be made available to other stakeholders.

Case 5: Monitoring instruments associated with open-ended indicators (i) action elements for the implementation of the Single Market and Economy

A more comprehensive programme that embraces all the components of the single market and the single economy and indicates the status of implementation, is published regularly by the CCS. The programme identifies 'action elements' consisting of specific legislative, regulatory and administrative measures that member states need to undertake to meet their CSME commitments. Action elements are grouped

13 The Communiqué of November 2004 also stated that member states on target for their 2005 commitments 'will be able to do so with some technical assistance and facilitation by the CARICOM Secretariat….a realistic assessment of the implementation of the CSME by Member States indicates that overall, the *core measures* relating to the establishment of the Single Market would be in place by December 2005' (CARICOM 2004c: 7; emphasis added).

into 12 categories that correspond broadly to the chapters of the Revised Treaty of Chaguaramas.[14] This was an important innovation in permitting public access and monitoring of the implementation of the CSME. The specificity of individual action elements is also a positive feature. Hence, the matrix published by the CCS shows both the 'what' and the 'who' of implementation: outstanding actions, and member states and institutions that are behind in making good their commitments, can by readily identified. At the same time none of the individual elements is explicitly time-bound; hence this instrument is one associated with the use of open-ended indicators.

By examining the extent to which specific actions required for implementation have been completed, we are able to evaluate their utility as a measure of the current status and degree of CSME implementation in greater detail. In doing this, we developed the following method. First, we grouped all the action elements into the three main categories relating to (i) legal and institutional infrastructure, (ii) single market and (iii) single economy provisions (Table 3.5). Second, we regard any given element as having been 100 percent completed when all the member states and other designated responsible organs states are reported to have completed it. An element is 50 percent completed when one-half of member states have completed it, and so on. Third, the degree of implementation of any given action element is measured by computing the total number of actions that need to be carried out by all the designated responsible entities, counting the number actually carried at any given time, and expressing the latter as a proportion of the former. Only the 12 member states that are presently participating in the CSME and are fully constitutionally capable of carrying its commitments are included. Not included in the exercise are the Bahamas, which has not yet taken a decision on CSME participation; Haiti, which is a political and constitutional hiatus; and Montserrat, whose constitutional status as a UK Overseas Territory requires that some commitments correspond to the administering power. The data refer to the status of the 81 action elements as reported by the CCS in June 2006.

The table indicates that a total of 774 actions are required by all relevant parties for full CSME implementation in the current work programme; and of these just over one-half have been completed.[15] The degree of implementation varies widely from element to element and, more broadly, among the three main categories of architecture. The establishment of the legal and institutional infrastructure is reasonably far advanced. In the single market, the greatest progress has been registered in freeing the movement of both goods and services, with average progress recorded in other areas. Most of the legal impediments to the free movement of skilled persons have been removed, but much remains to be done regarding arrangements for the accreditation and equivalency, and the facilitation of travel between member states. There is a significant shortfall in giving effect to the free movement of capital and the right of establishment, where a little more than one-half of the identified restrictions in each category are still in force. With respect to the implementation of the single economy, it is evident that most of the required measures have yet to be undertaken.

14 The actual number of key elements may change between updates reflecting changes to the work programme as an element has been completed, or a new one has been introduced.

15 This figure may be compared to that as at October 2004 where 48.1 per cent of total required actions were completed. This could show that although there has been progress in CSME implementation, its pace is quite slow.

Table 3.5 CSME Implementation Summary as at June 2006

Category			# of action elements	Total required actions[1]	# completed	% completed
A.	Legal & Institutional Infrastructure		*15*	*192*	*166*	*86.5*
1.		Treaty Revision	5	60	59	98.3
2.		*National Administration*[2]	3	48	40	83.3
3.		Enforcement, Regulation and Supporting Institutions	7	84	67	79.8
	3.1	Caribbean Court of Justice	3	36	35	97.2
	3.2	CROSQ (Standards & Quality)	2	24	19	79.2
	3.3	National Standards Bodies	1	12	11	91.7
	3.4	National Competition Authorities	1	12	2	16.7
B.	Single Market		*29*	*336*	*216*	*64.3*
4.		*Free Movements of Goods*[3]	5	60	53	88.3
5.		*Free Movement of Services*[4]	2	24	19	79.2
6.		Free Movement of Persons	14	156	92	59.0
	6.1	Free Movement of Skills	5	60	43	71.7
	6.2	Contingent Rights	1	n/a[5]		
	6.3	Facilitation of Travel	4	48	18	37.5
	6.4	Mechanism for Accreditation & Equivalency	2	24	9	37.5
	6.5	Transfer Soc. Sec. Benefits	2	24	22	91.7
7		Free Movement of Capital	6	72	40	55.6
	7.1	Removal of Restrictions	2	24	12	50.0
	7.2	Capital Market Integration	2	24	8	33.3
	7.3	Double Taxation Agreement	2	24	20	83.3
8.		Right of Establishment	2	24	12	50.0
C.	Single Economy		*37*	*246*	*27*	*11.0*
9.		Common External Policy	3	36	23	63.9
10.		Harmonisation of Laws	16	192	2	1.0
11.		Sectoral Programmes & Enabling Environment	6	6	0	0.0
12.		Common Support Measures	12	12	2	16.7
Total			*81*	*774*	*409*	*52.8*

Notes:

[1] Number of identified action elements multiplied by the number of entities (countries or agencies) required to take each element. Only 12 countries are counted. Rows 6.1, 11 and 12 relate to actions by a single CARICOM organ identified in the source document.

[2] Three action elements are listed, but within element 2.2 there is implementation information available for the establishment of both an IMCC and a BLAC.

[3] Makes reference to Oct. 2004 where 5 action elements included. Since then, 3 of them no longer occur on revised updates inferring completion.

[4] Makes reference to Oct. 2004 where 2 action elements included. Since then, 1 of them no longer occurs on revised updates inferring completion.
[5] A protocol is being prepared. When negotiated, signature and ratification required by all member states.

Source: Author, compiled from document *Establishment of the CARICOM Single Market and Economy: Summary of Status of Key Elements.* Dated as at June 2006; Sourced from CARICOM website, July 2006.

This tool is useful in showing the variation among elements and categories. Its principal limitation lies in the fact that each of the action elements is not equal to every other in its significance for the completion of the CSME, or in hindering its implementation by its absence. For instance, the existence of the legal and institutional infrastructure is a prerequisite for the implementation of the specific elements of both the single market and the single economy. The single market is also a prerequisite for the effective operation of the single economy. To that degree the sequence of implementation shown in the table is appropriate. But within each category, different elements carry different weights. For instance, it is not clear whether the fact that the majority of member states have not yet enacted the Revised Treaty in their domestic law will constitute a legal impediment to the implementation of the CSME. Another example is that it is difficult to determine how far the absence of accreditation and equivalency mechanisms and of arrangements for the transfer of social security benefits, will function to discourage the movement of skilled persons. This limitation could perhaps be addressed by assigning different weights to different action elements, a procedure that would require a content analysis of each element. Our conclusion is that any inferences drawn from this tool would need to be informed by qualitative evaluation of the respective action elements.

Case 6: Monitoring instruments associated with open-ended indicators (ii) the Caricom Secretariat CSME Unit and National Focal Points of Member States

In 2002 the CCS established a CSME Unit to drive the process of implementation. The Unit is located within the Office of the Prime Minister of Barbados[16], the latter being the Prime Minister with responsibility for CSME implementation within the Caricom 'quasi-cabinet'. The Unit reports directly to the CCS and to COTED on the implementation process. It is headed by a Director who reports to the Assistant Secretary-General for Regional Trade and Economic Integration, and has three professional officers responsible for legal affairs, the monitoring of the movement of persons, and the removal of restrictions on capital and services. The Unit also engages in direct interactive communication with the National Focal Points for the CSME designated in each member state under the terms of the Revised Treaty. Our study of this case was based on direct person-on-person interviews conducted by the author and the research assistant at the Unit's offices in Bridgetown, Barbados; and a questionnaire administered electronically to the National Focal Points of the 12 CSME member states and the OECS Secretariat in St. Lucia.

16 The headquarters of the CCS is in Georgetown, Guyana.

The CCS CSME Unit[17]

The principal monitoring tool arising out of the work of the Unit is its biannual Work Programme. This is subject to approval and budgetary support from the CCS and through it from the Community Council. Preparation of the programme involves evaluating the work of the Unit against its mandate and performance. Within this framework there is the further tool of the quarterly progress reports. These provide information on CSME programme implementation and on the status of key elements in the CSME; and are presented at every meeting of the Ministerial Organs (COTED, COHSOC and COFCOR). They identify subject areas and countries where there are slippages in implementation are taking place; capturing both the status of items and the rate of movement. The progress reports have the dual function of monitoring implementation and supporting planning, execution and evaluation of the work programme. The main drivers of the work programme are the requirements of the (Revised) Treaty; decisions of Caricom organs and responses to urgent matters of an ad hoc nature. A third monitoring tool arises out of the relationship between the Unit and the CSME National Focal Points (NFPs) of member states, which have the responsibility to monitor and facilitate the CSME implementation at the national level. Regular meetings of the NFPs are convened by the Unit to review the status of implementation and identify problem areas.[18]

Table 3.6 Unit Capacity and Capability, National Focal Points

		Mean Average	Modal Average
1	Total Number of Officers in NFP Offices	3	1
2	Number of Available Officers with:		
	Full Dedication to CSME Matters	2	0
	Other responsibilities	1	0
3	Available In-house Technical Expertise:		
	Professional/technical specialisation in regional integration	2	1
	Other, professional/technical	1	1
	Other	1	0
4	Required Additional Staff (Estimated):		
	Professional/technical	2	1
	Other, professional/technical	1	1
	Other	1	1

Source: Compiled from Member States' questionnaire responses. This refers to 11 Member States' National Focal Point Officers which responded, as well as the OECS' Officer for CSME Matters.

17 Based on the interview with the CSME Unit in Barbados.

18 The timing of these meetings is at the Unit's discretion; two were held in 2004.

Table 3.7 Main Methods Used by NFP Unit to monitor CSME Implementation by Government Ministries and Agencies

	1	*2*	*3*	*4*	*0*
Written reports from ministries and agencies	6	3	1	1	1
Verbal reports from ministries and agencies	1	5	3	2	1
Participation in meetings of, or with, ministries and agencies	6	5	1	0	0
Other	1	0	3	1	7

Note: 1 – First Most Important; 2 – Second Most Important; 3 – Third Most Important; 4 – Least Important; 0 – No Response

Source: Compiled from Member States' questionnaire responses. This refers to 11 Member States' National Focal Point Officers which responded, as well as the OECS' Officer for CSME Matters.

Table 3.8 NFPs Views on Requirements for Improving the Flow of Information on CSME Implementation from Government Ministries and Agencies

	1	*2*	*3*	*4*	*0*
Assign more staff/staff time in ministry/ agency to provision of information	5	4	2	1	0
Assign higher priority in ministry/agency to provision of information	4	4	2	1	1
Assign greater authority to your unit/staff in your unit to require information from ministry/agency	5	1	2	2	2
Relocate your unit to another Ministry in order to increase its authority to require information	0	0	2	7	3

Note: 1 – First Most Important; 2 – Second Most Important; 3 – Third Most Important; 4 – Least Important; 0 – No Response

Source: Compiled from Member States' questionnaire responses. This refers to 11 Member States' National Focal Point Officers which responded, as well as the OECS' Officer for CSME Matters.

CSME Unit officials identify four obstacles to the timely and effective implementation of CSME action elements. The first is insufficient human resources in the Unit itself and in the NFPs. Hence Unit officers are required to spend time and effort on 'fire-fighting' and reporting responsibilities, to the detriment of attention to strategic issues, conceptualisation and problem-solving. Since many NFPs are under-staffed, Unit officers also provide them with technical assistance in fulfilling their reporting requirements.

Table 3.9 Questionnaire Responses – Forms of Communication with CARICOM

	1	*2*	*3*
Verbal or telephone communication	4	2	6
Participation in CARICOM meetings	6	4	1
Written communication	5	5	2

Note: 1 – First Most Important; 2 – Second Most Important; 3 – Least Important

Source: Author, compiled from Member States' questionnaire responses. This refers to 11 Member States' National Focal Point Officers which responded, as well as the OECS' Officer for CSME Matters.

The second obstacle is the limited availability of relevant records at the Barbados office.[19] A third issue perceived is the weak institutional authority of NFPs within their respective states vis-à-vis the sector ministries, Cabinet, Parliament, and the Business and Labour Advisory Committees to which they relate. Fourth, Unit officials perceive a need for the CSME implementation to be 'mainstreamed' into the work of sector ministries and brought within their jurisdiction.

We conclude that the CCS CSME Unit has acted as a positive force in monitoring and facilitating CSME implementation. It has acted as a source of 'internal institutionalized pressure' on sections of the CCS itself and especially on the NFPs to keep the implementation process on track; it has increased the flow of information on implementation; has provided technical assistance to NFPs; has and served as a means of problem identification and problem-solving in implementation.

CSME National Focal Points

Our survey of the NFPs covered (i) Unit Capacity and Capability; (ii) Methods of Monitoring; (iii) Communication with CARICOM; and (iv) Current/Potential Problems and Suggested Solutions.[20] With respect to the first area (shown in Table 3.6), the mean average number of staff assigned to CSME monitoring and implementation is 3 persons, but the modal average is 1 person assigned part-time to these tasks. Most member states are unable to assign one full-time officer to their NFP Unit, although three countries are able to deploy 5-6 officers. This reflects the significant differences in size among member states which impacts on the speed and quality of implementation for the Community as a whole but also on its degree of uniformity among member states. All assigned officers have professional or technical training and the majority have some specialized qualifications related to regional integration. There is broad agreement among NFPs on the necessity for additional professional and technical staff.

19 Barbados is several hundred miles and several hours flying time from Georgetown, Guyana, where the CCS headquarters are located.

20 Questionnaires were sent to the NFPs of 13 member states and the OECS Secretariat; responses were received from 11 member states and the OECS.

With respect to methods of monitoring, participation in meetings of or with sector ministries and agencies relevant to CSME implementation is the most common, followed closely by written reports from ministries and agencies; with verbal reports a distant third (Table 3.7). However, most respondents were not satisfied with the flow of information on CSME implementation from ministries and agencies (Table 3.8). To address this problem, most respondents believe that a key factor would be the assignment of more staff or staff time in reporting ministries and agencies. Giving higher priority to the provision of CSME information by reporting agencies was ranked second; followed by endowing greater authority to the NFP to require information. Few respondents believe that the relocation of the NFP Unit was a critical factor.

Most NFPs confirmed that CSME Inter-Ministerial Consultative Committees and CSME Business and Labour Advisory Committee were functioning in their member states. Regular meetings of these committees do not take place in all cases, but most respondents rated their functioning as 'fairly well'.

A major aspect of the work of the NFPs is communication with the CCS Unit in Barbados and with other Caricom organs (Table 3.9). Participation in Caricom Meetings of one sort or another is the most frequent method of communication. Written communication is also very important, followed closely by direct verbal or telephone communication. Reporting follows no uniform frequency but is carried out as necessary. No sanctions or particular repercussions are suffered as a consequence of late submissions of reports. Most NFPs state that the frequency of their reporting is in keeping with Caricom guidelines and that they receive feedback from Caricom on information when submitted. A very favourable rating was given to their current relationship with Caricom. Recommendations for improved communication with Caricom included better in-office information technology and communication facilities providing for speedier and more frequent real-time interaction among NFPs and between them and Caricom personnel. It is believed that such facilities would keep relevant parties in the information loop and enhance information technology learning; as well as encourage participation of Focal Points and working relations among these stakeholders.

In answering an open-ended question on problems and suggested solutions, NFPs highlighted (i) limited financial and human resources, complemented or exacerbated by (ii) limited knowledge of administrative structures and communication procedures, and (iii) the issue of priority given to the CSME within the existing administrative framework. Some also identified lack of consciousness and commitment to CSME implementation timelines as an issue. The suggested solutions included (i) obtaining full cooperation from ministries and other government departments by exercising greater political authority to this end, and (ii) greater education and training of government personel on regional integration and trade liberalisation matters, with a view to creating better awareness and understanding of the integration process.

Involvement of non-governmental actors

It may be noted that the Caricom governance system makes significant provisions for consultative involvement in the CSME by the private sector, labour unions

and NGOs. The annual (July) Conferences of heads of government, until recently, devoted a full session to interactive dialogue with representatives from these sectors. COTED, the main organ responsible for single market and economy matters, follows the practice of inviting representatives of the private sector to meetings for discussion of specific agenda items where their input is thought to be necessary. In June 2006, a Caribbean Business Council was formed on the encouragement of the Prime Minister responsible for the CSME matters; this body played a prominent role in a three-day regional consultation on the future of the CSME convened by the CCS in that month. At the national level, the Revised Treaty requires the establishment of National Consultative Committees with civil society representatives. As noted above, most of these are in operation and are rated by National Focal Points to be functioning 'fairly well'. There are a number of other established avenues of consultation of civil society with the Caribbean Regional Negotiating Machinery (CRNM) and with the Caribbean Development Bank. However, evaluation of the effectiveness of monitoring by these organisations did not fall within the scope of the present study.

Conclusions

Learning to integrate

The concept of 'learning to integrate', as presented in the introduction to this chapter, refers to a process by which actors and stakeholders utilize the integration experience over time to devise improved methods of managing the integration process, resulting in greater success in goal attainment. Appropriate monitoring instruments are a necessary, though not sufficient, condition for such learning. Their potential value lies in shortening the time-frame of the learning cycle and improving the accuracy of problem identification and interventions.

In their drive to establish the CSME, Caricom decision-makers show evidence of adjusting objectives, strategies and methods as a result of the ongoing experience; and the monitoring instruments employed evolved in this context both on the side of effect and cause. In 1989, the adoption of specific time-bound targets was aimed at addressing the Community's implementation deficit. But having taken this bold step, the Community failed to publicly report on the actual progress in achieving the targets and on the reasons for their abandonment. This limited their value for benchmarking and for deriving lessons from the experience. Nonetheless, the targets did serve the purpose of demonstrating the 'unworkability' of the method of integration based on statements of governmental intent, in the absence of an appropriate legal framework.

The revision of the legal framework, which occupied the better part of a decade, was aimed at filling this need. One of its central features was to establish a structure of governance that had as one of its by-products, the monitoring of implementation at several levels of decision-making. It is difficult to know how well this worked in practice, without further information on the deliberations of meetings of the organs set up under the Revised Treaty. This provision of such information in the public domain

is crucial to evaluating the effectiveness of these monitoring mechanisms. What we do know is that the frequent delays encountered in effecting the cumbersome legal processes involved in implementation have served as an impetus for Caricom leaders to consider the need for further reforms in the Community's system of governance.

Within the context of Treaty revisions and implementation, time-bound targets were employed in several instances. They had the advantage of providing precise indicators by which the progress of integration could be measured. They provided leverage to the CCS with NFPs to fulfil national commitments and to the NFPs in holding their respective government bodies to these commitments. There is a trade-off, however, between the gains resulting from this leverage on the one hand; and the diminished credibility that results from shortfalls in meeting targets without any form of sanction, on the other hand. One response by Caricom has been to define the content of time-bound targets in terms that are sufficiently imprecise to allow re-specification when the target is missed. We have called this device 'elasticity of target specification'. The varying use of terms such as 'establishment', 'legal establishment' and 'implementation' of the CSME; and the more recent distinction between the 'single market' and the 'single economy'; are examples of such elasticity; although they may also be due to the results of the learning process. Even in the latter case; it cannot necessarily be said that these are examples of 'good' learning. There is the risk of confusion, miscommunication and disappointed expectations among non-government actors which factor economic decisions on the basis of erroneous assumptions about the degree of integration that actually obtains.

There were also examples of targets that combine different attributes: specific in content, open-ended in time, but placed within the framework of an over-arching time-bound target. This was the case of the Action Elements for the implementation of the CSME. This has the merit of allowing room for negotiation among the different actors on the timing of implementation of specific commitments, while holding all to the overall time-bound target to which the specific commitments relate. This could be considered to be an instance of adaptation of indicators and another example of the result of learning. A test of the effectiveness of this stratagem was provided by the target for the implementation of the single market by the end of 2005; which was at least partially successful. A further test will arise from the stated 'indicative target' to establish the single economy by 2008.

Policy implications

A major policy implication of this study is that it might be useful for Caricom to consider the explicit incorporation of the monitoring function into the structures and processes of governance under the Revised Treaty of Chaguaramas. This could be justified by recognizing the value of regional 'learning' as to improved problem solving and intervention, thereby enhancing the effectiveness of goal attainment in consolidating the integration process. There are several ways in which this could be done.

First, monitoring would be greatly facilitated if Caricom were to adopt a general policy of employing time-bound specific targets as the preferred practice in CSME implementation. This would need to be buttressed by timely publication

of performance in fulfilling targets and supplying public information on the reasons for shortfalls. Provision could also be made for waivers and derogations of time-bound commitments, under specified conditions and by specified authorities; and for transparent procedures for adjusting time-bound targets.

Second, the monitoring role of the CSME National Focal Points could be strengthened by requiring that each NFP has at least one officer dedicated full-time to monitoring CSME implementation; and by instituting a regular quarterly, four-monthly or semi-annual reporting schedule from line ministries to NFPs and from the latter to the regional CSME Unit, according to a uniform format.

Third, the feasibility might be explored of developing a uniform format for meetings of Caricom organs, that focuses on decision implementation ('what/by when/by who' of actions to be taken) and on review of implementation of decisions taken at previous meetings.

Fourth, it would be a highly significant step to routinely publish on the Caricom website the records of meetings of the principal Caricom organs besides the Conference of heads of government, particularly those of the Councils responsible for functional cooperation. This would encourage monitoring by stakeholders in the integration process and enhance the transparency and accountability of decision-making.

Fifth, Caricom might give consideration to the establishment of an organ(s) with responsibility to monitor decision-making and implementation of the integration process within its governance structure. This entity would need to be independent of the CCS and of national governmental structures. Possible locations are the Assembly of Caribbean Community Parliamentarians (ACCP), an organisation of civil society representatives, or the University of the West Indies.

Implications for monitoring instruments of other regional integration processes

De Lombaerde and Van Langenhove (2006) propose that the core of monitoring instruments for integration processes should consist of a 'system of indicators of regional integration' (SIRI). They identify several interconnected conceptual and methodological issues in building a SIRI: the kind of users and producers involved in its design; the underlying concepts and theories; the scope of the system and level(s) of analysis; adequate selection and organisation of the variables; the balance between quantitative indicators and qualitative assessments; and the 'correct' observation and construction of indicators. Some of these issues are clearly of relevance in the Caricom context, as we can see below in our synthesis of suggested criteria for the selection of indicators.

An implication of the Caricom study, however, is to strengthen the view that no *one* SIRI will be appropriate to *all* integration schemes. The SIRI and associated monitoring instruments will need to be built in accordance with the specific circumstances of the integration process concerned. This may be illustrated by referring to the proposed SIRI developed by the EC's Directorate General of Development

(DG) for measuring regional integration and cooperation performance largely within the ACP group of countries.[21] While several of the indicators are potentially usable in the Caricom context, the list of indicators evidently draws significantly on the EU experience. Examples of these are indicators for 'Implementation of cohesion policy' and 'Progress towards a common transport policy'. Others are designed to serve the requirements of the EC's Development Cooperation programme rather than to serve as indicators of regional integration as such: examples are 'WTO compatibility of rules of customs valuation' and 'Implementation of EDF projects and programmes'. A general observation is that the indicators proposed by the EC presume the availability of the kind of information that is produced by the EU integration process itself.

The Caricom experience is, rather, supportive of the criteria proposed by Anderson[22] and the mechanism developed by the Southern African Development Community for monitoring and evaluating its Regional Indicative Strategic Development Plan (SADC 2003). The thrust of these is to build a system of monitoring that is tailor-made for the specific integration scheme, while seeking to include indicators that will permit comparison with other schemes. By way of conclusion, we attempt a synthesis of the criteria for the choice of indicators that arise from the two sources cited above with those flowing from our study of the Caricom experience.

- Indicators should be derived from the actual objectives and content of the regional integration process being monitored. That is, they should measure the progress made in achieving the goals of the integration scheme in question, not of some other scheme or of some 'ideal' scheme.
- The indicators should be based on readily available information, preferably information generated by the integration process itself; so that the costs of capturing the information are relatively low.
- The indicators should be relatively easy to understand and use by a variety of stakeholders, including civil society actors.
- The robustness of an indicator depends on its specificity and detail with regard to target and to time frame. An indicator based on a numerically expressed target and a target date are obviously more powerful than a vague and open-ended target.
- Both quantitative and qualitative indicators can be used; the latter, for example, relates to processes rather than to outcomes. Adequate assessment requires consideration of both kinds of indicators together with the exercise of judgment based on close knowledge of the processes and actors; and an understanding that integration, as a social and political process, can be 'messy'.
- Indicators can exist not only for the main areas of economic integration – goods, services, capital, and functional cooperation – but also at the different levels at which integration processes take place, such as the political

21 See De Lombaerde and Van Langenhove (2006), as cited from a 2002 European Commission chapter.

22 See De Lombaerde and Van Langenhove 2006.

level, the operational level and the level of non-governmental stakeholder involvement.

- Finally, in the absence of explicit provisions for monitoring in regional arrangements, it may be necessary and feasible to infer implicit provisions from established structures and processes.

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Chapter 4

Monitoring Regional Integration: The Case of Central America

Kati Suominen

Introduction

Monitoring of trade agreements is both an old and a young issue in Central America. Old because all Central American countries have long-standing experience in performing monitoring functions in the context of the Central American Common Market (CACM) first founded in 1961. Young – and highly salient – because each regional country has established monitoring directorates over the past few years in the face of the growing complexity of agreements, which has heightened the need for monitoring; and the intense trade negotiation agendas of new agreements, which has made it difficult for negotiators to continue monitoring existing agreements effectively.

The purpose of this chapter is to analyze and assess the systems for monitoring trade agreements in Central America. In particular, this paper (1) surveys the structure and functions of the regional monitoring instances and the national monitoring systems in three Central American countries, Guatemala, El Salvador, and Costa Rica; (2) discusses the political economy dynamics shaping the monitoring systems in the Isthmus; (3) evaluates the effectiveness of the monitoring processes; and (4) provides a set of practical policy recommendations for fostering the monitoring systems in the region.

Besides aiming to help facilitate monitoring in Central America, this chapter is also hoped to provide lessons learned for the many other developing countries that, like the Central American countries, are seeking to complement their intra-regional integration drives with extra-regional agreements. The case studies here can be instructive as to how to allot staff resources for monitoring the intra- and extra-regional processes, respectively, and how to delineate and reconcile the respective roles of regional and national monitoring entities when monitoring the extra-regional agreements.

'Monitoring' refers here to the *processes* carried out by national and regional public and private sector institutions – rules, roles, and actual physical organizations – to ensure that the contractual obligations assumed in the bilateral and regional trade agreements will be implemented. As such, monitoring here primarily means the administration (or coordination) of the implementation of trade agreements. Monitoring takes place in the 'monitoring system', which here refers to the national

and regional public and private sector institutions that are involved and/or employed in monitoring.

This chapter focuses on monitoring in two distinct spheres – the Central American regional integration process, and Central American countries' free trade agreements (FTAs) with third parties. The data here is qualitative: the bulk of the information presented here is based on interviews with Central American government officials, private sector leaders, and analysts, as well as officials in the main regional entities charged with monitoring the Central American integration process, the Secretariat of Central American Economic Integration (*Secretaría de Integración Económica Centroamericana*, SIECA) and the Central American Integration System (*Sistema de la Integración Centroamericana*, SICA). This chapter also pays close attention to Central American private sector actors, given that they often have been instrumental in shaping the monitoring systems across the region.

The following section examines the monitoring of the Central American regional economic integration process. The third section turns to exploring the features and outcomes of the national monitoring systems in El Salvador, Guatemala, and Costa Rica. The final section concludes with a discussion of the prospects of the regional and domestic monitoring mechanisms in Central America in light of the expanding integration commitments – first and foremost the US-Central America and the Dominican Republic Free Trade Agreement (DR-CAFTA) – and puts forth policy recommendations.

Integrating the Isthmus: Processes and Prospects of Regional Monitoring

The Central American regional integration process hails back to the 1824 formation of the Central American Federation by Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua following their independence from Spain and Mexico. While the federation collapsed in 1838, the integrationist spirits remained. In the 1950s, the Mexico City office of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) drew up plans to create a Central American Common Market (CACM) among the five countries. CACM was officially launched in 1961, and succeeded above expectations in its early years. However, intra-regional conflicts of the late 1960s and 1970s and the civil wars of the 1980s undermined the promise of the scheme, decelerating the integration process.

The regional integration process was revived in the 1990s. The 1991 Protocol of Tegucigalpa to the 1962 Charter of the Organization of Central American States (*Organización de Estados Centroamericanos*, ODECA) established a new institutional framework for the regional project. A further boost came in 1993, when the five Central American countries plus Panama signed the Central American Economic Integration Protocol to the General Treaty on Central American Economic Integration of 1960. This so-called Protocol of Guatemala commits the signatories to work toward intra-regional trade liberalization (a gradual elimination of tariffs, non-tariff barriers, and quantitative restrictions to intra-regional trade and harmonization of regional technical standards), the creation of a region-wide customs union and customs authority, the establishment of common external trade policy, monetary and

financial integration, and free movement of labor and capital among the member states.

At present, the vast majority of goods meeting the CACM rules of origin are free of all tariffs and non-tariff barriers. The excluded products are the region's most important exports – coffee (which is subject to domestic import duties) and sugar (with each country allowed to maintain quota restrictions on the sugar imports).

Regional Institutions: Structure and Functions

The regional integration process is supported by the Central American Integration System (*Sistema de la Integración Centroamericana*, SICA). SICA was created by the Protocol of Tegucigalpa of 13 December 1991, and launched on 1 February 1993. Besides the five Central American Common Market countries, SICA members include Panama as well as Belize, which joined in December 2000. The Dominican Republic holds an associate status, and Panama is an observer.

Responding to the member states' foreign ministers, SICA is essentially a political instance of the regional integration process. Its main organs are the San Salvador-based General Secretariat, as well as the Council of Ministers, Executive Committee, Consultative Committee, Central American Parliament, Central American Court of Justice, and the Meeting of Central American Vice Presidents. SICA's highest instance is the presidential summit. The General Secretariat oversees four technical sub-secretariats focused on economic, political, social, and environmental integration, respectively.[1]

One of the General Secretariat's main tasks is to ensure that the technical proposals and other work emanating from the sub-secretariats are consistent with the instruments of regional integration and with the overall integration process. There are four further specialized secretariats operating within the SICA framework, including the Executive Secretariat of the Central American Monetary Council, Secretariat of the Central American Agricultural Council, Secretariat of Central American Tourism Integration, and Executive Secretariat of the Central American Commission for

1 Secretaría Permanente del Tratado general de Integración Económica Centroamericana SIECA; Secretaría de Integración Social SIS; Secretaría General de la Coordinación Educativa y Cultural Centroamericana SG-CECC; Secretaría Ejecutiva de la Comisión Centroamericana de Ambiente y Desarrollo SE-CCAD.

Maritime Transportation.[2] SICA also has a number of *ad-hoc* secretariats,[3] as well as a consultative committee of private sector and civil society organizations.[4]

The Guatemala City-based Secretariat of Central American Economic Integration (*Secretaría de Integración Económica Centroamericana*, SIECA) is the sub-secretariat of Central American economic integration. Its main purpose is to keep the regional economic integration process on track – to ensure Central American countries adhere to and implement the legal instruments of regional integration. SIECA responds to the Council of Central American economic integration ministers (*Consejo de Ministros de Integración Económica*, or COMIECO). The subsequent lower level instances consist of vice ministers, integration directors, technical

2 The Spanish names and acronyms of the specialized secretariats are Secretaría Ejecutiva del Consejo Monetario Centroamericano SECMCA; Secretaría del Consejo Agrícola Centroamericano SCAC; Secretaría de Integración Turística de Centroamérica SITCA; and Secretaría Ejecutiva de la Comisión Centroamericana de Transporte Marítimo SE-COCATRAM, respectively.

3 Consejo Centroamericano de Instituciones de Seguridad Social COCISS; Consejo de Electricidad de América Central CEAC; Consejo del Istmo Centroamericano de Deportes y Recreación CODICADER; Comisión Centroamericana de Vivienda y Asentamientos Humanos CCVAH; Comisión de Ciencia y Tecnología de Centroamérica y Panamá CTCAP.

The other regional institutions operating within the SICA framework are the Banco Centroamericano de Integración Económica BCIE; Consejo Superior Universitario Centroamericano CSUCA; Instituto Centroamericano de Administración Pública ICAP; Instituto de Nutrición de Centroamérica Y Panamá INCAP; Instituto Centroamericano de Investigación y Tecnología Industrial ICAITI; Comité Coordinador Regional de Instituciones de Agua Potable y Saneamiento de Centroamérica, Panamá y República Dominicana CAPRE; Corporación Centroamericana de Servicios de Navegación Aerea COCESNA; Comisión Técnica de Telecomunicaciones de Centroamérica COMTELCA; Comisión Centroamericana de Transporte Marítimo COCATRAM; Centro de Coordinación para la Prevención de Desastres Naturales en América Central CEPREDENAC; Comisión Regional de Recursos Hidráulicos CRRH; Comisión Centroamericana Permanente para la Erradicación de la Producción, Tráfico, Consumo y Uso Ilícitos de Estupefacientes y Sustancias Psicotropicas CCP; Organismo Internacional Regional de Sanidad Agropecuaria OIRSA.

4 These are Federación de Municipios del Istmo Centroamericano FEMICA; Federación de Cámaras y Asociaciones Industriales Centroamericanas FECAICA; Confederación Centroamericana y del Caribe de la Pequeña y Mediana Empresa CONCAPE; Confederación de Trabajadores de Centroamérica CTCA; Federación Centroamericana de Transporte FECATRANS; Asociación de Universidades Privadas de Centroamérica y Panamá AUPRICA; Unión de Pequeños y Medianos Productores de Café de México, Centroamérica y del Caribe UPROCAFE; Coordinadora Centroamericana de Trabajadores COCENTRA; Asociación de Organizaciones Campesinas Centroamericanas para la Cooperación del Desarrollo ASOCODE; Concertación Centroamericana de Organismos de Desarrollo CONCERTACION CENTROAMERICANA; Federación de Cámaras de Comercio del Istmo Centroamericano FECAMCO; Federación de Entidades Privadas de Centroamérica y Panamá FEDEPRICAP; Consejo Superior Universitario Centroamericano CSUCA; Confederación Centroamericana de Trabajadores CCT; Confederación de Cooperativas del Caribe y Centroamérica CCC-Central American; Consejo Centroamericano de Trabajadores de la Educación y la Cultura CONCATEC; Capítulo Centroamericano del Consejo Mundial de Pueblos Indígenas CMPI.

directors (such as customs, taxation, etc.), and sub-technical group directors, respectively. COMIECO appoints SIECA's Secretary General.

While SICA is a creation of the 1990s, SIECA hails back to the first Central American integration agreement, the General Agreement of Central American Economic Integration (*Tratado General de Integración Económica Centroamericana*) of 13 December 1960. This makes SIECA the oldest of the Central American integration bodies. Article 28 of the 1991 Protocol of Tegucigalpa defined SIECA's role as a SICA Secretariat responsible for economic affairs.[5] The Protocol also states that SIECA will nonetheless retain its legal form and functions as established in the 1960 treaty.

The Protocol to the General Agreement of Central American Economic Integration – the so-called Protocol of Guatemala – of 29 October 1993 institutionalized the Central American Sub-System of Economic Integration, and expanded SIECA's functions to serve as the secretariat for the regional instances that do not have a specific secretariat, as well as for the Executive Committee of Economic Integration (*Comité Ejecutivo de Integración Económica*, CEIE). Per article 44 of the Protocol of Guatemala, SIECA is to execute the decisions of the bodies of the sub-system, prepare studies requested by the sub-system, perform functions assigned to it by COMIECO, and make proposals on matters of regional integration. As such, SIECA essentially links the various activities pursued within the economic sub-system of regional integration. It is also to coordinate its work with the other secretariats in order to ensure that the work on economic integration is in line with and complementary to the regional political, cultural, and social objectives.

SIECA's main purpose is to provide technical and administrative assistance for furthering Central American countries' integration in the regional and global markets. As such, SIECA deals essentially with all objectives related to the building of the Central American common market – and, in particular, liberalization of trade in goods and the common external tariff – and Central America's integration to the global trading system. It is divided into three general directorates: integration and trade, legal affairs, and information technology (Figure 4.1). The first two are particularly central in monitoring the regional trade integration process.

The integration directorate has two main functions: technical assistance and training geared mainly to governmental actors but also some private sector associations on a range of regional and global trade issues such as customs procedures, rules of origin, and assistance for implementing the GATT Article VI on anti-dumping; and broader dissemination of information on the process and problems with regional integration through website, statistics, and publications. The directorate operates on a small staff. There are two technical staff persons for customs matters, two on tariffs, one for technical norms and SPS, and one for rules of origin.

The legal affairs directorate carries out two main tasks: technical assistance for producing the body legislation on Central American integration (such as new treaties and modifications or amendments to the existing ones); and administration of SIECA's dispute settlement mechanism (DSM). The technical assistance function involves various aspects of regional legal obligations, such as drafting and revising

5 ODECA was first created in 1952.

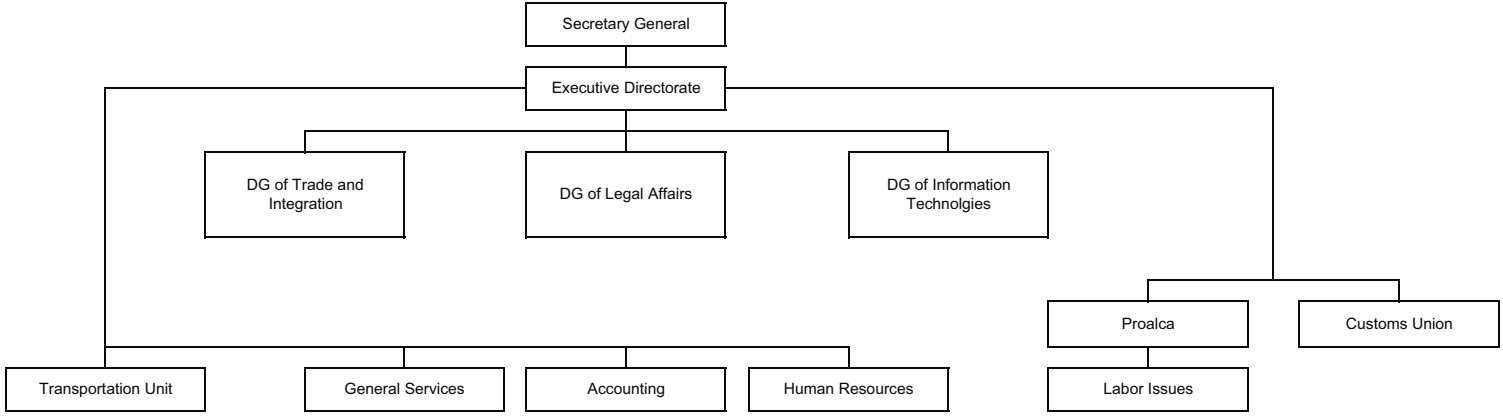


Figure 4.1 Structure of SIECA

the body of regional integration legislation and proposals for ministerial declarations. It is the mainstay of the directorate's work, with the staff members participating in all the regional technical meetings. The legal directorate has four thematic experts staff working on technical assistance.

The directorate's dispute settlement function is more nascent. The DSM mechanism was established in SIECA only in February 2003. Previously, regional cases that could not be solved through bilateral consultations were brought to the Central American Court; however, the effectiveness of the mechanism was poor given that only three of the five countries have ratified the agreement establishing the Court. Dispute settlement carried out in SIECA involves the entire range of problem-solving – reducing tensions and pre-empting disputes, proposing ways to solve disputes, providing legal assistance to countries involved in a dispute, facilitating the transmission of petitions between countries, and handling disputes that need to be settled. Thus far six cases have been brought; they have involved sensitive products, such as perishable goods. Three of the cases have been solved in consultations, while three are still at the level of consultations. The dispute settlement division has two staff members.

Assessment of Outcomes

SIECA is widely considered the most important, dynamic, and capable of the regional sub-secretariats. The regional governments see it as an instance that provides solid technical expertise, institutional memory, and impartial information, advice, and dispute settlement to the regional governments on trade and regional integration process. More generally, SIECA is seen as invaluable for transcending political and economic changes in the Isthmus, political problems between the regional governments, and the capacity constraints of the regional negotiators and monitorers.

However, at the same time many government officials, private sector leaders, and SIECA's own staff view the organization's monitoring capacities – its ability to ensure that the regional integration agreements and commitments are adhered to – as being undercut by the very governments SIECA strives to serve. This has a number of underlying reasons:

- The regional integration process is still a process of governments rather than states. Member states' commitment to regional integration has wavered over the years due to some governments' lack of interest in regional integration and/or domestic political problems, which have translated into efforts to deviate the national attention by inflaming old border and trade disputes with the regional partners. This, in turn, has rendered regional integration to proceed in a stop-and-go fashion, and undercut SIECA's long-term planning.
- In a widely held view, SIECA is 'a secretary rather than a secretariat': the Isthmus governments are reticent about delegating power and functions to SIECA. For instance, SIECA's legal directorate would hope to play a greater role in pointing out actions that are not in conformity with the principles of regional integration and require rectification. However, much like most

international organizations, SIECA can propose certain measures to induce compliance with regional treaties and commitments, but is not able to enforce compliance.

- SIECA's workload is accentuated by the disintegration of the region's countries in their external trade negotiations. At the multilateral level, the Central American countries diverge in their tariff bindings resulting from the Uruguay Round, which makes it harder to achieve a CET, as well as in their commitments to the General Agreement on Trade in Services (GATS), which impedes progress on regional integration in cross-border trade in services. Perhaps most importantly, the fact that the regional countries have pursued FTAs with third parties separately (with each country having negotiated either individual agreements, such as Nicaragua and Costa Rica with Mexico, or individual tariff lowering schedules in the otherwise jointly negotiated agreements, such as CAFTA) means that the member states' preferential tariffs differ. This is an even more pressing issue given that preferential trade with external partners accounts for more than half of the region's total trade. However, it also means that reaching a CET for MFN trade is not sufficient for full integration: what would be needed is a region-wide harmonization of tariff lowering schedules in the FTAs struck with third parties.[6]

According to SIECA staff, three further issues would help them fulfill the institutional functions and build political momentum for the regional customs union:

- Continuity in the technical staffs in those Central American countries – particularly Guatemala and Honduras – where the staff turnover tends to be high. New, inexperienced staff in the member countries poses SIECA additional demands for technical assistance and training.
- Greater resources for producing publications and providing training for the region's governments and private sector actors on the benefits of deeper integration and on the operation of the dispute settlement mechanism.
- Fresh resources to support the dispute settlement mechanism. With the losing party required to pay for the costs of dispute settlement (such as producing documentation and hiring external consultants), funding to cover the processes for a case is made only after the verdict has been reached, rather than being available during the case. SIECA has sought to create a rotating fund that would allow it to borrow funding for handling on-going cases; however, a source has yet to be established. Should te number of cases grow, the system would risk bogging down.

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6 According to one estimate, just in CAFTA the different countries tariffs vis-à-vis the US will be harmonized only 23 years into the agreement. Harmonizing obligations across the region would have two immediate advantages: it would pave the way for fully unfettered regional cumulation and, as such, the creation of regional value added; and it would likely be more conducive to FDI inflows. The key would be to harmonize preferential relationships, as well as to negotiate the agreements and their annexes as a unit. The Summit of SICA members' heads of state in Honduras in February 2005 called for the ministers in charge of economic integration to identify mechanisms that will allow for joint trade negotiation.

Various Central American government officials put forth five further proposals for fostering SIECA's monitoring role:

- A more process- rather than personalities-based organization. The current mechanisms work to a good extent thanks to the long-standing relationships of SIECA's staff with the region's governments and other actors. However, this also implies that monitoring of regional integration is often based on personalities rather than institutionalized processes, which, in turn, may lead to inconsistencies and be unsustainable in the long-run.
- Centralizing into SIECA a greater number of functions related to the Central American countries' integration processes with third parties. In an illustrative example, each Central American country produced its own set of documents and translations in the process of negotiating CAFTA; centralizing the work into SIECA would have reduced the duplication and ensured consistency across the region.
- Responsiveness to ad-hoc special requests by the regional countries. Some government officials think SIECA needs stronger capacities to help governments produce documentation on the regional integration processes when issues related to regional integration are faced with political opposition or legal challenges at the domestic level.
- Stronger analytical capacities. Although SIECA does produce documentation on regional integration and external assistance to regional integration, it has yet to generate rigorous statistical and impact analyses.

Fostering Regional Monitoring: The Potential of a Genuinely Regionalized Private Sector

Besides calling for a stronger monitoring role and capacities for SIECA, some Central American officials and private sector actors also highlight the importance of connecting the region's private sector associations under a region-wide umbrella organization that could propel and monitor the regional integration process – and, more further into the future, oversee the implementation of the region's FTAs with third parties.[7] A practical way for establishing such an organization would be to employ the Federation of Private Sector Entities of Central America and Panama (*Federación de Cúpulas Empresariales de Centroamérica, Panamá y República Dominicana*, FEDEPRICAP), which is undergoing a renaissance after being revived during the CAFTA negotiations.

There have been recent moves to found, as mandated by the Protocol of Guatemala, the Consultative Council of Economic Integration (*Comité Consultivo*

7 There is also support for using a region-wide private sector body for monitoring the application of CAFTA's principle of multilateralism, whereby CAFTA's market access regime coexists with that of the Central American Common Market (CACM). In practice, the provision implies that Central American exporters seeking access to the other Isthmus markets will be able to employ CAFTA's rules of origin-regime in the many sectors where CACM RoO may be less flexible as long as they also comply with the CAFTA's preferential tariff lowering schedules.

de la Integración Económica, CCIE) composed on private sector actors and aimed at supporting and working with SIECA. While SICA does have its private sector council, CCIE is only emerging. FEDEPRICAP has reportedly proposed that the Federation of Industrial Chambers and Associations of Central America and the Dominican Republic (*Federación de Cámaras y Asociaciones Industriales Centroamericanas y de República Dominicana*, FECAICA) would represent it in a CCIE.

National Monitoring Systems: Balancing the Intra- and Extra-Regional Monitoring Demands

This section turns to describing and assessing the monitoring systems in three Central American countries – Guatemala, El Salvador, and Costa Rica – that are employed for monitoring both the intra-regional integration process and the three countries' respective extra-regional FTAs. The first part lays out the monitoring mandates of the various FTAs. The second part details the monitoring systems in each of the three countries. The third part highlights the common challenges to monitoring in the Isthmus countries, and puts forth policy recommendations.

Monitoring Mandates: Extra-Regional FTAs

While the long-standing process of intra-regional integration means that each Central American country has long been performing some monitoring functions, it is the regional countries' FTAs with Mexico that contain the first explicit mandate for each country to establish domestic monitoring institutions. The monitoring model in the Mexican FTAs flows largely from that of the North American Free Trade Agreement (NAFTA), and has been further solidified in the US-Central America-Dominican Republic FTA (CAFTA) (Table 4.1).[8]

National Monitoring Systems

Guatemala

Monitoring of trade agreements in Guatemala is carried out by the Directorate of Foreign Trade Administration (*Dirección de Administración de Comercio Externo*, DACE) of the Vice Ministry of Integration and Foreign Trade of the Ministry of the Economy. DACE was first created in 2000 in the face of the then-imminent CAFTA and, in particular, the Northern Triangle-Mexico FTA, which mandated the establishment of a unit for the administration of the agreement within each member government. The Guatemalan private sector, seeking improved information from and coordination with the government, threw its support behind the creation of such a unit.

8 See Chapter 14 on Mexico and the United States in this volume for a more extensive discussion.

Table 4.1 Central American FTAs and Their Monitoring Mechanisms

FTA	Signed	Entry into Force	Administrative Levels			
			I	II	III	IV
Central American Common Market (CACM)*	**1960**	**1961-63***	**COMIECO**	**SIECA**		
Costa Rica-Mexico	1994	1995	Administrative Commission	Secretariat		
Nicaragua-Mexico	1997	1998	Administrative Commission	Secretariat	Committees and Sub-Committees	Committees and Sub-Committees
Northern Triangle (El Salvador, Guatemala, and Honduras with Mexico)	2000	2000	Administrative Commission	Administrative Sub-Commission	Secretariat	Committees and Sub-Committees
Central America-Panama	2002	2002**	Administrative Commission	Administrative Sub-Commission	Secretariat	Committees and Sub-Committees
Central America-Chile	1999	2002***	Administrative Commission	Administrative Sub-Commission	Secretariat	Committees and Sub-Committees
Central America-Dominican Republic	1998	2002****	Joint Administrative Council	Secretariat	Committees and Sub-Committess	Committees and Sub-Committees
Costa Rica-Canada	2001	2002	Free Trade Commission	Free Trade Coordinators		Committees and Sub-Committees
United States-Central America-Dominican Republic (CAFTA)	2004	N/A	Free Trade Commission	Free Trade Coordinators		Committees and Sub-Committees
Costa Rica-CARICOM	2004	N/A	Joint Administrative Council	Free Trade Coordinators		Committees and Sub-Committees

* Ratified by Guatemala, El Salvador and Nicaragua in 1961, Honduras in 1962, and Costa Rica in 1963.
** Only a bilateral protocol between El Salvador and Panama has entered into force.
*** Entered into force only between Chile and Costa Rica and El Salvador, respectively.
**** Entered into force in 2001 between the Dominican Republic and El Salvador, Guatemala, and Honduras, respectively; and 2002 in the case of Honduras.

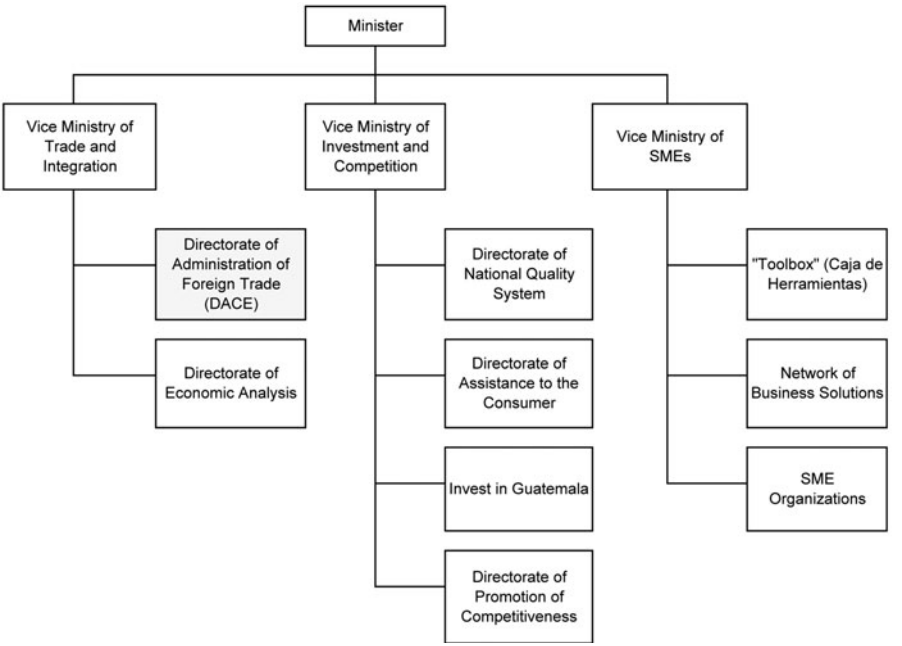


Figure 4.2 Monitoring System in Guatemala

Structure and Functions The current administration that took office in 2003 re-organized the vice ministry dealing with international trade agreements and integration. This resulted in a pyramid headed by the vice minister of integration and foreign trade, and three coordinating units – negotiation, administration, and integration – as the three pillars (Figure 4.2). The new structure was inspired by the monitoring systems of the Mexican and Chilean governments, both of which were consulted in the re-organization process.[9]

The administration and integration units are in charge of carrying out the day-to-day monitoring work. The administration coordinator has two divisions: trade rules, and agreements and treaties. The trade rules division consists of technical staff, each of whom (1) administers a specific trade discipline (rules of origin, technical rules, SPS, illegal practices, and market access) across all FTAs; and (2) coordinates inter-agency work related to the implementation of the discipline. The division's monitoring work has three components: implementation, application, and modification.

- *Implementation* involves measures prior to the approval of an agreement: writing of the legislation required for the agreement to operate, gathering

9 It differs from the Mexican and Chilean systems in that it is not divided by the various FTAs that Guatemala has in effect, so that any staff member can work on any agreement. Dividing the monitoring staff by FTAs or geographical regions is a near must in Mexico and Chile given their large number of FTAs.

support for the agreement's ratification in the Congress, publishing the agreement in the official journal, preparing measures to administer the agreement.

- *Application* follows an agreement's entry into effect. It involves coordinating and facilitating the work of the main trade agencies, such as the Ministries of Agriculture, Finance, Health, and Labor, and the Tax Superintendency (which hosts customs), as well as attending to private sector concerns related to the agreement.
- *Modification* refers to the processes required for enacting any changes to an agreement after its entry into effect, for instance at the request of the private sector, the trading partner, or another Central American country.[10]

The agreements and treaties division is not divided by issue areas, but, rather, deals with all issues in all agreements. It is primarily an external relations office – publishes and disseminates information on the FTAs; maintains lines of communication with the press, foreign embassies, and other actors; and stages presentations and workshops geared to training the private sector on FTA disciplines and application of FTAs.[11] In preparation for CAFTA, the ministry carried out more than a hundred presentations to sectoral associations, Congress, universities, schools, indigenous associations, and other groups, and responded to numerous daily requests and questions posed in writing, by phone, e-mail, and personal visits. It also produced information pamphlets on the various FTAs and their requirements.

Besides outreach, the division is in charge of administering quotas. Prior to DACE's reorganization, it also handled anti-dumping and safeguards issues; however, the restructuring of the vice ministry concentrated the technical issues into the trade rules division in order to concentrate the agreements and treaties division's energies in outreach.

The integration coordination unit handles issues related to the Central American regional integration process. It consists of technical staff divided by functional issue areas, and carries out five specific functions:

- Negotiation of Central American integration agreements and other legal instruments of integration. The agenda is driven by the ministers, who meet once a month. Technical groups meet twice a month. The issues on the agenda depend largely on the requests of the country holding the pro-tempore presidency of Central American integration. That country is in charge of distributing, through SIECA, its proposed meeting agendas for comments by the other countries' directors of integration – who, in turn, can

10 In order for an FTA to become modified, DACE receives the complaint and proposal for an alteration; consults with all interested private sector parties as to the feasibility of the change; and passes the proposed change to the other Central American parties involved in the FTA. Once domestic and regional consensuses are reached, DACE sends the proposal to the counterpart country.The need for modifications can also be spurred by external factors, such as revisions to the Harmonized System that will need to be made compatible with the FTA.

11 Export promotion is done by a separate instance in the ministry and is not considered directly as dealing with monitoring.

propose changes and channel them back to the regional governments through SIECA.

- Coordination at the national level. Before the technical groups' regional meetings, the administration coordinator sets up meetings of national committees on each of the topics that will be addressed by the regional technical groups. For instance, a national meeting on agricultural tariffs would convoke the ministries of finance and agriculture, customs, the Bank of Guatemala, and interested private sector parties.
- Monitoring the implementation of Central American integration agreements. This involves resolving private sector concerns about impediments to regional trade. The issues arise on a daily basis, and are usually dealt directly with the partner country in question. However, when the issue affects the entire region – such as the common external tariff – and/or when it requires modifications to the regional legal instruments, Guatemala would bring the issue to SIECA, which, in turn, would subsequently distribute it to governments across the region.
- Monitoring implementation by national agencies of the Central American legal integration instruments.
- Dissemination of information to the private sector and general public on the process of regional integration.

Role of the Private Sector The umbrella framework for public-private sector consultations on economic and trade policy issues, including issues concerning monitoring of trade agreements, is the National Export Council (*Consejo Nacional de Exportaciones*, CONAPEX) established in 1985. CONAPEX incorporates the ministries of the economy, finance, foreign relations, agriculture, and communications and public works, as well as the president of the Bank of Guatemala, and five private sector representatives from the major economic sectors – agriculture, finance, tourism, cooperatives, and commerce and industry.

Both the government and the private sector highlight CONAPEX as a highly useful forum for building consensus and providing continuity to trade policy issues. Indicative of its value is that the face of political contention between the private sector and government, CONAPEX meetings have been postponed and/or issues have been delegated to the more technical levels in order to avoid damaging the forum.

CONAPEX's success owes in part to the consensus-building mechanisms within the Guatemalan private sector. The main private sector fora are the various sectoral associations and the Coordinating Committee of Agricultural, Trade, Industrial, and Financial Associations (*Comité Coordinador de Asociaciones Agrícolas, Comerciales, Industriales y Financieras*, CACIF), which incorporates virtually all productive sectors. CACIF is widely seen as highly disciplined and skilled at building internal consensus despite the various opposing positions within the organization. CACIF serves as the nexus of government-private sector relations and alleviates DACE's coordination costs of communicating and working with the private sector.

Outcomes and Evaluation Overall, DACE officials view monitoring as having two main, tangible benefits: it allows for pre-empting problems with the FTA partners, and helps ensure that Guatemala's current and future FTA partners consider the country a serious partner and enforcer of its agreements.

The monitoring processes with each of Guatemala's trade agreement partners is relatively uncomplicated and flexible. The overarching working agendas with the partners – and, consequently, within the national technical committees – are largely shaped by the annual ministerials. Any day-to-day issues and problems are handled on an as-needed basis through phone calls or *ad-hoc* meetings with the partner country's staff. Thus far, the bulk of DACE's work has been generated by Mexico under the Northern Triangle-Mexico FTA; the trade disciplines that have consumed the greatest amount of time are rules of origin, SPS, and customs procedures (particularly those related to Mexico's specialized customs).

While no sectors have voiced particularly several complaints on the behavior of the partner countries and/or sought to modify the existing FTAs, exporters of perishable agricultural goods have been particularly troubled by SPS and customs procedures. Most issues with the partner countries have been resolved at technical level; however, a handful has been taken to the Free Trade Commission. Guatemala has also brought one case – concerning Mexico's fixing the price of shoe imports – to the World Trade Organization's (WTO) dispute settlement mechanism. According to ministry officials, the case has helped boost the country's image as a serious trading partner and enforcer of its agreements.

As for the inter-agency processes, the lines of authority and the respective functions of the various agencies are clear. DACE is widely recognized as the focal point of contact that coordinates inter-agency processes and administers inter-agency meetings. It tends to have easy access to officials in the other agencies. This is in good part due to the fact that many key officials across the current government are drawn from the private sector, and used to collaborating and communicating with each other. However, DACE's coordination of the various public sector agencies is hampered by human resource constraints. For instance, there is only one official in the ministry of agriculture to handle all disciplines in all trade agreements.

Both DACE and the private sector characterize their communication channels as open and fluid. This owes to the resilience and success of CONAPEX, the coordination of private sector positions and actions in CACIF, and, again, to the pro-business government, which has translated to an uncomplicated access for the private sector actors to the ministry and DACE officials. The private sector in general is also pleased with the information flows from the government, whether in the form of *ad-hoc* communications with the ministry or in the context of CONAPEX. Some congressional leaders do, however, voice concerns that DACE is biased toward large firms, and failed to include small- and medium-size enterprises in the negotiation and monitoring processes as effectively as in El Salvador, for instance.

DACE officials have accentuated their outreach with the Congress and the public. However, according to DACE officials, private sector actors, and some Congressional

leaders alike, DACE's public relations work is wanting due to its capacity constraints. CAFTA has brought these problems to the surface: even though information is being disseminated actively about the agreement by the government and media, there are complaints about lack of information.[12] According to government officials, there is also inadequate information on the monitoring work *per se* – the measures that the ministry has taken and can take to solve trade problems faced by the private sector actors – which is reflected in the lack of confidence by the private sector in DACE's work. To be sure, in part the informational gaps reflect the need for improving the technical capacities and oversight of trade policy issues in the national Congress.

Overall, DACE officials view themselves as operating at a maximum capacity and as hard-pressed to manage even slight increases in the monitoring work. Staff is currently often called to perform each other's functions both within and across the coordinators due to the filled negotiation and implementation agendas; according to DACE officials, such borrowing undercuts the technical performance of the directorate's staff and results in backlogs. The main source of capacity constraints is the lack of funds for hiring more well-qualified staff. Lack of continuity in the technical staff in the other government agencies has exacerbated the problem, resulting in the loss of institutional memory and contacts, and heavy start-up costs for training new staff on trade disciplines and the monitoring process.

The challenges to the effective monitoring should, according to DACE, private sector actors, and the legislature alike, be addressed through improved human resources and continuity in the technical staff in the public sector, including through a strong civil service, and through improved examination of trade agreements by universities and centers of analysis. The ministry of the economy has thus far sought to mend the gap by training staff and hiring external consultants. Also the private sector faces human resource problems: there are few experts well-trained in the modern trade disciplines within the key private sector entities, such as exporting firms and law practices, and inadequate resources for hiring senior experts.

One proposed solution voiced by a private sector actor would be to launch a university degree program on international trade management. The program could operate with the help of scholarships – potentially provided by donor institutions – in order to attract top-quality students, and be subject to oversight by CONAPEX or other similarly respected public-private sector instances in order to avoid its politicization.

El Salvador

Structure and Functions In El Salvador, the implementation and administration of FTAs and the regional integration process falls on the Directorate for Administration of Trade Agreements (*Dirección de Administración de Tratados Comerciales,* DATCO) of the Vice Ministry of the Economy (Figure 4.3). DATCO operates

12 The private sector argues that politically, it is useful for opponents of the government to remain uninformed – since informing themselves would imply that their key sources of protest dissipates.

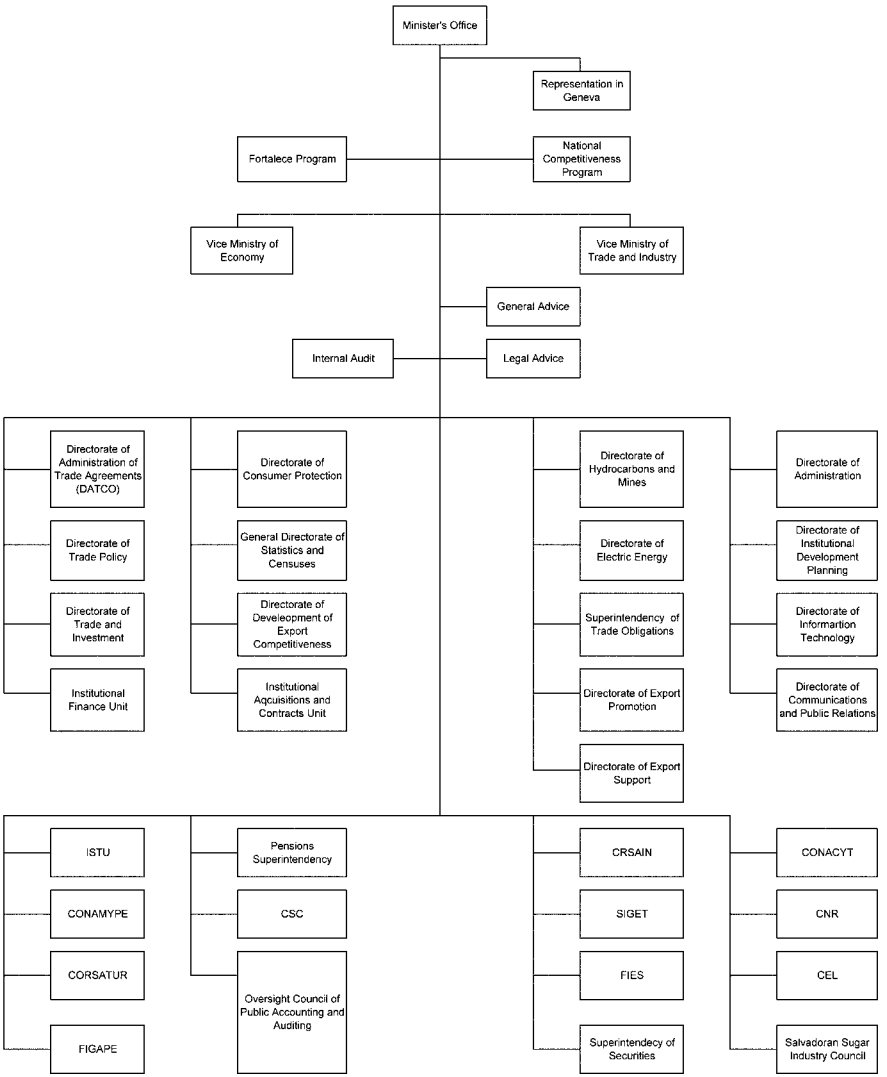


Figure 4.3 Monitoring System in El Salvador

alongside the directorate for trade policy, which is in charge of negotiating all of the country's trade agreements.

DATCO was created at the urging of the Salvadoran private sector in November 2000 through a reform of the statutes of the Ministry of the Economy. The objectives of its creation were two-fold: (1) to separate the functions of negotiators and implementers of FTA in the face of the rising number of FTAs and FTA negotiations, which rendered the negotiators unable to administer agreements; and (2) to create

an institutional coordination device between the various government ministries and agencies involved in agreement implementation. Chilean officials were consulted in the re-organization process.[13]

DATCO carries out four main functions:

- Technical assistance to Salvadoran exporters, producers, and importers to understand ensure compliance with the commitments the country has assumed in the FTAs.
- Solution of problems arising in the context of the FTAs and Central American trade agreements through technical groups and ad-hoc consultations with the partner countries.
- Application of safeguards and other trade remedy measures at the request of domestic producers against the FTA and regional integration partners per the provisions of the trade agreements.
- Dissemination of information on FTAs to the public and private sectors, the Legislative Assembly, and society at large.

The functions of DATCO and the trade policy directorate are separated in a clear manner. The work of the trade policy directorate ends and DATCO's work begins when the FTA is ratified by the legislature: the trade policy directorate negotiates agreements and builds support for them, but does not implement them. It gets involved in the monitoring process only upon a renegotiation of an FTA. As such, the staffs of the two directorates perform the functions of their respective directorate only. Staff in both directorates are divided either by functions or by trade disciplines. As such, they operate in parallel, with each technical expert of one directorate having a mirroring expert in the other. Some DATCO officials have over the past five years joined the negotiating team (but thus far not *vice versa*), and officials support such inter-directorate switches as fruitful.

Role of the Private Sector The Salvadoran private sector has played a central role in the creation of the country's monitoring system, and is intricately involved in the monitoring process. The key private sector entity that participates both in the negotiation and monitoring of FTAs is the Organization of Support of the Productive Sector for International Trade Negotiations (Organización de Apoyo de Sector de Productivo para las Negociaciones Comerciales Internacionales, ODASP). Formed in 1996, ODASP incorporates and represents all the 42 associations that belong to the Salvadoran main private sector entity, the National Association of the Private Enterprise (Asociación Nacional de la Empresa Privada, ANEP).[14] ODASP was the

13 El Salvador did not adopt the Chilean model that merged negotiation and monitoring units; rather, like El Salvador, Chile has now divided the two functions into separate units.

14 While ANEP is a political instance, ODASP is a technical one. ASI provides offices for ODASP. ODASP, in other words, unites the country's business community and, as such, combines the technical capacities of all ANEP members. ODASP has participated in all of El Salvador's FTA negotiations, and also been the initiator of efforts to create a genuinely Central American private sector. At ODASP's initiative, ANEP pushed for the creation of FEDEPRICAP in 1996. The initial members of ODASP were The Salvadoran Association of

key proponent of the re-organization of the Ministry of the Economy into DATCO and the directorate for trade policy. It was also a source of DATCO's staff; indeed, one of the main private sector proponents of DATCO was also chosen to direct it.

ODASP plays two main roles in the monitoring process. First, it is the main transmitter of the private sector's concerns or complaints related to trade and the operation of the trade agreements. As such, ODASP attains a broad picture of the key problems facing the Salvadoran traders, and serves as the focal point of private sector-DATCO communications. Second, ODASP works to build consensuses within the private sector virtually in any issue of implementing trade agreements. For example, when new legislation is required for implementing an agreement, ODASP convokes technical experts from its different associations to establish a common proposal for the legislation, and subsequently channels it to the executive, which, in turn, can send it to the legislature. According to private sector, such coordination among the private sector helps insert transparency into the government's work, reduces the executive's transaction costs, and facilitates executive-legislative relations and the legislative process.[15]

ODASP's diverse membership is its key strength. It is credited for democratizing trade policymaking within the private sector, and for allowing for the creation of several, thematically specialized *ad-hoc* working groups of interested parties – which increases the focus and rigor of discussions and accelerates consensus-building.

El Salvador is the first Central American country to have created a national coordinating public-private sector entity focused on the monitoring of trade agreements. The National Administration Commission of Trade Agreements (*Comisión Nacional Administradora de Tratados Comerciales*, CONATCO) created by a presidential decree began operations in January 2005. It incorporates the ministries of the economy, agriculture, finance, and foreign affairs, and the country's main producer associations (industrial, export, commerce, agricultural, financial, construction, and SME associations). ODASP and DATCO participate as the private and public sector's respective technical instances.

CONATCO operates on three levels: (1) ministers and presidents of private sector associations who consider trade policy issues; (2) vice-ministers and executive directors or managers of private sector associations who focus on the technical and strategic issues; and (3) directors of ministries and representatives of associations who work on technical issues. The commission's agenda includes all of El Salvador's external trade agreements – FTAs, Central American regional integration agreements, and multilateral agreements. Its meetings are organized around specific topics and thus involve only the interested stakeholders and parties. There are eight

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Industrialists (*Asociación Salvadoreña de Industriales*, ASI), the Chamber of Commerce, and the exporters' head association.

15 ODASP also has a more informal way of facilitating monitoring – a more sensitive issue but nonetheless exposed by the private sector actors. Upon receiving a complaint by a private sector actor, ODASP sometimes simply bypasses DATCO and directly contacts the government against which the complaint is brought. Given that some ODASP members have access to relatively high level officials in other governments, the solution of the concerns can be markedly accelerated.

formal thematic committees (rules of origin and customs procedures, intellectual property rights, SPS, trade in services, renegotiation of agreements, standardization, monitoring of Central American integration, and labor and the environment) and three sectoral committees (for agriculture, textiles, and industrial goods).

Both the government and the private sector see CONATCO as a promising instance for building common positions and voicing concerns; however, the commission is still too short-lived for a performance assessment. Much like in the case of ODASP, CONATCO's broad-ranging membership makes it a light and flexible instrument, allowing for convoking highly targeted, issue-specific working groups of interested private sector parties and government agencies.

Evaluation: Outcomes and Challenges The monitoring process in El Salvador has been relatively successful. The communication with the partner countries is fluid and most issues are solved through informal channels, such as phone calls or e-mail. Much like in Guatemala, the bulk of the day-to-day implementation issues have emerged with Mexico. The channels of communication within the ministry of the economy, across the government, and with the private sector alike are also open. In addition, inter-agency coordination has thus far been relatively uncomplicated. These positive aspects are attributed to the presence of qualified staff in many of the key positions involved in monitoring, the strong role of the private sector in defining and facilitating the monitoring process, and continuity in the technical staff across the government – which to a large extent owes to the governing party's uninterrupted rule since 1994. To be sure, there have been some discontinuities due to government officials' migrating to more lucrative positions in the private sector.

The private sector nonetheless views the inter-agency processes as slow, which is in general attributed to insufficient availability of trade experts in the government, and also sees DATCO's stances toward the FTA partner governments as somewhat too conciliatory. Moreover, much like in the case of Guatemala, both public and private sector actors worry about the longer-run sustainability of the current monitoring framework in the face of the likely increase of trade agreements, and/or future demands for DATCO to activate its thus far latent function of employing trade remedies.

CONATCO is expected to provide some answers to these concerns. However, the main solution, proposed both by the private sector and DATCO officials, for strengthening the monitoring process is to increase and improve human resources in the agencies and ministries involved in the monitoring processes.[16] The recruits should have high levels of expertise to be immediately able to assume their duties, and be able to access first rate information technologies.

Costa Rica

Structure and Process Monitoring in Costa Rica is carried out by the Directorate for the Application of International Trade Agreements (Dirección de Aplicación de

16 An ODASP member argues that DATCO should have a total of 30-40 staff members – a three-fold increase from the current levels.

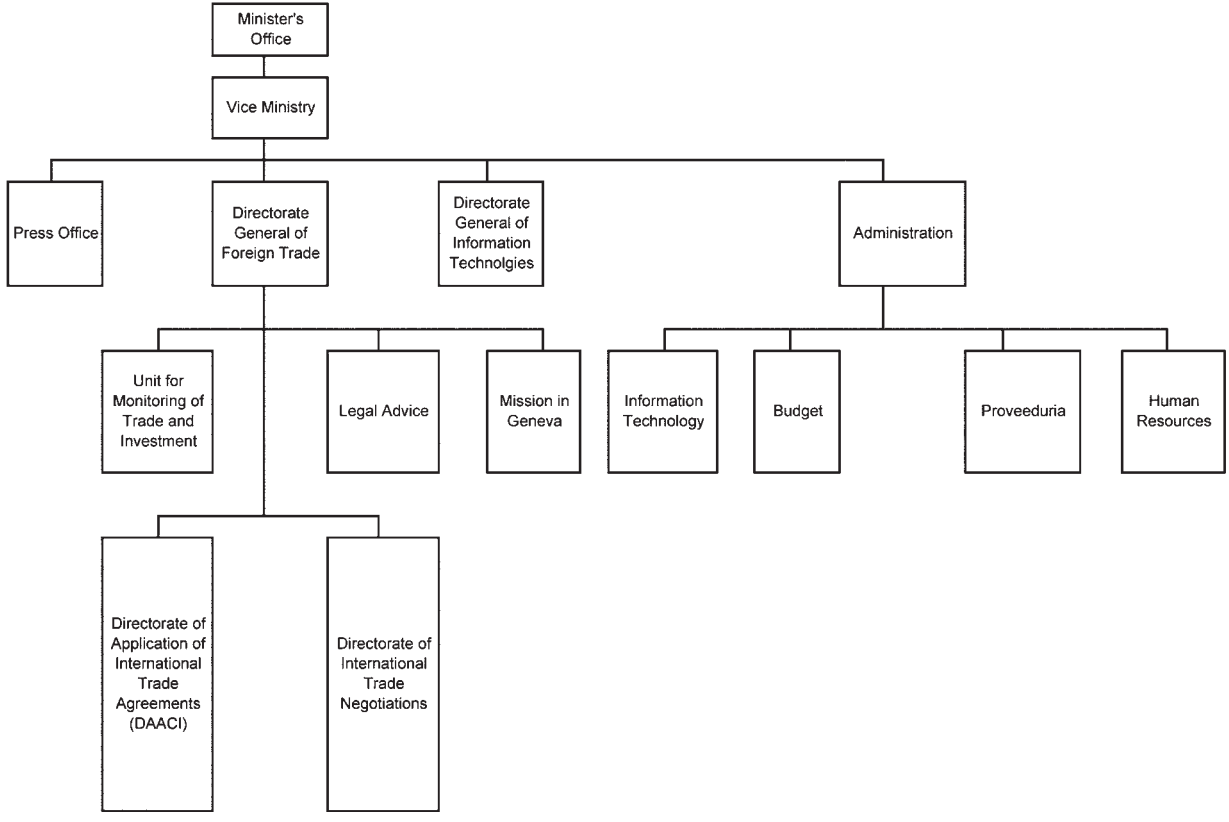


Figure 4.4 Monitoring System in Costa Rica

Acuerdos Comerciales Internacionales, DAACI) of the Costa Rican Ministry of Foreign Trade (Figure 4.4).

A parallel directorate, the Directorate for International Trade Negotiations (*Dirección de Negociaciones Comerciales Internacionales*), is in charge of the negotiation of trade agreements. DAACI was created by a 1998 law, first and foremost as a response to the demands of the Costa Rican private sector for an improved follow-up on trade agreements and for a centralized window for the government to disseminate information on the contractual obligations of the FTA disciplines. At the time, the government's negotiating team also monitored agreements, which, given Costa Rica's intense negotiation agenda, often relegated monitoring to a secondary line of work.

DAACI performs four main functions:

- The basic monitoring work of coordinating the implementation of the bilateral, regional and multilateral trade agreements at home and with the partner countries, including receiving requests for modifications to the existing agreements. In this capacity, DAACI hosts the System for Administration of Agreements (Sistema de Administración de Tratados, SAT), an electronic window for domestic private sector actors as well as for foreign governments to send in questions, petitions, and complaints involving preferential and multilateral trade agreements.
- Cooperation with the private sector.
- Dissemination of information on trade agreements and their effects to the legislature, private sector, universities, and the press. DAACI employs various channels, such as conference series and related activities, the Internet, CD ROMs, and annual statistical reports.
- Inter-agency coordination of the governmental entities involved in monitoring. The main task is to host semi-monthly inter-institutional meetings between customs, ministry of agriculture, ministry of the economy, industry, and trade, and ministry of health.

DAACI has a horizontally and vertically flexible structure. Each staff member at any given time either has is in charge of a trade discipline or of an FTA. When in charge of an FTA, the staff member acts as 'principal' – the key coordinator of all meetings conducted in the context of the FTA. When in charge of a discipline, the expert is a 'deputy' – operates across FTAs under the various principals. Over time, experts are circulated regularly from one discipline to another (and/or one FTA to another). This implies that over time, each staff member ends up covering several different trade disciplines, and acting both as a deputy and as a principal. The purpose of the system is to create a deep, versatile, and flexible team. The achievement of this goal is facilitated by the fact that the bulk of DAACI's technical experts are drawn from the teams that have previously been involved in Costa Rica's FTA negotiations.

Role of the Private Sector

The Costa Rican private sector – both exporters and import-competing industries – played a central role in lobbying for DAACI and defining its monitoring functions. The main motivation for the private sector was to foster the implementation of Costa Rica's trade agreements: prior to DAACI's creation, the private sector viewed the government as a skillful negotiator but a poor implementer of trade agreements, which undermined the confidence of both the exporters and import-competing lobbies in the government's ability to comply with the negotiated agreements. Exporters were also particularly keen on establishing a central window in the government for information on the key trade disciplines in the various trade agreements – such as labeling, standards, sanitary requirements, and rules of origin – rather than having to continue to solicit information separately from the various individual agencies and ministries. Meanwhile, import-competing lobbies called for a stronger instance for employing trade remedies and for overhauling customs.

Its successes notwithstanding, the private sector remains relatively dispersed. When interacting with the government, the private sector tends to operate through individual firms and sectoral chambers rather than through an overarching umbrella organization. As such, the Costa Rican private sector appears to have a more limited role in 'parallel monitoring' and in 'monitoring the monitorers' than their Salvadoran counterparts, for instance.

Outcomes and Challenges

Effective monitoring of Costa Rica's trade agreements was long hampered due to the lack of an entity with a sole mission of monitoring and the concurrent busy FTA negotiation agenda. Trade ministry officials see DAACI as having played an indispensable role in rectifying the situation, and as a necessary entity for monitoring CAFTA and future agreements. According to both government officials and private sector leaders, DAACI has helped restore the private sector's confidence in the government's capacity to address concerns related to foreign trade and to take greater advantage of the country's hard-earned FTAs. According to a DAACI official, SAT has been a particularly successful tool for systematizing and centralizing the process of addressing problems in Costa Rica's trade relationships.

The monitoring processes with the partner countries are viewed as pragmatic and relatively uncomplicated. Communications are usually carried out by the phone and fax. The regional integration process and the FTA with the Dominican Republic have thus far generated most work, followed by the FTA with Mexico. FTAs with Chile and Canada generate the least work. The agendas of the various committees established by trade agreements vary by partner; in the case of Mexico, the workload is particularly notable in the areas of quotas, market access issues, and sanitary regulations. Thus far, DAACI has been able to handle these basic monitoring duties without major internal backlogs.

The bulk of DAACI's time goes to what officials characterize as purely domestic functions of inter-agency work, communicating with the private sector, and outreach campaigns. To be sure, preliminary assessments of the new inter-agency meetings

are positive: they help centralize the information flows to DAACI, and keep officials throughout the government up to date on the implementation processes as well as hold them accountable. However, much like in the other Central American countries, Costa Rica's monitorers are up against capacity constraints across the public sector. Analysts and the private sector are particularly concerned about the operation of customs – including its overall transparency and capacity to valuate goods verify origin. The performance of customs will have a bearing on the effectiveness of the monitoring system, and also to the political viability to trade agreements in general.

DAACI has markedly stepped up its informational and outreach campaigns with the public and the legislature through a host of media in the context of the CAFTA negotiation process. From DAACI's perspective, the efforts have helped dispel myths about trade agreements and quell the relatively strong politicization of the agreement. Transmission of information on trade agreements to the private sector is viewed as particularly positive, even though there still are some gaps in educating the private sector to use DAACI and SAT for addressing its concerns, and rather strong concerns remain about the performance of customs. Analysts and the private sector also share a sense that information on the longer-term effects of the FTAs – particularly their dynamic benefits to productivity, job creation, and generation of investment, for example – remains inadequate.[17] As in the other Isthmus countries, the main proposed solutions to the gaps in implementation are increasing human resources for monitoring, as well as fostering the transparency and capacities in customs.

DAACI's own main concerns center on the government's preparedness to monitor further trade agreements and, in particular, CAFTA provisions on SPS, intellectual property rights, and government procurement. However, while DAACI is pressed for resources, officials are also confident that it will be able to overcome the constraints thanks to its experienced and agile technical staff. SAT, which is viewed as a promising tool for systematizing and centralizing the process of addressing problems in Costa Rica's trade relationships, is also expected to facilitate the basic monitoring tasks.

Lessons of Monitoring in Central America

The monitoring systems and processes in Guatemala, El Salvador, and Costa Rica provide six general lessons.

First, efforts to step up the monitoring of the existing agreements amid negotiating new agreements are reflected in the institutional design of monitoring directorates. In all three countries examined here, the directorates in charge of monitoring agreements are separate from the directorates responsible for negotiating agreements. Although the respective directors and staff of the monitoring and negotiating directorates communicate and interact with each other on a daily basis, their functions do not overlap. Monitoring, in other words, has acquired independent institutional space and stature in the regional governments.

17 Whether performing impact analyses is the responsibility of DAACI or the Ministry is, however, debatable.

Second, in each country and in El Salvador in particular, the key domestic political economy pressure for stronger monitoring systems came from the private sector. Export-competing lobbies called for improved, centralized mechanisms to best utilize the newly signed agreements and to deal with day-to-day problems arising with the partner countries, while import-competing sectors sought stronger mechanisms to activate the trade remedy clauses of the agreements.

Third, the private sector, particularly in El Salvador and to an extent in Guatemala, plays a role in the monitoring processes. In many instances, monitorers hail from the private sector, bringing their expertise and contacts to the public sphere. The private sector also often facilitates monitoring by providing the government with information, technical know-how, and readily built consensus among the private sector. Indeed, in some instances, the private sector can be viewed as being a parallel and complimentary monitoring instance.

Fourth, monitorers perform numerous functions in Central America. Indeed, monitoring has come to entail great many tasks well beyond the processes established for it in the trade agreements. Moreover, monitorers are not only involved in the stage after an agreement has entered into effect, but play several roles before an agreement is signed and ratified. There are four main, general functions:

- *Coordination* Monitorers are primarily coordinators: they are the focal points that synchronize (1) the manifold other domestic agencies involved in the implementation and/or administration of the FTAs to carry out their respective duties; and (2) the meetings of the commissions, committees and/or technical working groups both at the domestic level and with the partner countries; and (3) the agendas and actions of the other Central American partners in cases where monitoring has repercussions to the other Isthmus countries, such as changes to commonly negotiated agreements with third parties. These basic monitoring functions imply constant inter-agency communications at home and with the trade administration staffs of the partner countries.
- *Verification* Monitorers are responsible for verifying that the domestic agencies and the partner country comply with the provisions of the common agreement, and are able to set on a process to activate enforcement mechanisms should the partner renege on its commitments. This implies that the success of monitorers is contingent on the collective success of the various public sector entities charged with implementing the agreements both at home and in the partner country. It also necessarily implies that monitorers are simultaneously responsible to their domestic constituency and the partner country: their work is also being monitored by the partner country's monitorers as well as by their domestic (private sector) audience – which, after all, witnesses the effectiveness of the implementation on the ground. As such, information flows between monitorers and the private sector must be frank and fluid: private sector actors provide monitorers information on the effectiveness of the implementation both by domestic agencies and the partner country, and need to be kept abreast of the monitoring measures. Indeed, private sector's confidence in the capacity and willingness of monitorers to carry out the

verification function is crucial for their utilization of the monitoring entities to begin with.

- *Coaching* Monitorers in many instances are key coaches that help traders and investors understand and implement the various commitments assumed in trade agreements. They hold workshops and informational sessions on such issues as correct ways to fill out of the origin certificate and the requirements for meeting the standards ascribed by the agreements.
- *Communication* Monitorers are also becoming lobbyists and communicators on trade liberalization. They are increasingly tasked with drumming up domestic political support for and disseminating information on trade agreements with legislatures, the private sector, and the public at large, and reaching out particularly to the private sector to disseminate information about FTAs and the very process of monitoring. In essence, monitorers are in charge of overcoming not only the technical hurdles facing traders, but also the psychological hurdles to exporting in general, and trading in the new markets, in particular. In other words, monitorers are creators of a 'culture of trading'.

Fifth, the assessments of the monitoring processes are similar across countries. Monitoring with the partner countries is generally seen in positive light. It is widely credited for providing institutionalized channels for propelling the implementation agendas forward. Many officials see monitoring invaluable also for developing a 'culture of trading'. At the most basic level, monitoring systems are considered necessary for operating in today's global commerce: the absence of monitoring mechanisms would severely undermine any country's image as a credible and serious trading partner.

However, inter-agency work tends to be slow and rife with coordination problems, and the implementation of the agreements by the pertinent government entities is often incomplete. A case in point is customs, which is widely seen as the region's Achilles' heel of the implementation process. The lack of capacities throughout the government entails that effective inter-agency coordination by monitorers does not necessarily translate into swift implementation.

Furthermore, information, analysis, and communication on the operation and impact of trade agreements is inadequate across the region, which undercuts the preparedness of the negotiators at the negotiation stage, causes difficulties in the ratification stage, and hampers the adoption of appropriate measures to take greater advantage of trade agreements and to respond to their adverse effects.

The sixth common feature among the Central American countries is their shared concern over the longer-term sustainability of their administrative directorates' abilities to carry out the monitoring functions in the face of the likely increase in the number of FTAs in general, and FTAs with large trading partners – the United States and the EU – in particular. On the positive side, the administration of the agreement follows the format of the Isthmus countries' FTAs with Mexico. However, there are two future challenges.

- One, even if there arguably are scale economies and learning-by-doing in monitoring, the quantity and magnitude of issues and problems that will need to be addressed can be expected to multiply. For example, CAFTA's incorporating labor and environmental disciplines will require additional committees and inclusion in the inter-agency work. CAFTA will also generate new demands for both the public and private sectors on the implementation of intellectual property rights, government procurement, and sanitary and phytosanitary standards (SPS).
- Two, preferential trade flows will likely accentuate as a proportion of the Isthmus countries' overall foreign trade, which can be expected to raise the administrative demands for customs and to render trade an increasingly salient issue in national politics – which, in turn, accentuates the need for effective outreach.

Conclusion: Fostering Monitoring in Central America

This chapter has mapped out the regional and national monitoring systems in Central America, and assessed the outcomes of the monitoring processes in the Isthmus.

At the regional level, SIECA and SICA are widely viewed as indispensable for the continuity and deepening of the regional integration process. However, their capacities are wanting due to the often wavering political incentives and feeble technical capacities of the member governments. More extensive delegation of functions to the regional bodies, along with fresh, well-targeted resources to the national governments and regional organizations are among the keys to fostering the regional monitoring system.

The odds of effective regional monitoring would be further improved by the establishment of a adjunct regional organization of the key stakeholders – Central American private sector actors. External sources are key to accomplishing these tasks: struggling with fiscal problems, Central American governments are unlikely able to significantly accentuate their contributions.[18]

The main constraints to effective monitoring at the national level center unfailingly on the areas of inter-agency work and outreach. One of the main sources of the problem is an inadequate supply of seasoned experts in the monitoring directorates and across the public sector. The problem of lack of staff is multiplied at the regional level: with the Central American governments facing similar capacity constrains, agendas overlap and there are repeated delays in issues requiring consultations at the regional level – issues concerning the regional integration process or on common negotiated FTAs.

18 Institutions such as the US Agency for International Development, Inter-American Development Bank, and the European Union have provided financial assistance for SIECA's activities and for hiring external consultants. Funding and support under USAID's Program Supporting Central American Participation in the FTAA (PROALCA) has also been highly useful both at the regional and national levels. According to SIECA staff, the international funders have encouraged demand-driven projects and been flexible on the types of issues that are supported.

According to monitorers across the region, increasing and training staff in the monitoring directorates and the government entities involved in the implementation of trade agreements would have catalytic effects to the monitoring process. It would improve responsiveness to day-to-day requests and problems, facilitate preparations for meetings with the partner countries, and accelerate inter-agency processes. Improved human resources would also facilitate the dissemination of information, communication, and confidence-building with the private sector and the public on FTA commitments, the effects of FTAs, and the operation of the very monitoring processes – something that monitorers across the region view as requiring forceful publicity campaigns. To be sure, greater national monitoring capacities would also facilitate coordination of agendas at the regional level, helping to reduce SIECA's workload.

Chapter 5

Monitoring Regional Integration and Cooperation: The Case of Mercosur[1]

Ricardo Rozemberg and Carlos Bozzalla

Introduction

This chapter examines the monitoring mechanisms within the context of the Southern Common Market (Mercosur). We focus on the responsibilities of institutions at different decision-making levels and progress made in complying with the various agreements formed in the context of the integration process.

Monitoring is here understood as the oversight and implementation of actions that are aimed at meeting the obligations assumed in integration agreements. The institutions involved in monitoring may be regional, belong to the respective agencies of national governments, or even represent the different private sectors in each of the member states. They may also be international entities and non-governmental organizations. The concept of monitoring inherently encompasses the *relationships* between the different entities and their *capacity* to to enforce the monitoring obligations.

The chapter starts with a brief analysis of the ideas in the Mercosur member countries about the type of institutionalization appropriate for the bloc. The ideas resulted from the region's prior experiences in integration, which stressed intergovernmentalist character.

In the second section, we describe the monitoring mechanisms in Mercosur, considering the different institutions involved, and also their relationship and decision-making hierarchy.

The third section presents a critical analysis of the operation of the institutions participating in the monitoring mechanism, taking into account their capacity for complying with and carrying out the various stages stipulated in the integration agreement.

The conclusion puts forth a proposal aimed at enabling institutions to function better, in a more stable, systematic, and independent manner, which would enhance the degree of implementation of the agreements, and endow them with greater powers to enforce their decisions.

1 The authors thank Mariel Rovagnati and Valentina Raffo for their valuable contributions.

Context for Mercosur's Founding

Mercosur launched in 1991 is widely seen as having arisen from political rationales—the desire of the new civilian governments in Argentina and Brazil to foster regional trade and cooperation and thereby pre-empt regional conflict and threats to democracy. It was also in part a response to the acceleration of regional integration elsewhere in the world, including in Europe and North America.

However, Mercosur had an indigenous institutional structure. It was from the very beginning defined as intergovernmental and based on consensus among the member states. An understanding of Mercosur's institutions requires a brief analysis of the conditions and intentions at the time the founding agreements were signed. The idea then was to make the framework for integration more flexible and gradual; as such, the governments of the partner countries had leeway and were not subject to the interests and decisions of a central bureaucracy.

The framework for dispute settlement was grounded in this logic. It emphasized diplomatic or negotiated responses rather than solutions based on common rules and legal principles. The role of private parties was marginal.

Unlike the case in Europe, the decision-making process was dominated by the actual public policymakers in each country. The aim was to effectively implement agreements in each of the territories and also to gradually 'mercosurize' the respective public administrations.

The gradual approach to institutionalization entailed the creation of agencies on the basis of new requirements emerging in the integration process. Such a structure limited the need for budgetary resources for the operation and advancement of the four-party negotiations.

The 1991 Treaty of Asunción stipulated that this institutional framework would govern during the transition period toward the customs union – that is, until January 1, 1995 – which left open the possibility of modifying the institutional design or the intergovernmental organization itself, as might be required by an increased economic and trade interdependence and/or deepening of the integration process.

The 1994 Ouro Preto Protocol was based on the same philosophy and institutional framework, and, again, had a certain transitory character. In this preliminary phase of implementing the customs union, those politically responsible for the integration process were keen to avert any potential compromising of national goals of macroeconomic stabilization or altering the delicate balance between national competencies and collective decision-making powers.

The reaffirmation of the original inter-governmental arrangement reflected the deep historical and structural factors between the Mercosur countries. These included the feeling of mutual mistrust and regional competition between Argentina and Brazil (which held back the development of bilateral economic and trade relations for practically an entire century), the asymmetries in size between the member economies, and the somewhat sub-optimal institutional experiences in the region, such as the initiatives of the Latin American Integration Association (LAIA). These factors led Mercosur to adopt a limited level of institutionalization, but one that was pragmatic and realistic. In this context of 'limited institutionalization', the schemes

for tracking and/or monitoring of the integration process were incorporated only as tasks of the negotiation groups, not as processes steered by an independent body.

That a Technical Secretariat was established only in 2003 meant that Mercosur regional monitoring was limited: monitoring was carried out through mere implicit mechanisms.

However, at the same time, there were numerous public and private national, regional, and international organizations that participated actively in monitoring of the regional negotiations and processes. These can be seen as making up an 'unofficial' system for monitoring the regional process.

The Monitoring Mechanisms

The Mercosur Institutions

The Ouro Preto Protocol established the basic Mercosur institutional structure, including three decision-making bodies: The Common Market Council (CMC), the Common Market Group (CMG), and the Trade Commission. There are also two advisory and consultative bodies – the Joint Parliamentary Commission and the Economic-Social Consultative Forum. Additionally, a Secretariat was established to handle administrative matters (albeit not provide technical guidance). A series of technical groups were set up to aid the decision-making bodies. They cover a wide range of matters from economic and trade issues (for example, working groups, ad-hoc groups, certain specialized meetings, and technical committees), policy issues (Forum for Policy Consultation and Consensus), to social, educational, security, and cultural issues.

The three executive decision-making bodies periodically examine their activities and evaluate fulfillment of their objectives and the tasks carried out by the working groups under them through status reports that these forums take to them and that are discussed at their meetings.

Indeed, over these years Mercosur has been organizing its operations on the basis of an Agenda of Plans and Objectives that allows for ongoing monitoring of the progress of negotiations on the different issues (Box 5.1).

The obligation on subsidiary agencies to present annual work programs and evaluation of their implementation at the end of the period has been another mechanism for monitoring the performance of the different technical negotiating groups.

In addition, with the help of the Mercosur Secretariat, and, more recently, through the formation of a special group, the CMG has moved forward with monitoring of the adoption of common market norms into member country legislation. In other words, attention is focused on how the norms that are approved by the Mercosur bodies are (or are not) incorporated (and thus implemented) in the different national legislations.

Mercosur's institutional structure itself generates different instruments for monitoring the negotiating process and the implementation of the integration agreements.

Box 5.1 Action Plans and Objectives

The Mercosur negotiation process since the outset has been marked by the establishment of work programs with specific objectives and deadlines. Indeed, just as the Las Leñas Timetable was approved in 1992 and would guide actions until the end of the transition period (1994), consensus was reached in 1995 on the Mercosur 2000 Action Plan with the aim of guiding negotiations aimed at consolidating and deepening the customs union.

In order to follow the spirit of those programs, in 2003 the Common Market Council established a new work program for the 2004-2006 period in economic, trade, social, and institutional matters, setting concrete goals in each of these areas and identifying the bodies responsible for their implementation. Addressing and monitoring the issues and objectives in these different work programs have been part of the basic negotiation agenda over the years, in both the CMC and the CMG; shaping these agendas has been crucial to monitoring the negotiating process.

The Common Market Council The Common Market Council (CMC) is the highest Mercosur body for policy guidance. It is comprised of the foreign ministers and ministers of economy of the member states. The chairmanship of the council rotates by six-month periods and by alphabetical order. The country exercising the chairmanship also holds the Mercosur Pro-Tempore Presidency.

The CMC holds regular meetings every six months. The presidents of the member countries are normally present for a part of the session. During these meetings the country exercising the Pro Tempore Presidency presents a report of the activities carried out during the half year on the economic, trade, social, institutional, and foreign negotiation agendas of the bloc. Additionally, at its regular meetings, the CMC, receives reports on the activities of various bodies, such as the Joint Parliamentary Commission, the Economic and Social Consultative Forum, the Commission of Permanent Representatives, the Policy Consensus Forum, and the Mercosur Secretariat.

Based on these reports, the ministers make a joint evaluation of the status of the integration process during the period under examination, and define the courses of action for the next stages.

The Common Market Group The Common Market Group (CMG) is Mercosur's executive body and generally made up of cabinet-level officials representing foreign ministries, ministries of economy, and central banks. Institutionally under the Common Market Council, the CMG is responsible for taking the measures for implementing ministers' instructions, but it can also initiate proposals to the Council and establish the work programs of the technical subgroups so as to ensure progress toward the common market.

Regular CMG meetings take place four times a year, while the special sessions may be held as necessary. A recurring issue on the CMG agenda is monitoring and evaluation of the work of the bodies comprising it. At the end of each half year, the

party state exercising the Pro Tempore Presidency presents a report to the CMC on the Council's results.

Additionally, the CMG monitors the incorporation of the Mercosur norms into member state legislation. To that end, it created the Technical Meeting for Incorporation of the Mercosur Norms, which examines and seeks solutions to specific ad hoc problems, and monitors the implementation and application of the norms in each country.

With regard to the management and monitoring of the trade policy instruments within the zone and regarding third countries, the CMG performs evaluations of the progress that is made on the basis of the report that it receives periodically from the Mercosur Trade Commission, the body responsible for the common external tariff, safeguards, customs and tariff classification matters, the origin regime, and other disciplines.

The Trade Commission The Mercosur Trade Commission (MTC) created in 1994 is responsible for ensuring that the instruments of the common trade policy are applied and for dealing with intra-regional trade matters in general. The MTC develops procedures for filing claims and requesting legal opinions for resolving conflicts and/or disputes; it is in effect an administrator rather than a creator of rules.

The MTC reports to the CMG on the status of the application and development of the various policies. It may also propose potential modifications to existing rules, or indicate the need for new ones. Ten Technical Committees help the MTC meet its obligations. They are specialized in different issue areas and specific disciplines, and are made up of individuals responsible for those areas in each of the member states.

Box 5.2 Work Programs of the CMG Forums and the Trade Commission

In 2000 the Common Market Council decided that all the bodies under the CMG and the MTC should draw up annual work programs – identifying priority issues and time periods for achieving them – which would have to be approved by the respective higher body. Each Work Program proposal must be accompanied by a report card, evaluation of implementation, and completion of the activities of the Work Program from the previous period.

The purpose of this procedure has been to systematize work done by the subordinate bodies, thus preventing any overlap of tasks or duplication or conflicts in the treatment of an issue by different bodies. The mechanism is likewise intended to monitor the actions of different technical bodies which in many instances have acted independently and with no instructions from officials. This work methodology enables a basis for a twofold control: that of the decision-making body which has to approve the work plans and evaluate the report cards, and that of the technical body which must not only design this plan but is also accountable for completing it.

These various intergovernmental technical teams monitor tariffs and issues related to the classification of goods and tariff schedules, and deal with customs

aspects, trade rules and disciplines, policies that distort competitiveness, competition policy, and consumer protection. The four remaining teams – which handled unfair trade practices, non-tariff restrictions, automotive matters, and textiles – were later eliminated, with the issues they addressed becoming absorbed by the other six groups. There is also a Trade Defense and Safeguards Committee. The various committees must present their work plans and 'management reports' annually to the Trade Commission (which must approve them).

The Mercosur Secretariat (MS) Headquartered in Montevideo, until 2003 the Mercosur Secretariat was primarily an administrative body responsible for recording and filing the decisions made by the different bodies, publishing the Mercosur Official Bulletin, and providing operational and logistical support for the meetings of the different negotiating groups. It is the only Mercosur entity that has its own budget (provided by the member states) and a small staff. Its director is chosen by the CMG and appointed by the Council.

Year 2003 marked a major shift as the Administrative Secretariat was transformed into a Technical Secretariat, with the start of the activities of the Technical Assistance Sector, made up of four consultants chosen competitively from each member country. The purpose of this advisory sector is to provide support to the agencies, monitor and evaluate the unfolding of the integration process, carry out studies of interest to Mercosur members, and monitor the legal consistency of the common decisions and rules.

At the Iguazú Summit (July 2004), the Secretariat presented its first mid-year report. The report analyzed the main issues in the regional integration process, identified normative deficiencies and gaps as well as specific difficulties, and proposed courses of action for the Mercosur decision-making bodies. The monitoring reports have subsequently been presented at each semi-annual summit.

The transformation of the Mercosur Secretariat may be regarded as an innovation in the integration process, that could lead to a more technical independent structure for fostering the customs union.

The Joint Parliamentary Commission (JPC) The Joint Parliamentary Commission (JPC), the body representing the legislatures of the member states is part of the Mercosur institutional structure and essentially a an entity for consultations. The Ouro Preto Protocol defined its composition and characteristics with precision as follows: to facilitate internal procedures so that the rules emanating from inter-governmental bodies with decision-making power can promptly take effect; to aid the harmonization of legislation as required by the advancement of the process; and to examine the issues as requested by the Common Market Council being authorized to make recommendations about them.

Since the beginning of the integration process and like other bodies in the structure, the JPC has been presenting a half-year report on its work to the Council. The JPC plays a decisive role in monitoring the Mercosur norms that the membermember states are to enact at the national level. Thus, each national section of the JPC monitors the process that each rule undergoes from the time it is introduced in the respective member country legislatures, and even intervenes in some occasions

to accelerate the process. The JPC could be seen as a representative body in the Mercosur decision-making process, and, as such, as an institution for monitoring the work of the executive branch of the regional integration process. The JPC also helps with enacting Mercosur norms that must be incorporated into the member countries' domestic legislation.

Box 5.3 Toward Setting up the Mercosur Parliament (MP)

In 2003 the presidents of the Mercosur partners had agreed on the need to establish a Mercosur Parliament, and recommended the preparation of a Constitutive Protocol.

As a result, the Joint Parliamentary Commission (JPC) presented a proposal for a Draft Constitutive Protocol that aimed at proceeding with the creation and installation of this institution by December 31, 2006. On December 8, the CMC approved the Constitutive Protocol (Mercosur/CMC/DEC.N.23/05).

The protocol envisions that the membership of the MP will be through representatives elected by universal, direct and secret balloting, in accordance with the legislation of each state, with the possibility of reelection. Consideration was being given to a composition of 31 representatives from Argentina, 36 from Brazil, 16 from Paraguay and 16 from Uruguay, with a four-year term, but finally an equalitarian arrangement of 16 representatives per party state was decided in a first phase (until 2010). After this phase, a to-be-defined principle of citizen representation will be adopted.

The MP is empowered to ensure observance of Mercosur norms and the preservation of the democratic system in the member states; establish mechanisms allowing it to receive, examine, and forward claims and complaints of any private party relating to acts or omissions of Mercosur agencies; issue statements, reports, recommendations, and decisions on matters related to the process (in particular draft rules and international negotiations); propose draft rules to be considered by the CMC; issue non-binding opinion on the appointments of the Director of the Mercosur Secretariat and of the Chairman of the Mercosur Commission of Permanent Representatives (MCPR); draw up its budget and report on its performance to the CMC; and approve the Mercosur general budget and reporting of accounts.

Depending on the issue, decision making could be by simple majority, absolute majority, ordinary majority (2/3 of the members present of at least three states), or special majority (3/4 of the members present, representing in turn, the simple majority of those present from all the states).

The Economic and Social Consultative Forum (ESCF) The ESCF is Mercosur's institutional monitoring and consultative body. It represents the economic, business, and social sectors (labor unions, civil society in general) of the member states, and provides a space for civil society participation in the integration process.

The Mechanism for Monitoring Arbitration Decisions While the *Mechanism for Monitoring Arbitration Decisions* is not part of Mercosur's Organic Structure, it is an important device for guaranteeing compliance with arbitration decisions. The Brasilia Protocol established the principle of the binding nature of the decisions, and envisioned the possibility of responding to non-compliance with the adoption of temporary compensatory measures, such as the suspension of concessions. The Olivos Protocol developed its own mechanisms for ensuring compliance, specifying that the adoption of 'retaliatory' measures does not exempt the party from its obligation to comply with the provisions of the integration scheme. The experience with the degree of compliance with arbitration rulings in Mercosur (in its first 15 years, the arbitration procedure has been used on nine occasions) is mixed.

The problem is that those cases in which Arbitration Panels may adopt 'self-enforcing' measures to ensure compliance with their decisions are exceptional. In Mercosur's experience, of the nine rulings, only one was issued with 'full jurisdiction'. In the others, the action of the governments is always seen as necessary in order to execute and enforce the decisions. The Olivos Protocol stipulates that a post-ruling arrangement will be used both to monitor enforcement, and to review the possible compensatory measures that the petitioning state could take.

Specialized Meeting of Governmental Internal Control Agencies In December 2004, the CMC created the Specialized Meeting of Governmental Internal Control Agencies as a forum for streamlining the management of the integration process.

The purpose of the Meeting is to create relationships in the areas of scientific, technical, and operational cooperation. Its functions include harmonization of standards of professional conduct, exchange of information and experience, professional and technical upgrading, joint research projects, organization of seminars and conferences, and the publication of common technical material.

Initiative for the Creation of a Working Group of Mercosur Auditing Agencies In 2003, Mercosur Forum for Policy Consultation and Consensus came to consider the founding of a working group of Mercosur auditing agencies. The idea was that the integration process could have an external auditing agency, much like the European Court of Auditors, for monitoring activities in the common market.[2]

Thus far, there have been reports on the status of incorporating common norms into the member states' domestic legislation and on conducting operational audits of food freight in the various Integrated Control Areas. There is also auditing processes on the way to resolve disputes and ensure compliance with animal and plant health quarantines as established in the Mercosur Norms.

2 The Organization of Supreme Audit Institutes (OSAI) of the Countries of Mercosur, Bolivia and Chile has been operating for ten years in the region. It is made up of the Office of Auditor General of Argentina, the Tribunal of Auditors of the Federative Republic of Brazil, the Tribunal of Auditors of Uruguay, and the Office of Comptroller General of Paraguay, as well as the offices of the comptroller of Chile and Bolivia. However, OSAI is not part of the Mercosur institutional structure, but an autonomous, independent technical body focused on auditing and controlling the use of public funds in regional technical, scientific, and cultural cooperation.

Mercosur Commission of Permanent Representatives (MCPR) The MCPR is made up of the permanent representatives of each member state and a chairman. Created in October 2003, it is one of the most recent additions to the organic structure. Its mission is to assist the Council and the Pro Tempore Presidency, present initiatives on the integration process, external negotiations, shape the common market, and strengthen economic, social, and parliamentary relations through establishing ties with the Joint Parliamentary Commission, the Economic and Social Consultative Forum, and the Specialized Meetings.

The chairman of the MCPR is appointed by the CMC upon proposal of the presidents of the member states, and is in office for a two-year period, which can be extended by a year. In addition to presiding over the MCPR, she/he may represent Mercosur in its relations with third countries and international bodies by mandate of the Council. She/he also participates in Council meetings and in ministerials, and is to present a report on the Council's activities every six months. The MCPR operates permanently in the city of Montevideo and is assisted by the Mercosur Secretariat. In its role, the Commission also appears as a monitor of the actions taken by the various intergovernmental negotiating agencies.

Permanent Review Tribunal Since taking effect in January 2004, the Olivos Protocol, approved in February 2002, governs dispute settlement in Mercosur and is unquestionably the main advance in institutional terms in recent years. Among the innovations introduced is the creation of the Permanent Review Tribunal, which seeks to establish a uniform interpretation of Mercosur Norms.

The goal of permanent tribunals is to build common jurisprudence that will enrich and deepen the integration process and that can help pre-empt contradictory interpretations.

External Monitoring Mechanisms

The growing importance of Mercosur induced many national, regional and international institutions to periodically monitor the integration process. Some of the key initiatives included the formation of academic networks aimed at examining different issues related to the integration process, the Mercosur-related activities and publications by international agencies, and public and private national, regional, and international actions aimed at examining and debating specific aspects of the integration process.

The Inter-American Development Bank The Bank has an Integration and Regional Programs Department with an Integration, Trade and Hemispheric Issues Division. This division continuously monitors Mercosur through its Regional Programming process, which focuses the Bank's priorities for supporting the regional integration process.

The Institute for the Integration of Latin America and the Caribbean (INTAL), headquartered in Buenos Aires, a unit of the Bank's Integration and Regional Programs Department, has various activities in the region, including the Mercosur Report, the only periodic publication that has systematically monitored the evolution

Box 5.4 The Bilateral Trade Monitoring Commission (Argentina-Brazil)

In the context of bilateral relations between the different Mercosur countries, the Bilateral Commission for Monitoring Intra-Zone Trade deserves special mention. Comprised of the Vice-Minister of Economic Development of Brazil and the Secretary of Industry and Trade of Argentina, this commission aims at monitoring the bilateral trade relationship and to deal with various kinds of production problems.

This Commission has been operating for the past three years, and it has been useful for handling different situations of trade imbalances in industries as varied as textiles, footwear, and appliances.

In this manner, and while indeed being outside of the Mercosur 'institutional apparatus', this Bilateral Commission helps to monitor trade and production issues between the two largest Mercosur partners, and serves as a vehicle for solving sector difficulties that arise as the ties between the two economies become stronger.

of the regional integration process. The Report allows for exploring the advances in Mercosur's internal and external agendas, its macro-economic, trade, and productive patterns, regional measures for institutional and infrastructure improvements, and several other issues.

INTAL also plays a very important role in holding seminars, meetings, and debates on specific aspects of Mercosur, on such varied topics as taxes, trade promotion, and dispute settlement.

Finally, the IDB promotes infrastructure integration through the IIRSA Project and funds various initiatives to foster the monitoring and/or deepening of the Mercosur negotiation mechanism.

The Mercosur Network Since 1999, the Mercosur Economic Research Network, comprised of academic institutions of the four member countries, has produced studies and research on issues of primary importance to the integration process. The studies analyze the regional advances in matters as important and varied as the coordination of macroeconomic policies, the application of the common external tariff and special trade regimes, the impact of non-tariff barriers in the sub-region, and the role of foreign direct investment within the integration process. The results are made public through various Network books, publications, and working documents that are presented at regional seminars and meetings.

ECLAC The UN Economic Commission for Latin American and the Caribbean (ECLAC) has a Department of Trade and Integration at its headquarters in Santiago de Chile, which prepares studies and reports on the status of Mercosur, particularly in the areas of macroeconomic coordination and support for competitiveness.

ECLAC has worked on Mercosur from the very beginning of the integration process, primarily analyzing the trade and economic issues in the bloc in such areas as monetary, exchange, and fiscal policies. ECLAC has also provided working

documents on production networks in the Mercosur region and on the potential for region-wide production.

Mercosur and Universities The increased intra- and extra-regional interdependence of the countries of the Mercosur region over the past fifteen years has awakened the interest of many public and private universities in integration in general, and in Mercosur, in particular. This, in turn, has resulted in greater knowledge and information about the main Mercosur developments and a better understanding of its advances and limitations.

The universities haveessentially served as forums for debate and exchange of ideas on various aspects of the integration process, thereby helping to monitor the status of the project, and identifying its weaknesses and needs. Initiatives of this kind are spreading throughout the Mercosur countries as well as elsewhere, including in the research units of universities in France, the United States, Japan, Spain, and Canada.

Mercosur and the Monitoring of Different Disciplines The expansion of Mercosur integration to areas far beyond economic and trade issues has awakened the interest of different public and private institutions in furthering and monitoring the regional processes.

For instance, member states' ministries of education have launched a program of support for educational integration.In the realm of culture, a Mercosur Cultural Network has been created with the participation of NGOs and key officials in charge of cultural policy in the member states. There are various initiatives also in the area of labor, such as the International Labor Organization (ILO) initiative for monitoring the integration of workers into the expanded space, and the creation of the Mercosur Labor Market Observatory. Initiatives have also been taken in such areas as the arts, the environment, science, technology and gender.

Assessing the Monitoring Experiences in Mercosur

Monitoring in the Mercosur region has been rife with challenges both due to internal and external factors. Internally, the main bodies key for integration to move forward have underperformed in their monitoring roles.

The CMC has faced difficulties in its role as catalyst for the medium- and long-term integration agenda, and as controlling agency for the agreed commitments. While the CMC has been functioning as the highest policy body that approves – or disapproves – the initiatives presented for its consideration by the bureaucracies or technical or policy bodies at lower levels, it has seldom carried out its role as 'policy commissioner' of the integration agenda. This may in part be explained by broader regional economic trends and occasional political problems among the member states.

As for the Common Market Group, the creation of numerous auxiliary agencies of a mixed (technical-negotiating) character whose tasks involve officials from almost all areas of government, has made regional integration penetrate wide and deep in the public sector. This is quite different from the trend in Latin America in the 1960s

and 1970s to create 'integration ministries', which, paradoxically, helped isolate integration projects from the overall governmental agendas (Zalduendo 1998).

However, there are many challenges. The proliferation of integration issues has created major problems of coordination and monitoring, and an overload for the CMG decision-making process.

Furthermore, the increase in the number of government agencies involved in the negotiations and the difficulties in achieving more effective coordination has provided for certain 'autonomy' for the various governmental bodies – and undermined CMG's powers. Accordingly, the CMG's efforts to discipline and organize the operation of the technical bodies and request work programs from them has often been fruitless.

For its part, the Trade Commission has spent most of its resources on the analysis and evaluation of the many tensions and conflicts that kept arising in Mercosur. Hence, while it combined the task of developing technical negotiations with that of handling trade disputes, in practice, the latter reduced momentum from the former.

With regard to the Mercosur Secretariat, while progress may be noted in recent years in terms of setting up an independent technical agency, thus far administrative issues continue to dominate, with technical functions still being relegated to the background.

The importance of the Joint Parliamentary Commission derives basically from the role that it plays (or could play) to ensure the incorporation of the decisions emanating from the negotiating bodies into the respective national legislation. Yet, the performance of this consultative body has been equally modest: the Commission has not succeeded in playing the role of 'proposal maker' nor in providing guidance to technical, negotiating, or decision-making bodies (Bouzas and Soltz 2002). It has likewise had serious difficulties in fulfilling its role as 'facilitator' or 'monitor' of the internalization of Mercosur norms.

There are also two factors external to the institutions of integration that have affected monitoring in Mercosur. The first is the limited degree of civil society participation in the Mercosur decision-making process, which has reduced the incentives and urgency in the member states for adopting the common agreements. In short, there are no solid monitorers of the monitorers.

Second, Mercosur has experienced economic turmoil, which has undercut and been even counterproductive to the integration process. The 1999 devaluation of the Brazilian real flooded the Argentine market with Brazilian goods, leaving many in Argentina disenchanted with the integration process. The subsequent deep economic crisis in Argentina, which reached its height in 2002, deviated attention and robbed energy from integration and had negative repercussions particularly in the neighboring Uruguay. These internal problems and setbacks in the integration process were a one reason leading to the stagnation of the EU-Mercosur trade negotiations: EU's pre-requisite for concluding the talks was consolidation of Mercosur's integration. Some of the frustration with the internal and external fronts have been viewed as having led to Uruguay's temporary exploration of bilateral trade talks with the United States.

In Sum

While Mercosur's organization in the early days of the integration process was made up by a small group of technicians, the complexity that the integration scheme gradually demanded the creation of more formal and independent technical structures. The proliferation of Mercosur institutions has led to a diversification of technical bodies, difficulties in coordinating and controlling them, and their subsequent high degree of *de facto* autonomy. It seems that some of these bodies have as a result lost their mission and control of the processes they were to administer.

Similarly, while the intergovernmental negotiating bodies were able to make progress in designing common policies that led to the launching of the customs union in 1995, the very same bodies started facing difficulties as they went on to focus on the application of the regional rules. It is at this point that the intergovernmental bodies began to show signs of being too stretched, not least because of the difficulties for separating the technical and political issues.

In essence, Mercosur's structure has proven more apt at responding to problems than at preventing them. The CMC and the CMG have been unable to create a process for detecting problems and pre-empting them.

This is more attributable to the 'working methodology' – with agendas focused on short term issues treated in an isolated way – than to the absence of a supranational body. That the main functions have been still held by the various member state government agencies, has been assessed positively for purposes of accompanying the (erratic) negotiating dynamic of the bloc; however, the expansion of the range of regional issues and the burgeoning of trade tensions and conflicts has made the intergovernmental process ineffective for furthering the regional integration process, particularly since the regional crisis of 1999. In other words, the virtue of Mercosur's institutional 'lightness' during the boom of the integration process became non-operational as of the crisis in the region (Botafogo 2002).

Finally, the participation of civil society and parliaments in the integration process during these years has been sparse, and the practical effect of their recommendations has been quite marginal. Unlike what happened in other integration experiences, the private sector and legislative representatives have not succeeded in becoming relevant fora either for advisory opinions or monitoring executive bodies, nor have they contributed substantively to promoting the integration initiative within their respective societies.

Conclusions and Recommendations for Strengthening the Mercosur Institutional Framework and Monitoring[3]

In its first fifteen years, the Mercosur organizational structure has shown the benefits of an intergovernmental organization. It has enabled adjustments to the number and powers of the different bodies as required for deepening of regional integration.

3 Some of the considerations expressed in this section have previously appeared in the second semiannual report issued by the Mercosur Secretariat.

It has also been a means for buffering and managing some of the changes in the national, regional and global economies and financial flows. Yet, the limited institutionalization has not always resulted in efficient management or monitoring of integration matters.

Mercosur has been a bloc of fragmented institutional evolution. This is paradoxically the downside of intergovernmentalism. The member states sought to reserve degrees of freedom without being subordinated to a supranational power, and to avoid having to allocate large sums to set up a regional bureaucracy. However, in view of the future of the integration process, the current types of institutions are not sufficient.

A potential solution might be an institutional arrangement in which intergovernmentalism by consensus, as is now the case, is retained along with the creation of a new permanent body with decision-making powers. Such a body could be made up of representatives of the different working (sub-)groups from each of the member countries. This would not mean delegating the policy decisions by the respective governments to this body, but, rather, giving the integration process a structure with a more comprehensive vision. Nor would it mean that these representatives should work in isolation from the rest of the administrative agencies of the respective governments. On the contrary, this arrangement would bring about smoother working relationships between the technical agencies on the one hand, and the permanent representative, on the other. The technical agencies could appoint an interlocutor with the permanent representative.

At the same time, the creation of a body with these characteristics would facilitate the coordination and monitoring of the different issues in the integration process, thus helping to avert the dispersion of rules and compartmentalization of issue areas. Moreover, the stable set of core officials would foster the monitoring of the implementation of rules and compliance with them. This type of institutionalization would also allow for broader dissemination of the issues relative to integration within civil society, and provide transparency to the regional process.

Importantly, however, *not* creating regional institutions has not always helped reduce the costs required for operating the decision-making bodies. The multiplication of spheres of negotiation, and the transfers of officials of the member states due to the rotation of meetings has resulted in higher political, technical, and financial costs than would have been incurred has a permanent body been established.

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PART 2
Asia and The Pacific

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Chapter 6

Results-Based Monitoring of Regional Integration and Cooperation in ASEAN

Cuong Nguyen and Clay Wescott

Introduction[1]

Regional cooperation in Southeast Asia started in 1967 with the formation of the Association of Southeast Asian Nations[2] (ASEAN). For nearly four decades of existence, and despite critiques that ASEAN has failed to fulfill its commitments, it has demonstrated a model of how a group of small and medium-sized countries with enormous political, economic, cultural, and religious diversities and different levels of development can successfully work together for peace and prosperity. Regional cooperation and integration have greatly contributed to improve the lives of ASEAN peoples. The financial and economic crisis in 1997-98 caused a widespread perception that ASEAN was no longer relevant in an increasingly globalized world. However, ASEAN's accelerated pace of regional cooperation and integration has transformed it into an indispensable force to preserve peace and security in the region and the world. Mr. Kofi Annan, Secretary-General of the United Nations, in his remarks on 16 February 2000 in Jakarta reaffirmed that: 'today, ASEAN is not only a well-functioning, indispensable reality in the region. It is a real force to be reckoned with far beyond the region. It is also a trusted partner of the United Nations in the field of development'.[3]

Since its establishment, ASEAN's rapid evolution can be noticed not only from its rising influence and impact in Asia and in the world, it can also be observed from its membership expansion, proliferation of ASEAN meetings, and a growing number of regional cooperation initiatives. Sectors of regional cooperation have also rapidly expanded. Economic cooperation was the main focus in the 1980s and early 1990s. Subsequently, ASEAN member countries have expanded their cooperation to a wider range of sectors: environment, social development, culture, science and

1 The following is a personal view, and does not necessarily represent the views of the Asian Development Bank or its member countries. Special thanks to comments from the editors on an earlier draft.

2 Five original member countries are Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Viet Nam on 28 July 1995, Lao People's Democratic Republic (Lao PDR) and Myanmar on 23 July 1997, and Cambodia on 30 April 1999. The ASEAN region has a population of about 500 million and a total area of 4.5 million square kilometers.

3 See full text in http://www.aseansec.org/6910.htm.

technology, security, and combating against transnational crimes. The regional economic crisis in 1997 has seriously impacted the process of regional integration in ASEAN, and new areas and mechanisms for regional cooperation have been initiated and put in place as a proactive response to the crisis (e.g., the establishment of ASEAN Finance Ministers Meeting (AFMM) mechanism to oversee ASEAN macroeconomic surveillance, and ASEAN+3 arrangement).

Against the backdrop of proliferating regional cooperation initiatives and mechanisms, a policy question has been posed for ASEAN: how to monitor and evaluate the relevance and effectiveness of ASEAN cooperation and integration. One of the efforts to keep track of the implementation of numerous regional initiatives was the introduction of a 'report card' by ASEAN leaders in the 4th Informal ASEAN Summit in Singapore in 2000, in which the status of implementation of major initiatives or decisions taken at an earlier summit would be reported back at the following summit. One of the recommendations of the Mid-Term Review of the Hanoi Plan of Action (HPA) was to build up an effective monitoring and evaluation system for ASEAN integration.[4]

However, monitoring ASEAN regional cooperation and integration still faces a number of deficiencies such as the lack of resources, capacity, baseline data, institutional structure, and instruments used for monitoring.

This chapter focuses on ASEAN as a case for review because although there are many regional and subregional groupings in Asia, ASEAN is the longest running and most institutionally developed arrangement in Asia. Another reason for choosing ASEAN as a case study is that the traditional monitoring framework of outputs-based monitoring and the new results-based management (RBM) are largely designed for aid programs or the public sector. There are differences between the activity-based programs supported by donors and the institution-initiated regional cooperation initiatives like the HPA and the Vientiane Action Program (VAP) of ASEAN.[5] These differences call for different monitoring frameworks, as will be clarified below.

The chapter will examine the progress in monitoring regional cooperation and integration initiatives in Southeast Asia. After a brief analysis of the political and historical context, structures and instruments for monitoring purposes will be examined concerning two key ASEAN regional cooperation and integration programs: the HPA and VAP. These are part of a larger series of regional cooperation programs to realize the ASEAN Vision 2020. This chapter will also examine the actors involved, instruments used, and outputs. It will evaluate the monitoring efforts, including consideration of political economy aspects, and the impact of monitoring results on the cooperation and integration agenda. It will suggest additional monitoring needs for the future, a research and policy agenda to meet these needs, and assumptions and risks to be considered.

4 The HPA Mid-Term Review and its recommendations were endorsed by ASEAN leaders in the 7th ASEAN Summit in Brunei Darussalam in 2001.

5 According to Abonyi (2002), 'Activity based' arrangements are defined as those that focus on specific well-defined activities or relatively 'well-bounded' issues of priority interest to a particular set of countries.

'Monitoring framework' in this chapter refers to a structure of objectives, outputs, resources, outcomes, results, and timeframe set up for monitoring purposes as well as the instruments to be used in the monitoring process. 'Monitoring mechanism' refers to an institutional set-up of actors involved for monitoring purposes. 'Monitoring system' is a combination of a monitoring framework and monitoring mechanism.

Hanoi Plan of Action and Vientiane Action Program

Overview and contents of HPA and VAP

The ASEAN leaders adopted the ASEAN Vision 2020 in the 2nd ASEAN Informal Summit in Kuala Lumpur, Malaysia, in 1997. The ASEAN Vision 2020 sets out a broad vision for ASEAN in the year 2020: an ASEAN as a concert of Southeast Asian Nations, outward looking, living in peace, stability and prosperity, bonded together in partnership in dynamic development and in a community of caring societies.[6] In order to implement these long-term goals of Vision 2020, a series of regional action plans will be formulated and implemented.

The HPA,[7] which was adopted at the 6th ASEAN Summit in Hanoi in December 1998, was the first action plan to realize Vision 2020 with a 6-year timeframe from 1999 to 2004. The VAP[8] is the successor of the HPA for the realization of Vision 2020 and was adopted by the 10th ASEAN Summit in Vientiane in November 2004.

The HPA was formulated at a time when the region was hardest hit by the financial and economic crisis in 1997. The main focus of the HPA was, therefore, to hasten economic recovery and address the social impacts of the crisis. The HPA included 10 main strategic thrusts: macroeconomic and financial cooperation; economic integration; science and technology; social development and addressing social impacts of the crisis; human resource development; environment protection and sustainable development; peace and security; enhance ASEAN's role for peace, justice, and moderation in the Asia-Pacific and in the world; promotion of ASEAN awareness and its standing in the world; and improving ASEAN's structure and mechanisms. There were approximately 240 activities included in the HPA to implement 10 strategic measures. Although the HPA explicitly emphasized that the progress of its implementation shall be reviewed every two years to coincide with ASEAN summit meetings, it did not clearly identify a monitoring mechanism for this purpose.

The context in which the VAP was formulated to continue the HPA has changed. The financial and economic crisis in 1997-98 prompted ASEAN to accelerate the implementation of ASEAN Free Trade Area (AFTA) twice.[9] However, this was insufficient, given the still low level of intra-trade within ASEAN. Subsequently, the accession of China to the WTO has compelled ASEAN to speed up its AFTA

6 The ASEAN Vision 2020 can be viewed in http://www.aseansec.org/5024.htm.

7 The HP can be viewed in http://www.aseansec.org/5028.htm.

8 The VAP can be viewed in http://www.aseansec.org/VAP-10th%20ASEAN%20Summit.pdf.

9 First it was advanced from 2008 to 2004, and then was further advanced to 2002.

implementation. With its accession to the World Trade Organization (WTO), China has become more competitive and there was a widespread concern that ASEAN would be left uncompetitive vis a vis China, unless some urgent and bold measures are taken. To some extents, this concern was justified as there has been reallocation of production and investment to China across Southeast Asia. Let alone political and security factors, the fragmented market of ASEAN is not as promising for foreign investors as the increasingly integrated and secured market of China.

External shocks such as the terrorist attacks and threats after 11 September compounded with devastating impact of the SARS and Avian flu in early 2003 have underlined the urgency for ASEAN members to intensify their cooperation in all sectors, including political and security areas.

A growing development disparity within ASEAN between new and old members would hamper ASEAN efforts for integration, if it is not properly addressed at an early stage. This development gap is not necessarily reflected in the GDP or income disparities among the member countries, but it can be seen clearly from the lack of human resources and institutional capacity of new member countries to implement ASEAN regional cooperation and integration schemes.

After the 1997-98 financial crisis, ASEAN external relations have been strengthened and intensified. ASEAN is the driving force for ASEAN+3 process. The ASEAN Surveillance Process was created in February 1998 and the ASEAN+3 Economic Review and Policy Dialogue process was launched in May 2000. A network of bilateral swap agreements to provide short-term liquidity support was established as part of the Chiang Mai Initiative. ASEAN has signed framework agreements on comprehensive economic partnerships with China, India, Japan, and the Republic of Korea. The negotiations on Free Trade Agreements (FTAs) with these countries have already started, covering trade in goods, services, and investment. The basis for FTA negotiations between ASEAN and Australia and New Zealand is the Joint Declaration of the Leaders at the ASEAN-Australia and New Zealand Commemorative Summit which was signed in November 2004. The Trade in Goods Agreement with China was signed in November 2004 and its implementation began in July 2005.

The ASEAN Regional Forum has regained its importance in regional security cooperation, particularly with the accession of China, Japan, and Russia to the Treaty of Amity Cooperation (TAC) and hopefully Australia and New Zealand in the near future. This has reaffirmed ASEAN's role to preserve regional peace and security. An increasingly integrated ASEAN with non-ASEAN countries and the world, especially with the major regional powers, however, will require ASEAN to be more integrated, if it wishes to maintain ASEAN identity and influence. Otherwise, the more intensified external relations, the more diminishing power and influence ASEAN would be. In other words, the pace of ASEAN integration must be in tandem with that of ASEAN external relations process.

Within this context, the 9th ASEAN Summit in October 2003 in Bali adopted the Declaration of ASEAN Concord II, which sets concrete milestones to achieve a broad and comprehensive ASEAN Community, founded on the three pillars (i) ASEAN Security Community (ASC), (ii) ASEAN Economic Community (AEC), and (iii) ASEAN Socio-Cultural Community (ASCC) by 2020. Subsequently, the

ASEAN leaders adopted the VAP at the 10th ASEAN Summit in Vientiane, Laos in November 2004.

The VAP is the successor of the HPA and will be implemented during the period 2004-2010. The VAP is an instrument to unify and crosslink the strategies and goals of the three pillars of ASEAN Community – AEC, ASC, and ASCC. The VAP serves as a reference document for ASEAN sectoral bodies to ensure that all programs are in compliance with the direction set by the leaders in the ASEAN Vision 2020 and ASEAN Concord II. It is also used by the ASEAN leaders as a cross-reference to measure how far ASEAN has moved forward.

Comparative analysis of HPA and VAP

For the monitoring purpose, the HPA explicitly underlined the need to have a mid-term review. However, it did not indicate what would be the specific institutional mechanism and instruments used to monitor its implementation. Further, the HPA's monitoring only focused on the progress of implementation e.g., providing periodic progress updates on activities and meetings undertaken and it did not provide an assessment or analysis on what were the problems and their factors and the proposed solutions to the identified factors.

The task to coordinate the monitoring of the HPA rested mainly with the ASEAN Standing Committee, which was represented by the directors-general of all ASEAN departments of foreign ministries of member countries. The Committee met 4-5 times annually and the review of HPA progress report was only a modest item in its working agenda. Progress reports were usually prepared by the ASEAN Secretariat with inputs from all ASEAN bodies concerned. Most of the HPA progress reports were noted and endorsed by the Committee (Figure 6.1).

The Mid-Term Review of the HPA was an effort of ASEAN to assess what were achieved and what were not and the reasons for the success or failure. All ASEAN committees and working groups were involved in the preparation of the Mid-Term Review for nearly eight months from March to October 2001. The final report, which was endorsed by all the respective ASEAN bodies, was subsequently reviewed and endorsed at the ASEAN Ministerial Meeting. It was then presented to the 7th ASEAN Summit in Brunei Darussalam for approval. Although some recommendations of the Mid-Term Review were taken, many other valid recommendations were not implemented.

The VAP explicitly emphasizes the need to have a monitoring mechanism at the outset. There are four differences between the monitoring systems of VAP and HPA. *First*, the VAP is an evolving document. Therefore, its activities to be implemented during 2004-2010 are not exhaustive. This allows amendments, revisions, or reorientation of VAP's strategic thrusts and activities that may be required.

Second, all program areas and measures of the VAP to realize the strategic thrusts are SMART[10]-formulated. Measurable indicators are built into these measures, which

10 The SMART principle is usually used in formulating objectives of a project/program. It stands for **S**pecific, **M**easurable, **A**chievable, **R**elevant/ **R**esults-oriented, and **T**ime-bound.

will enable M&E to be undertaken effectively as clear success and performance indicators are set up.

Third, the VAP identifies clear measures to strengthen existing institutions and, as appropriate, the establishment of institutional arrangements to facilitate coordination among various ASEAN bodies. This is of importance as the VAP covers a wide range of sectors and thus involves all ASEAN bodies. The VAP will develop a monitoring framework to track implementation progress, the attainment of integration objectives, outcomes, and outputs.

Finally, the VAP has shifted from monitoring of implementation progress toward results-based monitoring (RBM). Specific measures corresponding to each objective/desired outcome are identified. A two-level monitoring system (project level and macro level) will make possible a combination of progress monitoring with monitoring of the aggregated impact of outcomes and results of the VAP's goals. More or less, this monitoring framework based on the designed criteria resembles the monitoring of a results chain: outputs, outcomes, and impact.

Monitoring Process and Actions in HPA and VAP

Monitoring system of HPA

A common feature of both the HPA and VAP is that they encompass both cooperation and integration measures. While it is important to unify and crosslink the strategies and goals across the whole range of socio-economic and political sectors, the magnitude of such comprehensive regional cooperation and integration programs pose major challenges for the applicability of the RBM.

This section will further analyze the HPA monitoring system of the HPA, which was briefly discussed in the previous section. As mentioned earlier, the HPA was formulated amidst a financial crisis. The need for ASEAN to be dynamic, competitive, as well as caring and responsive was captured in the HPA's ten strategic thrusts. To comprehend the HPA monitoring system, it is crucial to review (i) how the level of confidence of member countries at this stage would affect the HPA formulation process as well as its monitoring system; (ii) the HPA monitoring mechanism and actors involved; (iii) and the HPA monitoring framework—the type of outputs and instruments used.

a. HPA monitoring system The HPA formulation process was participatory and involved virtually all ASEAN bodies. This is the usual practice in ASEAN whenever a major program is formulated and not only for the HPA. The consensus principle of ASEAN would not let a regional cooperation initiative be formulated and approved without going through a comprehensive review process. On the one hand, this internal review process at the outset was crucial to ensure the ownership of the member countries over the HPA. On the other hand, the intensity of the review process, almost as negotiations, would turn a well-prepared and analytical regional cooperation program into a politically-correct document that was merely flattened to a plain taste to iron out differences and sensitivities.

The level of confidence among member countries when the HPA was formulated was not sufficient to allow the undertaking of in-depth cause-effect analysis (problem analysis) in order to identify problems and causes as well as success indicators for desired objectives. Given the early stage of confidence building at that time, many of the objectives, especially for political and security sectors, may become sensitive if too specific indicators were identified. For example, Objective 4.8 of the HPA, 'Enhance exchange of information in the field of human rights among ASEAN Countries in order to promote and protect all human rights and fundamental freedoms of all peoples in accordance with the Charter of the UN …', stayed in the HPA largely to demonstrate the determination of ASEAN to deliberate on this in future rather than aiming to achieve any specific outcomes or results. Thus, it was not possible for the HPA at that time to identify measurable indicators for this objective such as a stock-taking of existing human rights mechanisms, a signed MOU on this issue, a work program, an elaborate ASEAN instrument on human rights, etc. But the level of confidence was higher when the VAP was formulated and thus the VAP could go further down the road to identify such success indicators.

The lack of clear success indicators, milestones, and defined targets in the HPA hampered the HPA monitoring system. The monitoring framework, therefore, was inclined to focus more on the reporting implementation process such as events and activities and thus could not offer critical and analytical assessments which would enable the identification of problems in the implementation process of the HPA.

b. Monitoring mechanism and actors involved The ASEAN mechanism would be ideal for monitoring and implementing regional cooperation initiatives. It is well organized vertically and horizontally. Vertically, each sector involves meetings of working groups/subcommittee-committee-senior officials-ministerial level. Horizontally, the ASEAN Standing Committee and the Joint ASEAN Ministerial Meeting (JAMM) provide a platform for cross-sectoral consultations. The ASEAN Secretariat provides strong professional services for both vertical as well as horizontal consultations[11] (see Figures 6.1 and 6.2). Within the Committee, there is a Working Group on Development Cooperation which focuses on development cooperation initiatives within ASEAN and with ASEAN dialogue partners. On top of that, ASEAN national secretariats located within the foreign ministries of member countries serve as national focal points to coordinate the implementation of regional cooperation initiatives at the national level.

At the project and program level, monitoring activities were coordinated by the ASEAN Secretariat. This mechanism enabled the coordination of periodic monitoring of the implementation progress in each of the HPA's strategic thrusts as well as the provision of information on resource allocation for each strategic thrust. As said earlier, this mechanism, however, focused only on process and not on results

11 The Programme Coordination Unit (PCU) of the Bureau for Programme Coordination and External Relations was tasked to coordinate the monitoring of the HPA implementation. The PCU, among other tasks, was instrumentally involved in coordinating the monitoring as well as the conduct of the Mid-Term Review of the HPA in 2001. The author of this chapter was the Head of the PCU from 1999-2002.

and outcomes. Thus, it failed to assess how the activities, projects, and programs contributed to the overall attainment of HPA's goals.

The HPA formulation process was undertaken in a 'safeguard mode' with negotiation-type consultations, making the HPA a front-loaded process with intensive consultations at the outset and loose monitoring and evaluation towards the end. The ASEAN mechanism was therefore not fully utilized to effectively monitor the delivery of the HPA. Another factor was that although the ASEAN mechanism seems to be well organized, it is very much a meetings-based arrangement. The expansion of ASEAN integration has largely led to the expansion of the meeting agenda rather than to the institutionalization of the ASEAN mechanism. Accordingly, the work agenda of all ASEAN bodies has been increasingly stretched out with emerging issues. Monitoring the HPA deserved only a modest agenda item in these tight working agendas. As a result, little time and effort were devoted to it.

c. Outputs and instruments in HPA monitoring framework There was hardly a monitoring framework built into the HPA, except for a mid-term review at the second year of implementation. There was also no process after the formulation of the HPA to build up a monitoring framework. This was not possible partially because of the lack of commitment. The HPA monitoring framework, therefore, simply included reports of implementation progress of the activities taken during the period monitored. The respective ASEAN bodies provided inputs of implementation progress in their respective HPA strategic thrusts to the ASEAN Secretariat for consolidation. The consolidated reports were submitted to the Standing Committee (quarterly) and to the JAMM (every six months) and ASEAN summits (annually).

There are three main types of outputs corresponding to three different stages of regional cooperation: (i) confidence building (e.g., policy, capacity building), (ii) harmonization (e.g., standards, regulations), (iii) and integration (e.g., a jointly coordinated external trade/monetary policy). As the HPA was formulated when ASEAN was expanded to include all countries in Southeast Asia, it largely focused on confidence building among member countries. Hence, the outputs of the HPA were policies, research, training, networking, awareness raising programs, information sharing, exchange of experience, best practices, etc. Outputs on harmonization and integration were not many.

It was not a major problem to report on the HPA implementation as progress reports were routinely provided by ASEAN bodies and coordinated by the ASEAN Secretariat. However, the HPA was not able to provide an overall assessment of implemented activities, projects, programs and how these could contribute to the achievement of ASEAN integration as a whole.

The early stage of confidence of an expanded ASEAN in 1997 also affected the instruments used for monitoring. The HPA process of formulation-implementation-monitoring-evaluation was a front-loaded process in which the formulation involved intensive negotiation-type consultations while implementation and monitoring tended to be relaxed and loosened toward the end. A 'safeguard mode' was applied in the formulation stage to rule out sensitive indicators. After the document was approved, it was preferred not to revise or change it, even if there were emerging priorities since revisions may trigger re-negotiation and re-approval all the way to the highest

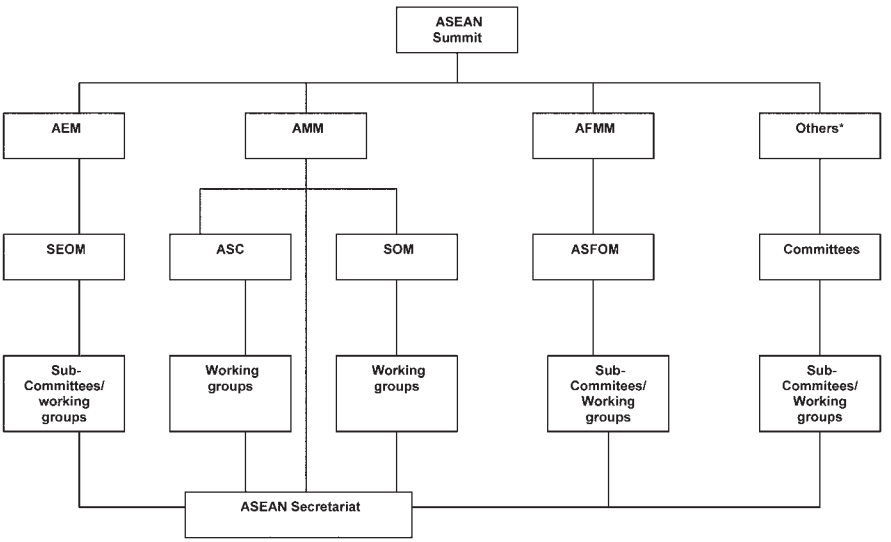


Figure 6.1 ASEAN Organization Structure

AEM : ASEAN Economic Ministers
AMM : ASEAN Ministerial Meeting
AFMM : ASEAN Finance Ministers Meeting
SEOM : Senior Economic Officials Meeting
ASC : ASEAN Standing Committee
SOM : Senior Officials Meeting
ASFOM : ASEAN Senior Finance Officials Meeting

* Others include ministerial meetings in agriculture and forestry, trade, energy, environment, finance, information, investment, labor, law, regional haze, rural development and poverty alleviation, science and technology, social welfare, transnational crime, transportation, tourism, youth, the ASEAN Investment Area (AIA) Council, the ASEAN Free Trade Area (AFTA) Council. Supporting these bodies are 29 committees of senior officials and 122 technical working groups.

The highest decision-making body in ASEAN is the annual meeting of the ASEAN Heads of State and Government. *The ASEAN Summit* is preceded by a Joint Ministerial Meeting (JMM) composed of Foreign and Economic Ministers. The ASEAN Standing Committee, under the Chairmanship of the Foreign Minister of the *country-in-chair*, is mandated to coordinate the work of the Association in between the annual *ASEAN Ministerial Meeting (AMM)*. The ASEAN Chair and Vice Chair are elected based on alphabetical rotation of all *ASEAN Member Countries*. *The ASEAN Secretariat*, headed by the *Secretary-General* of ASEAN, is mandated to "initiate, advise, coordinate, monitor, and implement ASEAN activities."

Source: ASEAN Secretariat, http://www.aseansec.org/13106.htm.

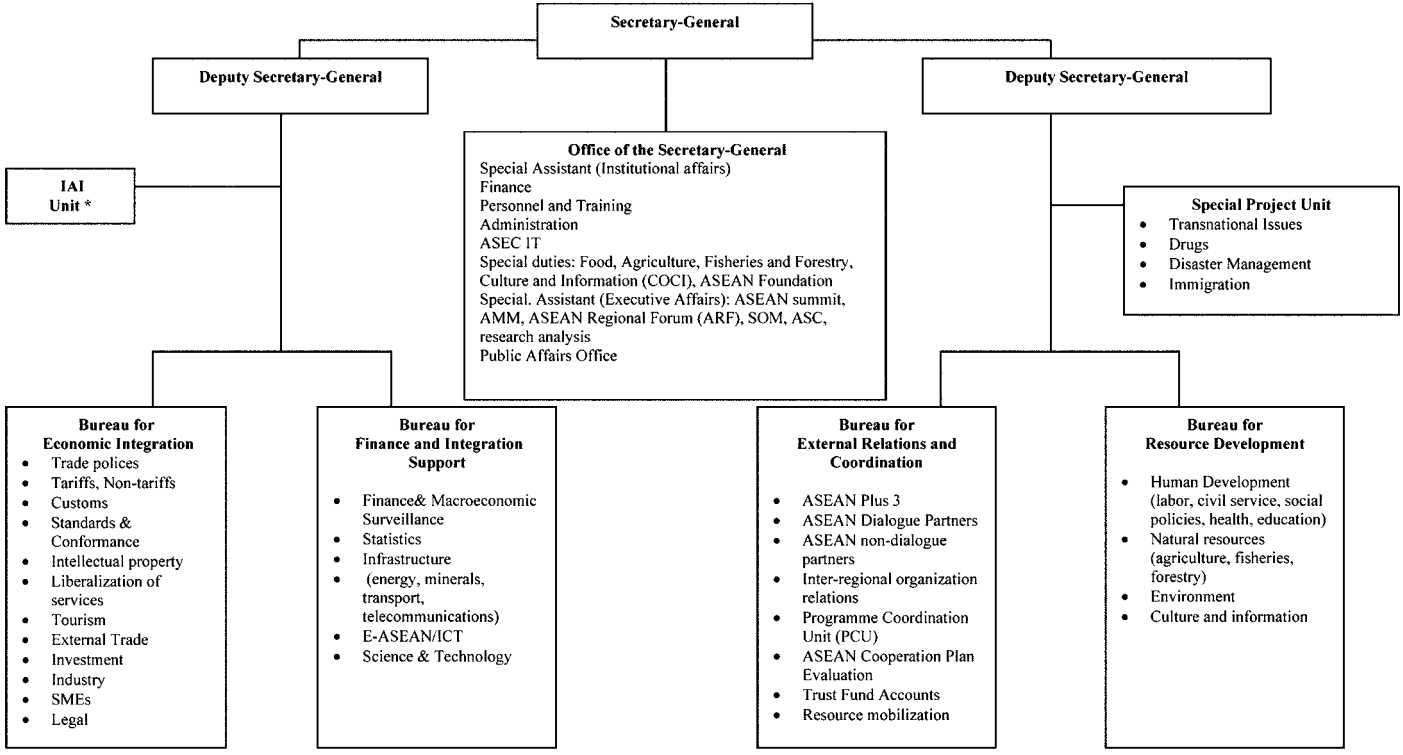


Figure 6.2 Organizational Structure of the ASEAN Secretariat

* Initiative for ASEAN Integration (IAI): This program is to support new member countries of ASEAN (Cambodia, Laos, Myanmar, and Viet Nam)

Source: ASEAN Secretariat. http://www.aseansec.org/13103.htm.

level. This made the HPA less responsive to new emerging priorities. The preferred and frequently used instrument, therefore, was periodic progress reports for events and activities. These reports did not offer sufficient synthesis and assessments that could enable the HPA to be more effectively managed and implemented.

In summary, despite favorable factors such as a participatory process allowed by a well- organized mechanism, the HPA monitoring system was hampered by the lack of a monitoring framework which could provide synthesis and assessments to make it more responsive to emerging issues. The main factor was the insufficient level of mutual trust among member countries at the early stage of ASEAN expansion that resulted in an intensive consultation process, but only served to iron differences rather than adding value to program formulation. This process turned the HPA into a politically correct document, but not a monitorable regional cooperation program. The HPA monitoring was also very much oriented toward progress reporting and not output and outcome assessment. This was partially caused by the outputs-based monitoring system that was very common during the HPA's life.

Conceptual framework to evaluate monitoring efforts

At the time the HPA was formulated, the concept of outputs-based monitoring was common, in which the implementation progress was measured against outputs delivered in the program. Input and output process monitoring (IOPM) was commonly used in the 1990s. This was to ensure that the right inputs would be made available at the right time and that these inputs would produce the right outputs. The IOPM was a tool to ensure timeliness and quality during the implementation phase of a project (Khan, 1990). The next steps after the IOPM were project completion report (PCR), sustainability monitoring (SM), and impact evaluation (IE). The problem with this phased monitoring was that deficiencies to achieve outcomes could only be identified at the SM or IE stage. Therefore, there may be cases in which the PCR may qualify the success of a program as all outputs delivered. However, the SM and especially the IE may have different perspectives as desired outcomes and results may not be necessarily achieved. In other words, these three stages were not mutually reinforcing for the process of achieving the desired results.

Recently, there has been a transition towards results-based management (RBM). Donors, governments and NGOs are under pressure to be more accountable and responsive to the changing environment, especially with the implementation of the Millennium Development Goals. The traditional outputs-based monitoring approach cannot help assess if the intended impact of a program is achieved. International development organizations such as UNDP and the World Bank, have shifted to the RBM.

While on the one hand monitoring of progress implementation is still applicable, outcomes monitoring is put in place as a part of the RBM. UNDP has developed a *Handbook on Monitoring and Evaluating for Results* which is mainly applied to UNDP projects/programs. The Handbook introduces the concept of monitoring based on the RBM, which focuses more on the achievement of broader development outcomes and is defined as a management strategy or approach by which an organization ensures that its processes, products and services contribute to the achievement of

clearly stated results. Results-based management provides a coherent framework for strategic planning and management by improving learning and accountability (UNDP 2002).

UNDP's Handbook stresses that the focus of the RBM monitoring is on assessing the contributions of various factors to a given development outcome, with such factors including outputs, partnerships, policy advice and dialogue, advocacy, and brokering/coordination. The main objectives of results-oriented M&E are to

- Enhance organization and development learning;
- Ensure informed decision making;
- Support substantive accountability and (UNDP repositioning); and
- Build (country) capacity in each of these areas and in monitoring and evaluating functions in general.

The Handbook of the World Bank highlights the major differences between the RBM and the traditional monitoring system. The latter was designed to address compliance issues (did they do it?) while the former aims at outcomes and impact of completed programs (what would be the impact if they did it and if they did not do it) (Kusek and Risk, 2004). The Handbook recommends 10 steps in designing, building and sustaining RBM, including readiness assessment; agreeing on outcomes to monitor; selecting key indicators; baseline data on indicators; planning for improvement-selecting results, targets; monitoring for results; the role of evaluation; reporting findings; using findings; and sustaining the RBM system within the organization.

The advantage of the RBM monitoring is that it is a continuous process and it enables learning from the past. It also contributes to more informed decision-making. Better decisions lead to greater accountability of stakeholders. Close consultation with all stakeholders in this process promotes shared knowledge creation and learning, and helps transfer skills.

The application of this monitoring conceptual framework would be more applicable for monitoring activity or sector-based regional cooperation initiatives which are often supported by donors or which are not diverse in terms of sectors and stakeholders. Its application for monitoring ASEAN integration initiatives such as the HPA or VAP needs further modifications due to unique features of regional integration.

First, the monitoring framework for ASEAN integration in general and the VAP needs a special instrument to measure the aggregated impact of a wide range of sectors while still allowing monitoring of outputs at the project and program levels (Martin 2004). The scope of VAP initiatives is diverse and typically includes harmonization and integration measures such as integration of policies to create consistent regional cooperation frameworks or jointly coordinated policies, harmonization of institutional mechanisms, and capacity building to initiate necessary institutional capacity for harmonization and integration efforts.

Only some of the above measures can be implemented in the areas of politics and security. In practice, the VAP largely supports activities primarily in the economic and functional sectors. In the economic sectors, for example, the cooperation may cover fields such as trade, customs, standard, or investment, whereas in the

functional sectors, the cooperation may cover fields such as agriculture and forestry, environment, science and technology, or social development.

Monitoring the results and outcomes of this multi-sector and multi-stakeholder process requires the measurement of the aggregation of impact of diverse intervention measures across sectors. This could be difficult for the RBM monitoring, especially when there are trades-off across sectors. Thus, the VAP monitoring framework needs a special tool to track the aggregated impact while still allowing monitoring of results at project, program, and policy levels.

Second, to sustain the monitoring framework, a much stronger political will and commitment are required by ASEAN to integrate its integration initiatives into the national planning process. The success of ASEAN integration rests largely on the effectiveness by which it is reflected in local legislature and behaviors: what is known as local transposition.[12] However, while at the regional level and in particular to the VAP, ASEAN ministries of foreign affairs are charged with the principal role of coordinating and monitoring, at the country level, domestic coordination for implementation of VAP in particular and ASEAN integration in general is diffused across many agencies such as ministries of trade, finance, and other concerned ministries. This is true for all ASEAN member countries. If ASEAN governments are committed to ASEAN integration, at the country level, it is important to establish inter-ministerial agencies with sufficient enforcing power for monitoring regional integration. At the regional level, it is time for ASEAN to seriously consider further institutionalization of its mechanism by establishing specialized councils to monitor its regional integration.

There is also a marked difference in terms of motivation, mechanism, and resources made available for monitoring purpose between regional cooperation programs initiated by countries themselves and those supported by donors. For those supported by donors, at the regional level, the monitoring of these programs is subject to established procedures of donors for loans and technical assistance programs. The monitoring process and mechanism at the national level are often attached to the existing aid and loans-administration apparatus of a country. In addition, these donors-supported regional cooperation programs will be jointly monitored by national agencies and donors due to the volumes of aid and lending associated with these programs and their possible impact on capital expenditure and capital account of the state budget. By contrast, regional cooperation programs like the VAP initiated by countries are not necessarily associated with a large amount of external aid or lending at the outset, thus making unlikely the integration of the monitoring system for these countries-supported regional programs into the existing administration apparatus at the national level to monitor aid/loans.

This also leads to a division of labor at the country level for monitoring regional cooperation initiatives. For regional cooperation programs supported by donors, the national focal point for monitoring and coordination would be finance and planning ministries, especially when these programs are provided with lending and technical assistance (grant) and require country's financial contribution as counterpart funding. For regional cooperation programs such as the VAP or HPA initiated by countries that

12 McKinsey & Company, ASEAN Competitiveness Study, August 2003.

do not necessarily generate a major amount of lending or grants, foreign ministries are often assigned as the focal points for monitoring and coordination.

In addition, the pressure for monitoring of donors-supported regional cooperation programs comes from both the recipient governments and the donors themselves. For the recipient governments, as stated above, the need to monitor lending and technical assistance prompts them to act, while for donors, they are accountable to their constituencies or fund providers to report the effectiveness of their lending and aid. Thus, the need to apply RBM for these programs is much pressing than those without or with much less external support like the HPA and VAP.This reinforces again the imperative for ASEAN member countries to have a strong political will and commitment to build up and sustain the monitoring framework for the VAP, which may neither really generate internal or external pressure to do so, nor bring about any tangible results yet compared with donors-supported programs. However, delaying or failing to set up a good monitoring system for the VAP would not help correct the image of the ASEAN as a talks shop.

The Greater Mekong Subregion (GMS) is a specific example of the applicability of RBM. With support from ADB, the GMS was established in 1992 with the participation of Cambodia, PRC, the Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam. This is typically an activity-based program. The GMS's initial focus was on overcoming inadequate transport and communication links. Overcoming geographical barriers and integrating subregional markets and promoting new economic opportunities have been key dimensions through which subregional projects have complemented national assistance programs. Thereafter, the need to harmonize the legal and regulatory frameworks and facilitate cross-border transactions to allow the integration of markets for production and services has become another focus of the GMS Program. Subsequently, greater recognition of environmental and social issues has widened the GMS's scope over the last five years (ADB 2002).

Due to a large amount of lending and technical assistance, ministries of planning of participating countries are in charge of monitoring the implementation of the GMS program at the country level. Thus, even there has not been a secretariat for the GMS so far, its implementation has been well coordinated and planned at the country level. This is in sharp contrast to the implementation of the VAP and HPA where there is a well established mechanism with a secretariat and various sectoral bodies, but monitoring is still less effective.

Third, technical assistance for intensive capacity building programs on RBM monitoring for member countries, particularly for agencies which are less familiar with the RBM monitoring, should be provided. Although in general the lack of technical capacities on RBM monitoring may not apply across-the-board to all ASEAN countries, in particular to the VAP, by and large, all foreign ministries of ASEAN member countries that are charged with monitoring responsibility, do not have sufficient technical capacity on RMB monitoring. For example, each ASEAN department of foreign ministries of ASEAN member countries is charged with responsibility to monitor the VAP. One (or two) staff is usually assigned to undertake this task. However, these staff often have a background in international relations

with very little experience on program monitoring and implementation, let alone the RBM monitoring.

The unfamiliarity of actors involved with the RBM monitoring is a constraint to its application. Most of the regional cooperation process is intergovernmental and thus involves the various ministries and agencies of participating governments. Except for a few specialized divisions located in some government agencies such as finance and planning, concepts of program formulation and monitoring and logical framework are virtually new to other government agencies. Across the board,[13] the level of familiarity with the RBM monitoring concepts is particularly noticeable between ministries working more on donor-supported programs and ministries which are not. This familiarity level makes an obvious distinction in the quality of monitoring frameworks and approaches between regional cooperation programs and strategies formulated by the countries themselves such as the HPA or VAP and those formulated with support from donors.

A monitoring system for ASEAN integration in general and the VAP in particular should, therefore, take into account the constraints of the RBM monitoring and differences between donors-supported programs and countries or institutions-initiated regional cooperation programs to design an effective, relevant, and efficient monitoring system.

Monitoring ASEAN integration through the implementation of VAP

With the support of the Australian Government through the ASEAN-Australia Development Cooperation program, a consultant was hired by the ASEAN Secretariat to design the monitoring mechanism for the VAP (Martin 2004). An initial RBM framework was developed alongside with the formulation of the VAP.

The new RBM framework of the VAP aims to (i) track consistency with the stated goals of VAP; (ii) ensure that targets are achieved; (iii) guide timely corrective measures, if needed; and (iv) provide a basis for informed responses to emerging issues and priorities.[14] The new framework largely addresses the deficiencies of the HPA's monitoring system. The framework was endorsed by the ASEAN leaders. This indicated a strong commitment at the highest level of ASEAN to demonstrate that ASEAN is committed to realizing the intended results and impact of the VAP goals.

a. VAP monitoring and implementation mechanism As with the HPA, all ASEAN bodies continue to be involved in the implementation and monitoring process of the VAP. ASEAN national secretariats and the ASEAN Secretariat continue to play a coordinating role at the national and regional levels, respectively.

13 The familiarity level with the concepts of program formulation and logical framework is also quite different among member countries of ASEAN. Some members may be more advanced than others in terms of application of output-outcome based budgetary and management systems and consequently may be more or less familiar with the concept of logical framework.

14 Vientiane Action Program, 29 November 2004.

The implementation mechanism of the VAP which also serves as the monitoring mechanism identifies five levels of regional cooperation: confidence building, harmonization, special assistance, joint efforts, and regional integration and expansion. With each level, there are three types of development cooperation interventions that may be carried out: policy, mechanisms, and human capacity building. Accordingly, the success measures to be used for monitoring and evaluating a project under the VAP would be fine-tuned to fit the level of cooperation and the type of development intervention (see Annex 6.1).

Resource mobilization was also included as a part of the VAP implementation and monitoring mechanism. Different funding sources have been identified such as direct contribution of member countries, ASEAN pooled resources, and external funding.

It is, however, not clear whether the VAP can address the problem of integrating the monitoring and implementation mechanism into the national planning process. As said earlier, for programs which do not entail foreign loans/aid or do not require national financial contributions, unless central governments have a strong and continued political will, it may be difficult to capitalize on the existing national monitoring mechanism or even for the programs to be integrated into the national planning process. The question of which ASEAN body should have the lead role in coordinating and monitoring the implementation of the VAP is still left without an answer. The ASEAN Standing Committee, which is the main ASEAN body for coordinating and monitoring the implementation of the HPA and VAP, is represented by foreign affairs ministries whose mandate mainly focuses on strategic management of regional cooperation rather than on technical monitoring.

The bulk of monitoring activities, therefore, will continue to rest on the ASEAN Secretariat. On the one hand, it is understandable to try to institutionalize the monitoring mechanism within the Secretariat, given its existing useful guidelines and effective structures for conceptualizing, formulating, and appraising ASEAN development interventions. However, on the other hand, given the increasing workload that will certainly be generated by the new monitoring framework, substantial resources must be provided to strengthen the capacity of the Secretariat.

This is an area that multilateral development banks such as ADB can focus on in order to facilitate regional cooperation in ASEAN and strengthen the partnership between ASEAN and ADB as a whole. At the same time, ASEAN planning ministries/agencies may need to be considered as the national focal points to coordinate and monitor implementation of the VAP at both the regional and national levels.

b. VAP monitoring framework An identified problem of the HPA monitoring framework, which was how to monitor and evaluate aggregated impact and results while still allowing monitoring individual projects and programs, is addressed by the new monitoring framework of the VAP in several ways. SMART indicators and performance measures have been built into the VAP, making it easier for formulating the RBM logframe either in a specific sector or for the VAP as a whole.

The need to have both progress monitoring and overall outcomes monitoring was addressed by enabling the monitoring process to be taken at two levels. At the micro level, a monitoring plan was expected to be built into each project. Different projects

would have their own set of success indicators, depending on their stated objectives. At the macro level, a consolidated assessment mechanism would be introduced to help ensure that the overall VAP is on track in achieving its agreed objectives. To permit aggregation, a generic set of criteria would be used, including appropriateness and relevance, quality of design, effectiveness, efficiency, impact, and sustainability (see Annex 6.1).

Another new monitoring instrument of the VAP is the scorecard. It offers both quantitative ratings at the project level and qualitative assessment of the impact at higher levels, and allows aggregation across diverse elements, sectors, and countries to form an overall picture of VAP performance.[15] This is a shift from the inputs-output based monitoring framework of the HPA toward an RBM framework of the VAP.

In addition, the baseline data situation at the beginning of the implementation of the VAP will be established to provide a reference and benchmarks for periodic monitoring.

Identified Monitoring Needs for Future Research

Several technical issues of the VAP deserve further analysis in future research due to their possible policy implications on subsequent action programs of ASEAN to realize Vision 2020.

The first issue is how to quantify the contribution of a particular program to a particular impact when there are many regional cooperation programs focusing on similar geographical areas and sectors. A problem with monitoring three levels in the chain of results (outputs-outcomes-impact) is that the higher one goes up the chain, the more difficult it is to assess what realized outcome and impact is attributed to which program. This is the case in a region such as ASEAN where regional cooperation programs such as the Greater Mekong Subregion (GMS), Mekong River Commission (MRC), Brunei Darussalam, Indonesia, Malaysia, Philippines−East ASEAN Growth Area (BIMP-EAGA), The ASEAN-Mekong Basin Development Corporation (AMBDC), and the Ayeyarwady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) focus on similar sectors (trade facilitation, tourism, private sector development, human resource development, environmental protection, watershed management, and communicable diseases). Although it may be feasible to measure attribution at the output level, it is much more difficult to measure attribution of outcomes and impacts. This technical matter is closely linked to the issue of coordination and harmonization of donors working with member governments. From the perspective of monitoring regional cooperation programs, it is important to better understand the contribution of each program to a particular result/impact, to the extent possible.

The establishment of baseline data is another technical matter for future research. In sectors where data are not readily available, for example on the IT readiness of ASEAN, the establishment of baseline will be costly and may necessitate independent

15 Vientiane Action Program, 29 November 2004.

and competent consultancy for data collection.[16] There may be also instances when available data from external sources are not relevant as they are not particularly tailored to the needs of the VAP. On top of that, specific data on some sectors such as political/security or human rights may be too sensitive for participating countries to provide.

The establishment of performance indicators for monitoring ASEAN integration should also be further examined. These indicators should include a mix of country transposition and market impact indicators. For example, the number of tariff lines that have been reduced to a zero to five percent tariff band, has been frequently reported to the ASEAN Secretariat. AFTA appears a great success as over 96 percent of tariff lines fall within this range. However, if market indicators e.g., growth in intra-ASEAN trade as a percentage of total trade, are applied, a totally contrasting picture will come up. The implementation of AFTA is not satisfactory as intra-ASEAN trade as a percentage of total trade actually declining since 1992.

Financial constraints will be a major technical challenge in monitoring the VAP. The RBM monitoring system requires continuous commitment, time, effort, and particularly resources to build and sustain it. For regional cooperation programs initiated, implemented and monitored by countries themselves, the workload of undertaking periodic monitoring, and producing annual reports, a midterm review, and a final review will entail major amount of inputs in terms of both human resources and finance, especially if these monitoring and evaluation activities include intensive in-country as well as regional consultations between stakeholders, interviews, field trips, consultancy, documentation, and publications. The establishment of a regional facility, for example to support the implementation of the VAP, including building up and sustaining of the RBM system for the VAP, would therefore be helpful to facilitate the regional integration of ASEAN.

In addition, more work is needed at the country level on constraints to monitoring. How widespread are the problems of lack of political will and technical capacities across ASEAN member countries? Are there regional asymmetries/weakest links? What are the inadequacies at the national level for monitoring impact monitoring at the ASEAN Secretariat, and how seamless are communications between the two levels? How do member states communicate with each other if a specific problem arises among a pair of states over implementation of, say, tariff liberalization? Do they have lines of communication at the bilateral level for addressing day-to-day implementation issues, or do they voice their concerns to each other via the ASEAN Secretariat? In other words, do countries have tools for monitoring each other's implementation of the common commitments on a regular basis?

As mentioned in earlier sections, the VAP does not generate a major amount of technical assistance and lending, and thus the existing national administration mechanism for aid and loans isn't normally utilized to support the monitoring work at the regional level. The bulk of monitoring work at the national level falls on foreign ministries whose expertise is not of relevance for technical monitoring, especially if sophisticated RBM logframe techniques are applied. A short-term remedy for this is the provision of intensive training for foreign ministries on RBM. However, the risk

16 Baseline data on IT readiness in ASEAN was taken from the ASEAN e-readiness assessment study conducted in 2001 by IBM Global Services.

is that due to periodic postings, the personnel turnover in foreign services is usually much greater than that in other national agencies, and thus training may not serve much to strengthen the monitoring capacity of foreign ministries in the long run, let alone the mandate of foreign ministries does not include technical monitoring. Thus, the long-term solution is to involve planning or finance ministries as the lead focal point at the national level, but how this can be done needs to be further studied.

Another important issue for future research is to closely look at what would be an effective monitoring system for ASEAN integration in general. In terms of monitoring mechanism, it is important to have an arrangement that is able to provide regular compliance reports on implementation of commitments of member countries and report on non-compliant cases. While the ASEAN Secretariat is currently confined to monitoring the implementation progress, an effective compliance review will require the establishment of an ASEAN peer review process. In the absence of a supranational institution that can take charge of enforcing monitoring, a peer review process can play a helpful role in reviewing compliance and reporting on non-compliant cases. A peer review process will also serve as a tool for countries to monitor each other's implementation of the common commitment on a regular basis. The establishment of this ASEAN peer review process deserves further study.

In addition to the peer review process, specialized mechanisms have to be built into the ASEAN process to observe implementation and address emerging problems. For example, if a specific problem arises among a pair of states over the implementation of the AFTA, a dispute settlement can arbitrate disputed issues among participating parties.[17] A number of dispute settlement mechanisms have been provided in various ASEAN agreements (for economic cooperation, there is ASEAN Dispute Mechanism, for political and security, there is the Treaty for Amity and Cooperation (TAC) Council). But these arrangements are merely on paper and have not been operationalized. Such specialized mechanisms will address day-to-day implementation issues between countries. How to make these mechanism effective would be important to examine in future.

Conclusion

ASEAN is selected as a case study for monitoring regional cooperation and integration in Southeast Asia. Although there are many regional cooperation groupings underway, ASEAN is the longest running and most institutionally developed regional arrangement in Asia. ASEAN integration process is explicitly manifested in the VAP which encompasses a wide range of regional cooperation and integration sectors, ranging from economic, social, political and security, to environmental issues.

17 The Protocol on Dispute Settlement Mechanism was signed by ASEAN on 20 November 1996. This protocol, which provided provisions for the ASEAN Dispute Mechanism (ASEAN DSM), clearly indicates a move towards a rule-based institutional framework for monitoring ASEAN integration. But the enforcement of the Protocol has not been effective thus far. Thus, the Bali Concord II, which was adopted by the ASEAN Summit in 2003, highlights the importance of a more effective dispute settlement system with powers to make legally biding decisions in resolving trade disputes among member countries.

The formulation process of the two programs forms an essential part of a continuous program cycle (design-implementation-monitoring-evaluation) and it therefore largely determines the efficiency of the monitoring process. One main factor in the formulation process is the level of confidence among member countries. The quality of the formulation process, especially the establishment of success indicators, depends on how countries can engage meaningfully in consultation. The extent of this engagement, in turn, is determined by confidence and mutual trust among countries. This process may be less complicated if there is presence of a third party such as in donor-supported regional cooperation programs. Donors can act as honest brokers to facilitate regional dialogue in formulating regional cooperation programs. Donors can also provide expertise for this process.

There is also a transition period in the life of the HPA from an outputs-inputs based monitoring system to a RBM monitoring system. International aid agencies have designed various guidelines for the application of RBM monitoring in regional aid programs. However, the applicability of this RBM in the VAP, a diverse, comprehensive program driven by countries, requires several modifications such as the need to monitor the aggregation of impact while still being able to monitor results at different levels (project, program, and policy); how the RBM can be integrated in the existing national administration of foreign aid/loans programs, especially when these programs do not generate the substantial amount of aid/loans that need to be closely monitored and administered by national planning or finance agencies; how the VAP can be reasonably sophisticated to sufficiently track the results chain.

The VAP has well addressed these above issues by establishing SMART indicators and performance measures; having both progress monitoring and overall outcomes monitoring by enabling a monitoring process to be undertaken at the micro (project) level and the macro (program and policy) level; setting up a generic set of criteria (appropriateness and relevance, quality of design, effectiveness, efficiency, impact, and sustainability) to permit aggregation, and applying the scorecard allowing both quantitative ratings at the project level as well as qualitative assessment of impact at higher levels, as well as aggregation across diverse elements, sectors and countries to form an overall picture of VAP performance.

However, the VAP still faces several technical problems that need to be further looked at in future, for example, how to quantify the contribution of a particular program to a particular result when there are many regional cooperation programs focusing on a similar geographical area and on identical sectors, establishment of baseline data, financial constraint, and the integration of the VAP monitoring system into the existing monitoring system at the national level.

Annex 6.1 Generic Criteria for Monitoring Aggregation of Impact of the Vientiane Action Program

Appropriateness/Relevance
- Conformity with VAP priorities
- Sectoral need
- Contribution to Millennium Development Goals

Quality of Design
- Objectives
- Program logic
- Performance indicators
- Risks

Effectiveness
- Achievement of planned processes and results
- Outputs delivered
- Outcomes achieved

Efficiency
- Level of resources needed to achieve outputs and targets

Impact
- Contribution to VAP goals
- Avoidance of negative consequences

Sustainability
- Retention of knowledge gained (knowledge management)
- Risk management plan in place
- Ongoing resources available

Source: ASEAN Secretariat <http://www.aseansec.org/VAP-10th%20ASEAN%20Summit.pdf>

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Chapter 7

Regional Monitoring in the Pacific: The Pacific Islands Forum

William Sutherland

In contrast to the little regional integration in the Pacific Islands region, there is a great deal of regional co-operation, most of it, by far, effected under the auspices of the leading regional body, the Pacific Islands Forum, and it is that on which I focus. The discussion is therefore heavily focused on regional monitoring, by which is meant the monitoring of regional initiatives by, at the regional level, primarily regional bodies but partly also by donors. Regional monitoring is important not only because of its regional dimensions but also because it could serve a platform on which to monitor regional integration in the future should the level of regional integration increase.

Regional monitoring in the Pacific is recent, limited and soft, and exists in relation to the regional reform agenda that was launched in 1994. It began as a system of annual reporting with relatively loose parameters and gradually evolved into a formal mechanism in 2002 with clearer, more explicit and more detailed requirements. Monitoring regional integration exists in relation to regional trade, is mandated by treaty and is grounded in a requirement for five-yearly general reviews by Parties to monitor and assess the progress and effectiveness of the Agreement. The first review must be held before the end of 2008.

The limited experience of regional monitoring is due simply to the fact that there was no compelling need for it earlier on, and its softness is due largely to the voluntary nature of compliance with regional undertakings. Not surprisingly, uneven progress in the implementation of reforms, as well as revealed weaknesses of the existing monitoring arrangement, caused increasing concern. This underlined the wider need to strengthen regional co-operation generally and that in turn led to the proposal to develop a Pacific Plan. That the Pacific Plan will include a 'Monitoring and Evaluation Plan' is indicative of a desire for harder and more comprehensive monitoring in the future.

To develop this case, I first provide an overview of key regional institutions and processes, the regional reform agenda, key regional initiatives, the early stages of regional monitoring. In the next two sections I examine regional monitoring of regional reform agenda and then the monitoring of regional trade integration. The chapter concludes with a discussion of the likely road ahead.

Overview

The Pacific Islands Forum (referred to hereafter as the Forum) is the premier regional body and the Pacific Islands Forum Secretariat (referred to hereafter as PIFS) is the leading regional organization. The forum and the other major regional organizations make up the Council of Regional Organizations in the Pacific (CROP) and through it, efforts are made to improve inter-agency co-ordination. The major organizations and their substantive areas of work are shown in Table 7.1, and Diagram 7.1 shows the Forum process.

Table 7.1 Major Pacific Regional Organizations

Organization	Established	Areas of work
Secretariat of the Pacific Community	1948	Agriculture, health, training, fisheries
University of the South Pacific	1968	Tertiary education
Pacific Islands Forum Secretariat	1973	Regional policy across a wide range of political, economic, social issues
Forum Fisheries Agency	1979	Oceanic Fisheries
South Pacific Tourism Organization	1980	Tourism
Pacific Islands Development Program	1980	Development policy research
South Pacific Regional Environment Programme	1993	Environment
South Pacific Geosciences Commission	1995	Non-living marine resources

The Forum comprises Australia, New Zealand and the fourteen self-governing Pacific Island countries, the Forum Island Countries (FICs).[1] An annual meeting of heads of government sets regional policy across a wide range of areas. Several features of the Forum process are important for understanding the evolution of regional monitoring.

One is the key role of the Forum Officials Committee (FOC). A meeting of senior government officials, the FOC, meets immediately before a Forum meeting to examine items for Forum consideration. Another is the involvement of development partners through the Post-Forum Dialogue (PFD). Beginning in 1989 and held immediately after Forum meetings, the PFD is a meeting between a delegation of the

1 Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, Niue, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu.

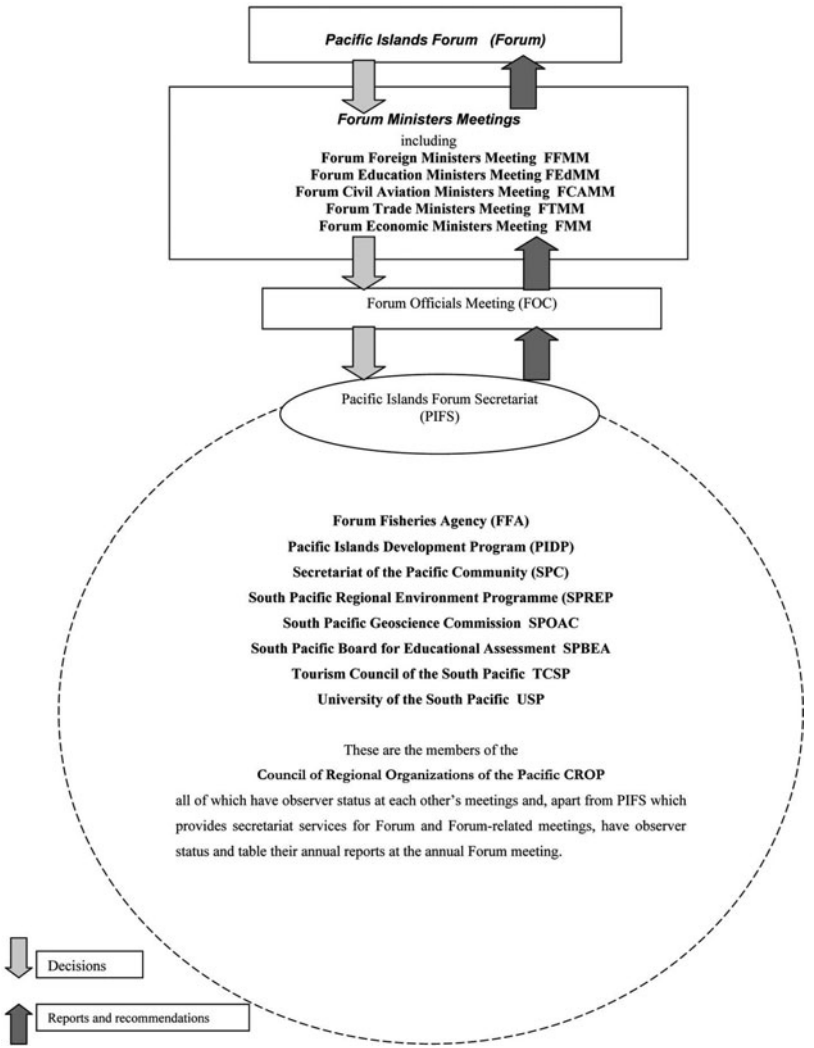


Diagram 7.1 The Forum Process

Forum[2] and development partners, only one of whom, the European Union (EU), is a multilateral donor.[3] Other multilateral donors, most notably the Asian Development Bank (ADB), World Bank, and United Nations Development Programme, do not participate in the PFD but are involved in the Forum machinery through High Level Consultations, Roundtables and other types of meeting.

2 The delegation is at Ministerial level, although Forum Leaders sometimes participate, and is comprised of representatives of the current, previous and next Chair of the Forum.

3 The other development partners are Canada, China, France, Japan, the United Kingdom, the United States, Korea, Malaysia, the Philippines, Indonesia, India and Thailand.

A third important feature is the key role of the Forum Economic Ministers Meeting (FEMM). From the late 1980s, growing donor concern about the poor economic performance of the FICs, despite their high levels of aid, led to increased donor pressure for reform. In 1994, with Australia in the Chair, the Forum launched a programme of reform in the FICs and established the FEMM to oversee its development.

A fourth feature of the Forum process is the institutionalized involvement of non-state actors. The increasing importance that the Forum attached to the role of the private sector led to the establishment in 2002 of the Regional Consultative Mechanism through which annual meetings are held between private sector representatives and the FEMM. As the name indicates, this is a consultative arrangement, not a monitoring one. Civil society organizations had long sought a formal engagement in the Forum process and in 2002 PIFS adopted the 'Framework for Engagement with Regional Non-State Actors'. This is an formal arrangement for discussions between PIFS and representatives of *regional* civil society organizations. At its meeting in Auckland in 2003 the Forum authorized its Secretary General to receive and transmit to the Forum submissions by non-state actors/non-governmental organizations.

Against this background, the institutional arrangement for monitoring the Forum's regional reform agenda becomes clear. At the centre of the arrangement are the FEMM and PIFS. The FEMM was not explicitly mandated to monitor progress in FIC implementation of regional reforms. Instead, its monitoring function emerged out of agreement amongst members to report annually on progress in implementation. The only guide to such reporting was the general one that reports be on decisions taken at the FEMM. There were no specific guides or requirements on substantive coverage, level of detail or methodology employed. On the basis of these reports, the FEMM reports annually to the Forum through the FOC. Throughout this process PIFS has the critical role of servicing and co-ordinating the work of the Forum, FOC and FEMM.

From its initial focus in 1994 on three specific issues – fisheries, forestry and civil aviation – the scope of the regional reform agenda quickly grew to include trade, investment and public sector reform. Later, as longstanding worries about regional stability were deepened by concerns about transnational crime and international terrorism, governance and security were also included. At the policy level, human resources and the environment had long been Forum concerns, and they too came within the ambit of the reform agenda and in time its social impacts became more and more evident. Inevitably, concerns about economic disparities and their political consequences deepened. Over time, therefore, the whole reform agenda came increasingly to be seen in a holistic way. Each of the separate elements – economic, social, environmental, political and security – were increasingly considered for its impact on others. Running through all this, of course, was the ever-present FIC concern that traditional customs and values be respected, no mean task in view of the many contradictions with Western-style democracy.

The holistic conceptualisation of regionalism that came to underpin the reform agenda was a welcome development. Less encouraging was the uneven implementation of reforms and even less the monitoring of it. Annual reporting by FICs was voluntary and the reports varied in content, coverage and quality.

Invariably, FIC undertakings, even those with specified timeframes, were couched in the language of goals or targets that FICs were 'encouraged' to meet rather than the language of benchmarks to which they would be formally and strictly held. Even the FEMM annual Action Plans, which began in 1997 and contained increasingly specific guides for both implementation and reporting, did not produce major improvement. Implementation remained uneven and monitoring soft, and this was especially true in the highly sensitive areas of governance and security, despite the added weight of formal declarations and principles adopted by the Forum. In 1997, for example, the FEMM adopted, and the Forum later endorsed, the Eight Principles of Public Sector Accountability. In 2000, the Forum adopted the Biketawa Declaration, which had to do with, among other things, good governance, democratic process and security in general as well as land, ethnic tension and socio-economic disparities in particular.

With the holistic view of regionalism taking root and the inadequacy of monitoring actions becoming ever more evident, the FEMM decided in 2001 to adopt a more structured and formalized approach and set in place arrangements to begin biennial stocktakes of performance. That decision, endorsed by the Forum a few months later, led to the stocktakes of 2002 and 2004. Before examining them, I first describe monitoring actions by multilateral organizations.

The EU and the ADB undertake some monitoring, although the details of the methodologies employed are not publicly available. The EU's regional assistance focuses on economic integration, human resources and fisheries, and at the centre of its monitoring are the 'Interventions Frameworks' for each sector. Each Intervention Framework sets out long-term (10-12 years) targets, 'intervention objectives' and (expected) results (Forum Secretariat 2002: 31-33). For each of these in turn there are performance indicators.

The ADB, the largest multilateral donor in the Pacific, describes its monitoring as based on 'sector/thematic strategies and roadmaps' that 'indicate parameters for monitoring progress'. ADB procedures require that 'the design of projects include measurable output and outcome indicators'. The 'overall monitoring of implementation and impact' relies on regional reports, macro data, and relevant evaluations conducted by other development partners and the regional organizations. In addition to 'direct and objective data', therefore, the monitoring process also takes into account 'qualitative information and indirect indicators' (ADB 2003: 30-31).

From its account, the ADB's monitoring appears to be project/programme evaluation, although the extensiveness of its regional involvement, coupled with the high priority it attaches to collaboration and co-ordination with development partners and stakeholders (2003: 6), suggests that its monitoring process may well cut across regional initiatives and thus, in some degree at least, qualify as regional monitoring. Whether and the extent to which this might be the case, however, is difficult to establish.

In any event, the more important issue here is whether or not there is a connection between these monitoring actions and those of the Forum. This too is difficult to determine but it is reasonable to expect that at the very least there is an informal connection through which the similar thinking of the two organizations about monitoring does inform the Forum's monitoring process. To that I now turn and I focus on the 2004 Stocktake because it builds on the earlier one.

Regional Monitoring: Stocktakes of the Regional Reform Agenda

Reports by the FEMM to the Forum are a form of monitoring but their shortcomings militate against their effectiveness. Based on country reports which are often incomplete, vague and lacking in detail, they were never an adequate basis upon which to make solid, evidence-based assessments of progress. Increasing frustration about this, particularly amongst donors, led to the decision to undertake formal stocktakes of actions taken at the national level. That task fell to the PIFS, which with the assistance of a consulting firm, has thus far undertaken two stocktakes, in 2002 and 2004.

Drawing on government documents budget statements, policy statements, national plans/strategies – as well as reports by development partners, PIFS prepared draft country reports that were sent to FIC governments together with a questionnaire prepared by PIFS. FICs were asked to complete the questionnaire, finalize their country reports and submit them to PIFS, which finalized the Stocktake Report and submitted it to the FEMM. The FEMM subsequently submitted a report to the Forum through the FOC.

The final country reports are not made public but are their form and content are shaped to a large extent by the draft country reports and questionnaire prepared by PIFS. The questionnaire (which is appended to the Stocktake Report) provides insight into the methodology underpinning the stocktake process.

It is structured around four areas of reform – Good Governance; Economic Reforms; Financial Reform; and Trade and Investment. For each, 'Key Framework Elements' are listed and for each of these, FICs are asked to:

- describe their current status;
- describe relevant developments that have taken place over the preceding two years;
- assess the degree to which their implementation has been limited by various factors that are identified; and
- describe 'any other barriers/constraints experienced'.

The Key Framework Elements of Good Governance are the Eight Principles of Public Sector Accountability adopted in 1997, which have to do with:

- Budgetary Process
- Auditing and Publication of Accounts
- Loan Agreements
- Public Sector Contracts
- Financial Regulations
- Public Accounts/Expenditure Committees
- Auditor General and Ombudsman
- Central Banks and the use of IMF Code of Good Practices on Fiscal Transparency as a model

The 17 Key Framework Elements of Economic Reforms are grouped under four headings:

- Design and implementation
- Social impact assessment
- Consultative/participatory process
- Statistical underpinning

The 15 Key Framework Elements of Financial Reforms are grouped under three headings:

- Design and sequencing
- Financial reform principles
- Monitoring

The nine Key Framework Elements of Trade and Investment have to do with:

- The goal of free and open trade and investment
- Tariff reduction
- Review of commercial laws
- Dispute settlement
- Intellectual property rights
- Investor access to land
- Management of government capital assets

The factors that FICs are asked to assess as possibly limiting the implementation of the Key Framework Elements are:

- Financial resources
- Technical capacity
- Human resources
- Political will
- Priority in national strategies
- Consultation
- Accountability

A full account of the outcomes of the 2004 stocktake is not possible here but several general features are noteworthy.

First, the FIC response rate in 2004 was low and only marginally better than in 2002. This result was all the more 'disappointing' because 'draft partial responses to the questionnaire' had been prepared to assist the FICs (PIFS 2004: 3). Of the fourteen FICs, six responded in 2002, seven in 2004. Five responded on both occasions – Cook Islands, Fiji, Samoa, Tonga and Vanuatu. The non-responding FICs might be seen as 'weak links' and the non-participation of the five Micronesian FICs is noteworthy but, clearly, these FICs are even more burdened by the severe the constraints that all FICs face, and which are outline below.

Second, because of the low response rate, the 2004 Stoctktake Report draws heavily on 'factual information' culled from various sources in order to have full coverage across the region.

Third, the 2004 questionnaire asked FICs about performance indicators only in relation to financial reforms. Not surprisingly, there is little evidence in the Stocktake report to suggest the existence and/or use of performance indicators in other reform areas. That this appears not to have been the case is suggested by the finding that in the area of financial reform, the development of performance indicators was 'varied', with progress noted only in Samoa, Cook Islands and Niue (PIFS 2004: 26).

Fourth, with the limited quantitative data provided and the absence of clear aggregation procedures, the 2004 Report's assessment of regional outcomes is largely qualitative and is based largely on FIC narratives and other sources.

Fifth, the 2004 questionnaire has a heavy emphasis on process rather than substantive outcomes. This is especially true of the section on economic reforms, where the key framework elements listed in the questionnaire have to do with process and the questions on them, as the 2004 Report says, 'do not assess the economic reform policies…but rather the mechanisms used to operationalize them' (PIFS 2004: 14).

Sixth, the 2004 Stocktake Report provides examples of government consultations with the private sector, civil society and donors in the implementation of reforms. Its assessment of these consultations leads to the following observations:

> Increased emphasis needs to be placed on formalizing and regularizing consultation. In most FICs consultation was ad hoc and often advisory in nature rather than decision making. Furthermore, very few FICs (Niue and Tuvalu are exceptions) made use of specific terms of reference for consultative processes which indicated issues to be considered, purpose of the meeting, and accountability for follow-up…. One important issue in ensuring effective consultation is making sure the non-state actors are both representative of the community and also that they have the capacity to participate fully in consultation. Consultations with development partners [are] also a key to gaining their support for planned reforms. Such consultative roundtables have been undertaken by Cook Islands, Fiji, Niue, Palau, Samoa, Solomon Islands, Tonga and Vanuatu [but] these have tended to be largely irregular in timing (PIFS 2004: 20-21).

These observations are significant because they not only confirm what has long been widely known about deficiencies in FIC consultative processes but, more importantly, underscore the apparently limited stakeholder participation in the Stocktake process itself. Nowhere in the report is there any indication that actors other than member governments and PIFS were involved.

Seventh, similar impediments to implementation of reforms were found in all four areas, some more serious in particular areas. The most common were the lack of financial resources, human resources and technical capacity (PIFS 2004: 33). Particular deficiencies identified by FICs include inadequate national statistics; the lack of baseline data; and lack of legal, trade, financial, accounting, budgeting expertise. All of these have been identified as requiring urgent donors support. Tellingly, 'the inertia created by reticence of some sections of government to share information with others' (PIFS 2004: 13). In contrast, 'lack of prioritisation and political will were *not* noted as being constraints to implementation of FEMM decisions' (original emphasis) (PIFS 2004: 33).

Finally, in the face of the kinds of difficulties noted above, the 2004 Report's overall assessment of regional performance is not surprising. In the four reform areas, performance is variously assessed as partial, gradual, uneven. 'Overall', as the Report concludes, 'the key areas of FEMM decisions reviewed were being implemented, at least partially, *by responding members'* (emphasis added) (PIFS 2004: 33).

Despite the difficulties, several positive features of the stocktake process are noteworthy and from which useful lessons can be taken for monitoring in the future.

One is its sensitivity to the dynamics of national political economies. Its recognition, for example, of 'the need for country-specific reform decisions' (p.14) indicates an appreciation of delicate political and economic factors that might have militated against greater implementation of reforms as well as greater FIC participation in the biennial stocktakes. Examples of delicate factors include domestic interests affected by trade reform, land policy, affirmative action programmes and indigenous business.

A second is its undoubted policy relevance. As a formal monitoring mechanism of the Forum that, moreover, is operated largely by Pacific Islanders, the biennial stocktake has a legitimacy without which policy changes might have been less likely. As the 2004 Report argues, FIC implementation of reforms clearly improved after 2002 and largely because of the seriousness with which FICs took the recommendations of the 2002 stocktake (PIFS 2004: 34).

A third is that the stocktake is underpinned, at least implicitly, by a holistic conceptualisation of regionalism and its effectiveness, at the core of which is the view that regional outcomes (i) have substantive and process dimensions; (ii) need to be considered not only in their own terms but also for their impact across economic sectors and the community as a whole; and (iii) must be assessed for their appropriateness to national conditions.

The methodology to support this conceptualisation, however, is rudimentary and a more adequate one requires clearer and more comprehensive sets of indicators and measures as well as defensible aggregating procedures to allow assessment of regional initiatives, individually and collectively. This is, of course, a major challenge that few regions, if any, have resolved successfully. Nevertheless, there is clearly a need for more systematic and rigorous monitoring than the stocktake process, which is piecemeal, incomplete, often subjective, and does not sufficiently separate substantive from process outcomes.

Politically, the biggest challenge for monitoring in the future will be to increase institutionalized and genuine stakeholder participation. In the end, regional initiatives depend for their success on implementation at the national level and it is clear that domestic political and economic stresses complicate the full and effective implementation of regional initiatives. But the evidence shows that the FICs are trying. Elsewhere I have argued that in their reform efforts FICs have shown commendable willingness to compromise their national sovereignty for the greater regional good, particularly in the areas of governance and security (Sutherland 2004).

The general point here is that reform efforts are more likely to succeed with community involvement and support. The particular one is that such support is more

likely if the community is involved not only in the formulation and implementation of reforms but also in their monitoring and evaluation. For the community, too often the sense of national ownership universally deemed so vital to the success of reform is more form than substance and, what is more, rarely, if ever, extends to monitoring and evaluation. And when reforms are seen to be part of a regionally driven initiative from which the community feels disconnected, the viability of that initiative becomes even more fraught. All that the 2004 Stocktake report says about the need for fuller involvement by civil society and the private sector in national implementation of regional initiatives therefore applies also to monitoring and evaluation.

The likelihood of that happening, however, is an open question. As the 2004 report notes in relation to the Eight Principles of Accountability, in the FICs there is a gap between intention to implement and actual implementation: 'Generally FICs' responses indicated that there is strong commitment to implementation of the principles but some divergence in the extent of compliance and enforcement of the principles' (PIFS 2004: 4). The broad thrust of the report strongly suggests that this divergence applies also to other areas of reform. More importantly for the purposes of this discussion, this divergence between intent and action reveals yet again the fundamental problem of voluntarism that lies at the heart of regionalism generally and monitoring in particular. What might this imply for the future of regional monitoring? The region is poised at a crossroads. Is major change likely under the proposed Pacific Plan? Before taking up these questions, I briefly consider the monitoring regime for regional trade integration.

Monitoring Regional Integration: PICTA

With the workload of the FEMM growing rapidly, the Forum decided to shift primary responsibility for trade reform to the Forum Trade Ministers Meeting (FTMM), which it established in 1999. The FTMM's major achievement to date is the Pacific Island Countries Trade Agreement (PICTA),[4] which was adopted in 2001 and came into effect in 2003. Its objective is to progressively liberalize goods trade between the Pacific Islands over ten years with a view to establishing a free trade area. The hope is that it will boost intra-regional trade beyond its current low level of about two per cent of regional trade. Under Article 19, trade in services can be included 'in the long term' and, in the words of PIFS, so too the movement of capital and labour 'at some point' in the future (PIFS n.d: 9).

Parenthetically, mention needs to be made of the Pacific Agreement on Closer Economic Relations (PACER).[5] Developed in tandem with PICTA and adopted at the same time, it too came into effect in 2003. It is an agreement between Australia and New Zealand on the one hand and the Pacific Islands on the other but is not a free trade agreement, certainly not within the meaning of GATT Article XXIV, and was explicitly designed as such.

4 Available at www.forumsec.org,fj.

5 Available at www.forumsec.org.fj.

When it was being negotiated, the EU sought to conclude Economic Partnership Agreements with FICs under the Cotonou Agreement. This was seen by Australia and New Zealand as a threat to their interests and they sought protection from it. Essentially PACER requires FICs to consult with Australia and New Zealand if they, individually or collectively, seek to conclude trade agreements with other countries, again individually or collectively. As the Forum Secretariat put it, 'the principal benefit to Australia and New Zealand is the assurance it provides that they will not be disadvantaged in FIC markets as a result of any arrangements the FICs may conclude with other countries' (Pacific Islands Forum Secretariat Trade and Investment Division, n.d: 4). For their part, the main benefits of PACER to the Islands are greater trade facilitation and financial and technical assistance.

PICTA's objective is pursued principally through the progressive elimination of trade barriers under agreed timetables set out in Annex II. The Agreement also establishes the general review by Parties as the mechanism to monitor its implementation. To be held at the time of FFTM, the first review must be held no later than 2008 and thereafter must be held at no later than five yearly intervals. Its scope is wide and under Article 23 Parties are required, among other things, to

- monitor progress made in implementing the Agreement;
- assess whether the Agreement is operating effectively;
- evaluate the need for additional measures or modifications to increase its effectiveness;
- endeavour to identify ways to accelerate the time frames for liberalization; and
- consider any other matter relating to the implementation of the Agreement or trade within the Area (covered by the Agreement) or in the Pacific region generally.

How precisely this monitoring mechanism will operate and how effective it will be remains to be seen. The operational details are unknown, nor even whether they are in place. Especially important in this regard are the indicators and measures of progress that are clearly anticipated in the Agreement and whose adequacy will be critical to the effectiveness of the monitoring system as a whole. Of more immediate concern, however, is a deeper, structural flaw, which is the five-year gap between general reviews. There is nothing in the Agreement to suggest monitoring actions during that period. It could be argued that the dispute resolution provisions as well as the sanctions available to aggrieved Parties under Article 22 perform a *de facto* monitoring function but even if they did, they would do so in a contingent way, i.e., only in cases of disputes. So far there has been only one dispute (between Fiji and Vanuatu) but this single instance does not necessarily indicate the state of progress in the implementation of the Agreement. Indeed, it appears that implementation might not be proceeding to schedule (*pers.comm.* 2005), a concern that does not emerge from a formal monitoring exercise. This deficiency should be rectified.

That deficiency aside, the broader significance of the general review as a monitoring mechanism is that it is obligatory. This does not guarantee successful outcomes but it breaks from the norm of voluntarism and thus points to the possibility

of harder monitoring in the future. That possibility might be greater by the time of the first general review, for by then the Pacific Plan is likely to have been operational for some time and in its current draft form clearly reflects the Forum's leaning towards harder regional monitoring around higher standards than is presently the case.

Looking Ahead: The Pacific Plan

In view of their strong influence, it is not surprising that the most far-reaching changes in the region have occurred when Australia and New Zealand occupied the Forum Chair. In 1994, with Australia as Chair, the Forum initiated the restructuring of PIFS and launched the regional reform agenda. In 2003, with New Zealand as Chair, the Forum decided, for the first time, to review itself and appointed an Eminent Persons Group (EPG) for the task. The proposal to review the Forum was made by the then Forum Secretary General and was strongly supported by New Zealand. At a special meeting convened in 2004 to consider the EPG's report, the Forum adopted its Pacific Vision and called for the development of a Pacific Plan. In the discussion that follows I focus on the features of the Pacific Plan that are relevant to regional monitoring in the future. For emphasis, key words and phrases are underlined.

The Forum appointed a Pacific Plan Task Force (PPTF) headed by the Forum Secretary General to develop the Pacific Plan. Amongst other things, the PPTF's terms of reference required the development of 'an *implementation plan* with clear and realistic *targets* and achievable *outputs*' as well as 'a *monitoring and evaluation plan* to *continually assess* the success, or otherwise, of implementation' (PIFS 2004a: 11-12). The Implementation Plan is fairly developed but incomplete. The Monitoring and Evaluation Plan is still in preparation. What, then, is to be monitored and how? There are general indications.

An ambitious document, the Pacific Plan, is seen as a 'living document' that will respond to changing circumstances but its broad, strategic thrust is clear. The *objective* of the Plan is 'to strengthen *regional cooperation and integration as the main instrument for* realizing [the Forum's] Pacific Vision' (PIFS 2004a: 3). At the core of that Vision are the Forum's four priority *goals* – economic growth, sustainable development, good governance and security.

Four key principles underpin the process of strengthening regional co-operation and integration:

- Increasing the levels of sustainable returns to the Pacific;
- Ensuring the successful implementation of regional cooperation at the national level;
- Meeting common responsibilities and providing services cost-effectively; and
- Developing partnerships with neighbours and beyond (PIFS 2004a: 3).

In line with these principles, projects and programmes to be undertaken under the Plan will be chosen on the basis of two *prioritisation criteria*: likely impact and potential for successful implementation. The broad *indicators* of likely impact are:

- the outcomes produced in at least one of the four goals of economic growth, sustainable development, governance and security; and
- the number of countries or people benefiting.

The broad indicators of potential for successful implementation are:

- level of commitment by Member states;
- level of support from partners, both internal and external;
- effectiveness of relevant institutions and policies both regionally and nationally;
- support for similar initiatives already endorsed by Leaders; and
- contribution to the strengthening or rationalizing of existing regional networks, mechanisms or agreements (PIFS 2004a: 15-16).

The sequencing of projects and programmes is broadly determined by their *expected benefits* over three *time frames*. In the Implementation Plan, therefore, projects and programmes around the four priority goals are clustered under Regional Co-operation *Priorities*: those that produce *Early* Practical Benefits, *Medium Term* Benefits, and *Longer Term* Benefits. Early practical benefits are defined as 'strategic or policy objectives, programs, projects or activities that:

- are achieved, completed or initiated within the first three years of the Pacific Plan;
- meet the Guiding Principles and Criteria for Cooperation under the Pacific Plan and;
- build or enhance confidence in and support for the Pacific Plan and for regionalism'.

Medium Term and Longer Term Benefits are similarly defined, with their times frames being 'within the first five years' and 'within the first ten years respectively'.

These monitoring-related elements outlined above are reflected in the Implementation Plan, the structure of which is reproduced in Table 7.2 below. Projects and programmes already chosen have been included in the Implementation Plan. Completed ones will be removed and new ones added. Table 7.2 lists some projects and programmes already chosen for implementation and which include monitoring elements. They provide an indication of what can be expected in the Monitoring and Evaluation Plan, particularly the references to statistical databases, standards and performance indicators.

Stronger *partnerships* are considered crucial and in that respect several features of the Pacific Plan are noteworthy. First, it envisages an accreditation policy for the PIFS Framework for Engagement with Non State Actors. Second, it encourages governments to 'institutionalize a framework for engagement with national civil society organizations'. Third, it urges stronger engagement with development partners and multilateral organizations, not least because the 'the current resources for regional co-operation are sourced mainly from them'. The hope is that donor programmes and reporting requirements will be better aligned with national priorities and processes (PIFS 2004a: 8).

Table 7.2 Pacific Plan Implementation Strategies

Regional Co-operation Priorities		
Early Practical Benefits	Medium Term Benefits	Longer Term Benefits
I. Economic Growth		
II. Sustainable Development		
….establishment of standards and systems to support national economic and resource management.	Further development of a regional statistical database which includes Pacific Development Indicators (PDIs) to facilitate planning and reporting on national economic and resource management.	
III. Good Governance		
IV. Security		
Adoption of a Pacific (regional) policy in each country; with a high level national coordinating mechanism overseeing the implementation of its policy as well as the Pacific Plan; and a national action plan for the implementation of the Pacific Plan.	Identification of specific indicators for identifying potential regional stresses and drivers of conflict to assist responses to emerging issues before they develop into serious conflicts.	

From this gleaning, then, several general observations can be made about what is prefigured in the Pacific Plan as the likely future of regional monitoring. First, it clearly builds on lessons learned from the Forum's short and limited experience of regional monitoring. Second, it retains the Forum's holistic conceptualisation of regionalism and effectiveness. Third, there is a clear recognition of the need for stronger methodological underpinnings and that they be reflected in the operation of the Plan. Especially noteworthy in that regard is the greater emphasis on specific, time-bound outcomes as well and clear performance indicators and measures. Fourth, the strong support of donors, especially Australia, New Zealand, the ADB and EU, increases the likelihood of a more enduring, rigorous and comprehensive monitoring than presently exists. That said, acceptance of the Pacific Plan, at least as currently drafted, is not a foregone conclusion. Already misgivings have been expressed. In addition, even if accepted, the Plan, unlike the PICTA, will be voluntary. As I have argued, however, the weight of the evidence suggests that compliance is likely to be greater than has hitherto been the case.

This prognosis may appear overly sanguine but there are at least three related grounds for its defence. First, like the regional reform agenda, the Pacific Plan is a watershed in Pacific regionalism. Second, both were launched when the Forum's

dominant members, Australia and New Zealand, were strategically placed as Forum Chair. Third, the evidence points to major improvements since the beginning of the regional reform agenda and it is difficult to see why in principle further improvements should not result from the Pacific Plan.

That said, it is also clear that the road ahead for regional monitoring will not be free of bumps. First, the many technical and resource limitations that FICs face will not quickly disappear. Second, ultimately, compliance with monitoring requirements remains voluntary. Third, precisely who will be involved in monitoring, and how, is unclear and may well prove problematic. Fourth, and more generally, community support for the Pacific Plan cannot be guaranteed and without it the Plan might well be seen as simply another high-sounding initiative of politicians and bureaucrats with little consequence for the daily lives of the vast majority of Pacific Islanders. The Forum is well aware of this and has insisted on wide stakeholder participation in the formulation of the Pacific Plan. That process is underway. The challenge will be to ensure such participation in its implementation and monitoring, and in other monitoring arrangements as well.

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Chapter 8

Monitoring Regional Integration and Cooperation in South Asia

Rodrigo Tavares

Introduction

Regionalization agreements have increased in number, scope, and diversity over the last three decades. Currently, virtually no country in the world is left out of some sort of regional arrangement. Some 250 regional trade arrangements (RTAs) have been notified to the GATT/WTO up to 2006, of which 130 were notified after January 1995. Over 190 RTAs are currently in force; an additional 60 are estimated to be operational although not yet notified.[1] Regionalism is an important mechanism to reconcile the tensions between the pressures of globalization and the demands for greater local control, while offering states an opportunity to retain their autonomy over political processes (Hettne et al. 1999-2001). Governmental, economic, or civil society actors for different reasons endorse the process of regionalization. At the governmental level, the decision-making process may lean towards regionalism when international bargaining power is at stake or when the distribution of welfare, in an era of global competition, is believed to be more effectively accomplished through regional groupings (Hettne 2005). At the economic level, multinational corporations (MNCs) stimulate state preferences for more regional deregulation agreements, which will militate in favor of a free movement of economic factors, and a regional division of labor (Thomsen 1994). At the social level, given the fact that regionalization might contain in itself a conceptual and institutional response to the process of negative globalization (which may have malign repercussions on the social contract between states and people), it is a process that may also be driven by civil society(ies). In a nutshell, regionalization is an intermediate position between the backlash of laissez-faire and the unfeasibility of a world government, or, as pointed out by Nye, 'a halfway house between the nation-state and a world that is not willing to become one' (1968:v).

In this light, South Asia offers a challenging case study as it is often regarded as the least integrated region in the world. Despite its members share not only the same chapter in the history book of colonialism, but also common cultural patterns and geographic distinctiveness, South Asia is a region marked by political and religious fault lines. This chapter focuses on the South Asian paradox. Firstly, the actors associated with the regionalization process are enumerated. Secondly, we will

1 http://www.wto.org/english/tratop_e/region_e/summary_e.xls. Visited April 1, 2006.

identify both formal and informal monitoring initiatives conducted by an array of different agents: SAARC, European Union, civil society groups, SAARC member states, and media. Thirdly, the obstacles in the difficult path towards (monitoring of) regional integration – under the aegis of SAARC – are pinpointed, which will pave the way an assessment of the possible future scenarios for the region.

The Actors of Regional Integration and Cooperation in South Asia

To comprehend the complexity of regionalization a multidimensional approach needs to be adopted. As postulated by the 'new regionalism' (Palmer 1991; Fawcett and Hurrell 1995; Mansfield and Milner 1999; Hettne et al. 1999-2001; Väyrynen 2003; Farrell, Hettne and Langenhove 2005), regionalization is a process that encompasses a wide range of actors struggling to optimize their interests in a number of different areas. South Asia is no exception. Although it is a region marked by the central positioning of the state in international relations, actors increasingly operate across borders. Bearing this in mind, an assessment will be made of the capacity of SAARC, IOR-ARC, BIMSTEC, national states (emphasis on India), economic agents, and civil society in fostering and monitoring economic integration and cooperation. Although we look at South Asia as a region composed by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka, we also allude to more encompassing regional projects in terms of membership as IOR-ARC and BIMSTEC. Even tough they include an array of countries that are not within the South Asian framework, formal links have been established nonetheless with some South Asian countries.

The South Asian Association for Regional Cooperation (SAARC)

The initiative to found a regional organization aiming to increase economic and political cooperation came in 1981 through a 'Working Paper on Regional Cooperation in South Asia' sent by President Ziaur Rahman of Bangladesh to his regional counter-parts. The concept was consummated in December 1985 with the establishment of the South Asian Association for Regional Cooperation (SAARC) with Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka as members.[2] President Rahman, who was overthrown by a coup before SAARC was formally implemented, saw regional cooperation as a potential vehicle to bring peace dividends. Such an initiative triggered different reactions from the other South Asian countries. Sri Lanka responded with a frustrated enthusiasm. Some years earlier, it had explored, without success, the possibility of joining the Association of Southeast Asian Nations (ASEAN) and now viewed SAARC as a window of opportunity to increase economic growth. However, the thinking at the beginning was that SAARC should be a forum for confidence building measures and controversial issues such as economic and political should be left out of the agenda. More passively but along the same lines Nepal, Bhutan and the Maldives saw no reason to stay away from such an

2 Afghanistan has been formally accepted only at the 14th SAARC Summit, in April 2007.

arrangement and therefore joined in. Pakistan and India reacted distinctively from the other states. Pakistan responded somewhat negatively because it remained concerned with the psychological fear of Indian dominance. India reacted circumspectly firstly because it saw SAARC as a potential instrument of collective pressure and secondly because it looked upon the initiative as a covert western intervention in South Asia. India was attentive to the fact that the US, under the Carter administration, had laid out the Carter Doctrine which stated that the country was prepared to 'work with other countries in the region [South Asia] to share a cooperative security framework that respects differing values and political beliefs, yet which enhances the independence, security, and prosperity of all'.[3]

In terms of organizational structure, the highest authority of SAARC rests with the heads of state and government, who meet annually at Summit level (last Summit was held in New Delhi in April 2007). Additionally, the Council of Ministers comprising of foreign ministers of member states, meets twice yearly with the responsibility of formulating policies. The third organic body in SAARC's structure is the Standing Committee, composed of foreign secretaries of member states, and is mandated to carry out the overall monitoring and coordination of programs and modalities of financing. Finally, the Technical Committees comprise representatives from the member states with the capacity to formulate programs and prepare projects in their respective areas of intervention.

Since its inception in 1985, SAARC's major accomplishments have been, first of all, the creation of an opportunity for distrustful states to meet and discuss topics that relate to their common welfare. Additionally, SAARC has also put forward several protocols and conventions as the SAARC Regional Convention on Suppression of Terrorism (1987), the Agreement on Establishing the SAARC Food Security Reserve (1988), the Convention on Regional Arrangements for the Promotion of Child Welfare in South Asia (2002), Convention on Preventing and Combating Trafficking in Women and Children for Prostitution (2002), the Social Charter (2004), the Agreement on South Asian Free Trade Area (2004, first envisioned in 1993), and the Additional Protocol to the SAARC Regional Convention on Suppression of Terrorism (2004).

The Indian Ocean Rim Association for Regional Cooperation (IOR-ARC)

The Indian Ocean Rim Association for Regional Cooperation was launched in Mauritius in 1997. The Association comprises 18 member states: Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, UAE, and Yemen (South Asian states in italic). Egypt, Japan, China, France, and the United Kingdom are dialogue partners. Seychelles withdrew its IOR-ARC membership on 1 July 2003. The Association aims to facilitate trade and investment

3 The *Carter Doctrine* was issued in the State of the Union Address on January 23, 1980 by President Jimmy Carter as a response to the Soviet invasion of Afghanistan. Online at http://www.jimmycarterlibrary.org/documents/speeches/su80jec.phtml. Visited December 1, 2005.

in the region. The Fifth Council of IOR-ARC Ministers met in Colombo, Sri Lanka, on August 26-27th 2004. In the meeting, India, Oman, and Sri Lanka proposed a draft framework for a Preferential Trade Agreement, which will be further developed by a cluster of interested states. In the Sixth Council, held in Teheran, on February 9-12th 2006, member states declared that the policy of the IOR-ARC is to achieve regional security and greater welfare through bilateral and multilateral relations and by strengthening the regional alliances within the framework of South-South Cooperation. At the Seventh Council, also held in Teheran, on March 7-8th 2007, member states focused on the promotion of inter-regional tourism, on cross border financial services, reviewed the IOR-ARC Special Fund and celebrated the 10th anniversary of the organization.

Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC)

The idea of this regional cooperation project was first brought up by Bangladesh, India, Sri Lanka, and Thailand at a meeting in Bangkok in June 1997. The aim, purpose, and principles, contained in Bangkok Declaration of June 6, 1997, are centered on fostering trade levels among member countries by taking advantage of their geographical location in the region of the Bay of Bengal and the Eastern coast of the Indian Ocean. Discussions have already been held with regard to building a TransAsia Highway linking the five countries and also setting up a BIMSTEC Airline connecting the capitals and important cities of the member countries. Currently, Bangladesh, India, Myanmar, Sri Lanka, Thailand, Bhutan and Nepal are members. The regional group attempts to serve as a bridge between the five SAARC countries and two ASEAN states. In January 2004, member countries agreed on a framework to implement a Free Trade Agreement by July 2006 (later postponed). Besides the FTA on trade in goods, BIMSTEC members have agreed to enforce the FTA agreement on trade in services and investment from July 2007. The FTA on trade in goods would be implemented under 'fast track' and 'normal track' of trade liberalization. In the fast track of liberalization, the members are required to bring down tariffs in a range of zero to 5 percent as agreed upon by June 2009 for developing countries and June 2011 for least developed countries. In the normal track, however, they will follow a gradual tariff liberalization programs. The developing countries will have to comply with it by June 2010 for each other and 2012 for least developed members. While for LDC members, the compliance deadline is July 2017 for developing countries and June 30, 2015 for others. No monitoring mechanism of the FTA is yet in operation.

India in a State-Centric Region

In a region dominated by a post-colonial discourse, where the issues of sovereignty and national identity assume a capital relevance, monitoring and fomenting regional integration is inevitably regarded with a degree of distrust and suspicion. In South Asia, in terms of agency, the dominant position in the management of regional political relations is held by the state, which leads to the curtailment of other potential actors as regional institutions, a regional civil society, or economic agents. In this state centric

complex, a transversal trend is the enforcement of a national homogenous identity (Bhutan and Pakistan are illustrative examples) recognized as necessary to cope with thorny issues as multiple identity and territorial imprecision (Phadnis and Ganguly 2001). In South Asia (and elsewhere) the creation of a collective *self* inherently requires an *other*, and so long an '*us* vs. *them'* differentiation lies at the root of any identity assertion it has an in-built element of hatred for the other (Behera 2000). Second, the prominent goals of the South Asian states are the pursuit of power and survival over the axis of national interest. India, for example, does this in a fiercely independent fashion, which leaves little room to more cooperative or integrative arrangements. In early 2006, Indian Prime Minister has vehemently declared that, 'enlightened national interest' guided his government's foreign policy and that India 'will not buckle any kind of external pressure'[4] (The Hindu, 2 February 2006). Also putting the emphasis on the national interest, the King of Bhutan affirmed, for instance, that his country 'is committed politically to a strong and loyal sense of nationhood to ensuring the peace and security of our [its] citizens and the sovereign territorial integrity of …[the] land' (cited in Kharat 1999:15). Third, as described earlier and in correlation with this last aspect, patters of enmity more likely conduct the regional contacts between them. Finally, South Asian states live in a complex, where they try to balance each other's power by establishing alliances with foreign powers or by matching each other's military capabilities.

The asymmetry of interests in South Asia is portrayed in the incapacity of the seven countries in defending a common regional stance abroad. They have failed to evolve a common regional policy in the United Nations regarding declaring South Asia as a Nuclear Weapon Free Zone, they do not have a common stand on the Non-Proliferation Treaty (NPT) and in the WTO Summits disagreements usually erupt between India and Pakistan.

In a region overwhelmingly dominated by bilateralism and intergovernamentalism, one country stands out as politically dominant: India. Demographically, India has over 1 billion inhabitants,[5] which corresponds to two thirds of the total population living in South Asia and roughly one sixth of the world's population. Geographically, it accounts for nearly three-quarters of the South Asian landmass. Economically, it has a GDP of $691 (billions, in 2004), which represents 79 percent of the South Asian GDP[6] (United Nations 2006). Militarily, India's armed forces manpower is 1.1 million (550.000 for Pakistan), has 41 surface combatant vessel, and 18 submarines. Air force, the world's fourth largest, has over 600 combat aircraft and more than 500 transports and helicopters. Pakistan has only 8 surface warships and 353 combat aircraft. India's and Pakistan's military expenditure was, in 2006, $23,933 million and

4 The statement was made at his second 'national press conference' at the Vigyan Bhavan in New Delhi on February 1, 2006.

5 According to the Census 2001, the exact figure is 1,027,015,247. See http://www.censusindia.net/results/resultsmain.html. Last visited on October 4th 2005. According to the UN Human Development Report 2006 (data referring to 2004) the population of India is 1,087,1 million.

6 Bhutan has a GDP of $0.7, Bangladesh $56.6, Nepal $6.7, Pakistan $96.1, Maldives $0.8, and Sri Lanka $20.1 (billions in 2004) (United Nations, 2006).

$4,572 million respectively.[7] On the top of this overall dominance, the dismemberment of Pakistan in 1971 reinforced India's sense of superiority and confidence vis-à-vis its neighbors. In what respects the formulation and implementation of its foreign and defensive policies, India's objectives mirror its regional supremacy. First, it aims mostly at surviving as an independent, plural, united, secular and democratic state. Second, strives to hold independence and autonomy in decision-making in important matters as national security. Finally, India endeavors to exercise a degree of influence over the South Asian countries that would enable it to project its national interest. Unsurprisingly, and as pointed out earlier, India's neighbors do not harmonically welcome India's preponderance in South Asia (Ahmed, interview 2004). The way India applies her preeminence in the region is by resorting intransigently to bilateralism as the ultimate instrument of foreign policy. As noted by PR Chari, a former member of the Indian government, 'at the same time India's neighbors have a tendency to explain the failure of domestic governance by externalizing a sentiment against India, New Delhi has not been particularly sensitive to the smaller nations' (interview 2004). State-centrism, a fertile ground where India cultivates its regional hegemonic nature, is an inauspicious soil for regional monitoring to flourish. In a regional dominated by skepticism over regional cooperation initiatives, formal monitoring is not encouraged or regarded as apposite.

Economic Agents

Despite the statist orientation of South Asia the private economic sector is another catalyst for change. Conscious of the international trends in terms of capital flows and aware of the global inclination to build regional arrangements (as demonstrated at the beginning), private enterprises and associations are setting the pace in South Asia in terms of creation of institutions and networks that aim at facilitating intra-regional trade. Over the last 10 years several delegations of Chambers of Commerce have been exchanged and, in 1997, the Federation of Pakistan Chambers of Commerce and Industry and the Federation of India Chambers of Commerce and Industry signed a Memorandum of Understanding. Bypassing state governments, the Pakistani Chamber agreed to give preference to Indian businessmen for imports while the Indian Chamber agreed to evaluate Pakistani bids before importing goods from any other country. The economic private sector in South Asia actively finds new mechanisms to promote trade, which can also materialize in joint ventures and the organization of trade fairs. To propel the contacts of businessmen in South Asia, SAARC has set up the SAARC Chamber of Commerce and Industry (in 1994) and a South Asian Business Leaders Forum. In late 2004 the SAARC Chamber of Commerce and Industry has decided to set up a Small and Medium Enterprises Council, as a representative body of apex chamber of commerce and industries of SAARC. Despite the potential of economic and financial cooperation, economic agents continue to face several obstacles, which are discussed below. In

7 Data drawn from the Stockholm Peace Research Institute (SIPRI). Online at www.sipri.org. Visited June 18, 2007.

what monitoring is concerned, no official assessment or major reviews of the state of regional integration have been published.

Civil Society

The distinctive character of civil society relies on the areas of social life – the domestic world, the economic sphere, cultural activities and political interaction – which are organized by private or voluntary arrangements between individuals and groups outside the direct control of state.

The regionalization of civil society(ies) and the enmeshing of populations in South Asia is virtually non-existence and prospects remain bleak. This is because of several reasons: firstly, as domestic and regional governance in South Asia is hermetically carried out at elite level following a top-down structure, at the governmental level there is reluctance in tacking Track III credibly (Sahadevan, interview 2003; Rafique, interview 2004). Second, because there are several material and administrative hindrances. The visa rules and regulations under the 1974 Bilateral Visa Agreement were extremely restrictive and impose tough conditions on the mobility of people despite the amendments of 1984 and 1985. Such practice include, for instance, single entry visas, city visa as distinct from country visa, a limiting of the visitor to three or four places, and requirements for police reporting and registration at the arrival by a visitor. In parallel, accessibility is a major problem throughout South Asia. Air fares are expensive, telecommunications is poorly maintained, rail and road infrastructures are deficient, motor vehicles from India and Pakistan are not allowed to cross the long border and the trains between the two countries, *Samjhauta Express* and *Thar Express*, move very slowly and run on a non-daily basis. Buses services are also insufficient. Currently there are only four non-daily routes available: Srinagar-Muzaffarabad, New Delhi-Lahore, Amritsar-Lahore, and Amritsar-Nankana Sahib (Sikh pilgrimage centre). Third, because government/NGO divide is blurred by NGO's dependence on financial financing from governmental agencies and personal connections between both constituents (Sahni, interview 2004). Fourth, because a strong civil society presupposes a literate population, and the population of South Asia is still far from reaching a high level of education.[8] Finally, because tension and distrust in South Asia, as shown earlier, is still high. The media, with a few exceptions from private broadcasting companies, does not contribute to a better understanding of South Asian values and tends to rely on government's briefings to project a state-centric view of politically sensitive issues including foreign relations.

Despite this scenario, some civil society initiatives have been carried out regionally. Since early 1990s, several non-official dialogue initiatives by non-governmental actors with the intention to promote exchange, comprehension, and dialogue on political, social, cultural and economic issues have been undertaken. Some good illustrations of these 'people to people schemes' include: the *Pakistan India People's Forum for Peace and Democracy*, the *Association of Peoples of Asia*,

8 With the exception of Sri Lanka and Maldives, adult literacy in the South Asian countries is low (2004 figures): India, 61 percent; Bhutan, 47.0 percent; Nepal, 48.6 percent; Pakistan, 49.9 percent; Bangladesh, 41.1 percent (United Nations, 2006).

the *Women's Bus for Peace* and the *Indian-Pakistan Neemrana Initiative*. In a less direct allusion to peace, activities in the fields of sports, fashion, music, media and literature are able to operate at the region level (Bernstorff, 2001:202). *South Asians for Human Rights (SAHR),* a platform created in 2000 by citizens of India, Pakistan, Nepal, Sri Lanka, and India to carry out 'the kind of work SAARC should do, but at people's level' is also of relevance (interview Hameed 2004). Even so, the capacity of grass-roots organizations to play a substantial role in monitoring is limited or non-existent.

Monitoring Integration: Who Does What?

Monitoring deals with the systematic observation and supervision of a certain activity. In the realm of regional integration, this process can be carried out formally or informally. Formal monitoring of regional integration is associated to the use of rigorous instruments and precise benchmarks from which regional integration should be assessed. Informal monitoring is usually undertaken in a more subjective way, carried out by persons or organizations in a intuitive and idiomatic fashion. In theory, both can be pursued by official and non-official agents.

Unlike other regions in the world such as Europe or the ACP Group, which are systematically evaluated (internal or external evaluations) in terms of processes and outcomes of regional integration, the capacity of South Asia to monitor itself is bleak. In what formal monitoring is concerned, out of the above-mentioned South Asian actors, only the Council of Ministers of SAARC and SAARC's Standing Committee are mandated to pursue some official monitoring initiatives. At informal and non-official level, on the other hand, some monitoring has been conducted not only by SAARC itself, but also by member states, academic/civil society groups and by extra-regional international organizations (e.g. European Union).

Formal Monitoring of Regional Integration

In the South Asia context, and within SAARC in particular, two central bodies are mandated to monitor regional cooperation and integration: the Council of Ministers and the Standing Committee.

The *Council of Ministers* of SAARC comprising Foreign Ministers, meets at least twice a year. According to the Charter (article IV), its functions include formulating policy, reviewing progress of regional cooperation, identifying new areas of cooperation and establishing additional mechanisms that may be necessary. Although theoretically this does empower the Council with substantial decision-making powers, in practice, as pointed out by Khatri et. al., 'this body has been largely overshadowed from the top by Summit meetings, while the lower level of authorities from the bureaucracy who are responsible for managing the day-to-day activities have exercised considerable influence in shaping the Council's decisions' (2002:322).

The *Standing Committee* of SAARC, comprising Foreign Secretaries, monitors and coordinates SAARC programs of cooperation, approves projects including their financing and mobilizes regional and external resources (article V). In practice,

however, the mandate of the Committee is compromised by the work performed by the 'Programming Committee', a non-formal body (not mentioned in the SAARC Charter) headed by the Joint Secretaries with the SAARC portfolio at Foreign Ministries in each capital. The capacity of the Committee to exercise fully its formal capacities to monitor and coordinate programs of cooperation is contingent on the return of the decision-making power into the SAARC structure (from the corridors of the Foreign Ministries) (see Khatri et al. 2002: 324; Syed 2003).

The role played by these bodies falls, therefore, short of expectations. On the side of the activities developed by these bodies, some Protocols adopted by SAARC also envisage supervision and monitoring:

a) The *Agreement on Establishing the SAARC Food Security* (1988) determined that a Food Security Board should be created (Article VII) with the mandate to undertake a 'periodic review and assessment of the food situation and prospects in the region including factors such as production, consumption, trade, prices, quality and stocks of food grains. The periodic assessment reports shall be disseminated to all member countries' (Article VIII-1).
b) The *Convention on Preventing and Combating Trafficking in Women and Children for Prostitution* (2002) envisages that, 'the State Parties to the Convention shall establish a Regional Task Force consisting of officials of the Member States to facilitate implementation of the provisions of this Convention and to undertake periodic reviews' (Article VIII-3).
c) The *Social Charter* (2004) asserts that, 'the implementation of the Social Charter shall be facilitated by a National Coordination Committee or any appropriate national mechanism as may be decided in each country. Information on such mechanism will be exchanged between States Parties through the SAARC Secretariat. Appropriate SAARC bodies shall review the implementation of the Social Charter at the regional level'.
d) The *Agreement on South Asia Free Trade Area* (2004) holds that, the COE [Committee of Experts] shall monitor, review and facilitate implementation of the provisions of this Agreement and undertake any task assigned to it by the SMC. The COE shall submit its report to SMC [SAFTA Ministerial Council] every six months.

Among these formal agreements, only the Social Charter has been adequately monitored by member states. As requested by the Charter, member states have progressively created their National Coordination Committees to implement the central objectives laid out in the Charter. In Pakistan for instance the National Committee is comprised of representatives of Federal Ministers/Divisions, Provincial Governments and Civil Society organizations, whereas in India members are from Planning Commission, Ministries of Statistics, External Affairs, Rural Development, Social Justice and Empowerment, Urban Employment and Poverty Alleviation, Health and Family Welfare, Sports and Youth Affairs, Secondary and Higher Education, Women and Child Development, and Finance (Expenditure). The

National Committees have made public their reviews of the implementation of the Social Charter in their respective countries.[9]

Despite these formal initiatives to supervise regional cooperation, the inherent value of monitoring has not yet been fully incorporated by SAARC Members. Formal monitoring of regional integration – relying on precise formulas and instruments – presupposes solid financial resources and stern political will. And in South Asia there is none. As an illustration of this, other SAARC Protocols mentioned before, although very ambitious in nature, have not inserted the possibility (or necessity) of monitoring and fallen short of expectations. For instance, the *SAARC Regional Convention on Suppression of Terrorism* declares that, '[member states] have resolved to take effective measures to ensure that perpetrators of terrorist acts do not escape prosecution and punishment by providing for their extradition or prosecution'. Equally, the *Convention on Regional Arrangements for the Promotion of Child Welfare in South Asia* (2002) determines that, 'States Parties shall provide the necessary political support to ensure that appropriate measures are taken, to help fulfill the provisions of this Convention. The measures, *inter alia*, could include legislative reform and promulgation of appropriate new policies and legislation, trained manpower, adequately equipped institutions and adequate allocation of human and financial resources' (Article X). No monitoring instruments or guidelines are envisioned in these Conventions, however.

Informal Monitoring of Regional Integration

SAARC: A Self-Evaluation As a strongly intergovernmental organization, the SAARC Secretariat situated in Kathmandu has no capacity to take initiatives, to be the catalyst for further integration or to be the facilitator of formal monitoring initiatives. In the diplomatic arena, SAARC's former Secretary General Q.A.M.A. Rahim[10] has been persuasive in carrying a forward-looking, prescient, and strategically-oriented message. At the Islamabad Summit (January 2004), the former SAARC Secretary General put forward his vision for regional organizations:

> I believe, in this overwhelmingly globalized world of ours, there is ever increasing relevance for regional groupings to fend their own interests. The South Asian market of over 1.4 billion people can itself be a great strength of our region. Therefore, ever since you showed us the vision of a South Asian Economic Union (SAEU), we have been striving hard towards its realization by taking a step-by-step approach.

However, in practice the Secretariat is battling the consequences of its peripheral nature. When the author asked the former Secretary General to informally monitor SAARC's accomplishments, he replied, 'I have no hesitation in admitting that progress could have been faster'. He also added that it has been the bilateral issues

9 For India see http://mospi.nic.in/saarc_social_charter_status_report.pdf. Visited June 22, 2006. For Pakistan see http://www.pakistan.gov.pk/ministries/planninganddevelopment-ministry/Economics/SAARC%20SOCIAL%20CHARTER.pdf. Visited February 24, 2006.

10 In February 2005, Chenkyab Dorji from Bhutan took over as the new SAARC's Secretary General.

between member states and the fact that 'South Asia is a forum of developing countries' with 'limitations in financial and human resources level', that was partly responsible for inhibiting regional progress (interview 2003).

Given this gulf between the official discourse and reality, SAARC has remained operative for two main reasons. First, because its advances are mainly in low-profile areas of cooperation such as rural development, environment and meteorology. Second because India conditioned her participation by the introduction of the unanimity rule and the exclusion of 'bilateral and contentious issues' from the deliberations (Muni 2000:113). In 2004/5, SAARC's indigent role in South Asia became evident after the tsunami that hit South and Southeast Asia. With casualties that amounted to over 40,000 people in the SAARC countries (Sri Lanka, India, Maldives and Bangladesh), SAARC's role in disaster relief was non-existent. And the intention of setting up a regional warning system against tsunamis as ventilated in the press (Nepalnews.com, December 31, 2004) may undergo technical, financial, and political complications. In contrast, ASEAN leaders met up in Jakarta in January 2005, and agreed on a concerted plan that entailed emergency relief, rehabilitation and reconstruction, and prevention and mitigation to face the consequences of the tragedy.

Member States: From Skepticism to Hope As pointed out at the beginning of this chapter, SAARC's member countries reacted in different ways to the creation of a regional organization in South Asia. Twenty years went by and still no common strategic orientation exists over the speed and the operative mandate of the organization. South Asia's restrictive trade policies, inadequate transit and transport networks, imbalance in trade, similarity in terms of producing commodities, bureaucracy, lack of enough information about the economy of one another (in terms of export potentials, import needs, and domestic economic policies) have certainly decelerated the process. However, it is the ingrained tension between India and Pakistan which is, primarily, curbing regional integration. In a rhetorical exercise, former SAARC's Secretary General (interview 2003) expressed a different point of view:

> (…) If those problems that you mentioned [contentious issues between India and Pakistan] were not there it would have been easier, but those are not actually the determining factors. The leaders have agreed to move and we are working on that. We are in the process of finalizing the final text of a free trade area and all the member countries are participating and determined to move ahead in the economic area.

Drawing a more accurate picture, in a debate at the side of the 2004 Annual Meeting of the World Bank, India's Finance Minister P. Chidambaram attempted to monitor progress in the region by pointing out that 'if Pakistan continues to dabble with the "political baggage" on Kashmir, the issue of free trade within the South Asian region will not see any forward movement'. He added that if Pakistan persisted in that direction, India would continue with its bilateral free trade arrangements with its neighbors. (The Hindu, October 3, 2004). To India economic integration is a sound formula to resolve conflicts. To Pakistan economic integration is conditional to successful conflict mitigation in Kashmir. As Pakistan's PM Shaukat Aziz noted,

'once the [contentious] issues [between India and Pakistan] are resolved there will be more activity in the region and more cooperation, leading to an improvement in overall atmosphere which will be highly beneficial to make SAARC more vibrant and dynamic' (The Nation, 3 November 2004). The other SAARC's member countries are keen on accelerating the pace of regional integration. They lack, however, political and economic strength either to drive the process by themselves or to facilitate a solution to bilateral conflict.

Academia and Civil Society: Expectations Not Met Within the South Asian academic/civil society sphere we may find voices of contentment for what has been so far accomplished in terms of regional integration. Amera Saeed, Senior Research Analyst at the Institute of Regional studies in Islamabad argues that given the inherited antagonism in the region the simple achievement of bringing all the countries together to discuss common issues warrants merit (interview 2004). By the same token, Swaran Singh from the Centre de Sciences Humaines in New Delhi points out that, the fact that SAARC, 'given all the challenges, has not collapsed is already an indication of success' (interview 2004). At the other side of the spectrum, one tends to focus on SAARC's incapability to foster cooperation in sensitive issues such as common currency, economic integration and common political policies. It is argued that SAARC's central attainments have been in non-controversial areas as environment and forestry, health and population activities, agriculture and rural development and meteorology (interview Bajpai 2003; interview Sahni 2004; interview Ahmed 2004; interview Rafique 2004). In the words of Syeda Hameed, leading member of the Indian civil society (and member of the Planning Commission/ Government of India), 'as the time went on and tough issues came up, SAARC became very ineffective and lost the promise of its inception' (interview 2004).

This skepticism is a pronounced characteristic of the growing literature on SAARC (Gupta 2002; Bhargava and Khatri 2002; Syed 2003, Rodrigo 2004).

The media shares the same informal assessment of regional integration in South Asia. Often the editorials in the largest South Asian papers express the view that SAARC is an inert organization that has fallen short of expectations. The Pakistani newspaper Daily News has pointed out in the aftermath of a recent Summit (Dakha 2005) that SAARC 'needs new blood to get it going and extra-regional presence in the shape of dialogue partners might shake the South Asians out of their myopic internecine worldview (…) SAARC had become a congregation of moaners moaning mostly about their bilateral disputes with India. India in the centre was therefore the wrecker with its obsession with status quo' (*Daily News*, November 12, 2005). Sharing the same discouragement, an editorial in *The Independent of Bangladesh* alerted that, 'SAARC was launched with a vision. Reiterating the same vision twenty years later without highlighting or owning the responsibility of the failures, sounds rather unconvincing. Every summit has heaped hope on hopes without any progress being made at the ground level. In the meantime, the world has changed and still changing. As resources become scarce, the need for multiplying those through collective efforts becomes more crucial. But this cannot happen unless the member-countries take upon themselves the difficult task of ridding the Association

of distrust and suspicion to which the grouping has remained hostage for long twenty years' (*The Independent*, November 14, 2005).

European Union: SAARC in the Making The European Union has always shown a strong ambition to promote and monitor economic integration and trade promotion in different areas of the world in the pursuit of its interests. South Asia has been targeted by the European Union, but given the obstacles for trade liberalization mentioned above, SAARC-EU relations have been dormant. In October 1988, the European Parliament adopted a resolution (A2-212/88) in which it called upon 'the Commission to contact the SAARC institutions and the SAARC member states in order to ascertain the areas of regional cooperation in which the help of the Community is desired' and 'to examine the possibility of concluding a cooperation agreement with the SAARC'. In the decade that followed, the European Union has shown interest in nearing contacts with South Asia, but the endeavor has been curbed by the internal problems of the region. In 1996, the EU signed a Memorandum of Understanding (MoU) with the SAARC Secretariat, offering them technical assistance (the MoU was explicitly signed at the technical level to surpass political susceptibilities) and, in 2001, the European Commission (EC) issued 'Europe and Asia: A Strategic Framework for Enhanced Partnerships', a revised version of the 1994 strategy. The EC recognizes that SAARC could play a potentially powerful role in boosting current low levels of intra-regional trade and in fostering the normalization of the Indo-Pakistan relationship.

More recently, EU's vision for South Asia has been put forward in the 'Strategy Paper and Indicative Programme for Multi-Country Programmes in Asia: 2005-2006' (henceforth 'Asia Strategy Paper'). The EU identified as central objectives the promotion of peace, security, human rights, democracy and good governance in the region; and the strengthening of mutual trade and investment flows. The EU places great emphasis in fostering regional economic cooperation in South Asia through SAARC. The Asia Strategy Paper declares that the EC will put in place a program to support activities and institutions that aid the integration process (preparation in 2004 and program implementation in 2005) and has earmarked EUR 2-5 million to support SAARC. Despite the EU's keenness in supporting SAARC, it has informally monitored SAARC's progress with an unfavorable tone. As pointed out by Laurence Argimon-Pistre, former Head of Unit of European Commission/RELEX H-3 (India, Bhutan, Nepal):

> EU's relationship with SAARC could not work until last year because there was no SAARC, in the end India would not cooperate. So we were not going to put money in it. Since the Islamabad Summit [January, 2004], which put forward a series of proposals that could strength regional cooperation, the scenario has changed. In our communication with India, we have said that we would try to have further cooperation with SAARC. And the EC is presently forging a new South Asian Strategy that will take SAARC into consideration. […] We need to have a framework to start a real dialogue and real

> cooperation with SAARC. […] SAARC really needs to move forward and have more coherence and consistency before we can engage with them (interview 2004).[11]

Why is Monitoring Important?

The endeavor to supervise and classify regional integration - the degree of enmeshment of political actors on different sectors within a particular region - brings several advantages. First, the analysis of the de facto state of regional integration enables us to identify the *advantages* and possible *disadvantages* of regional integration. On a specific sector, did regional integration meet the objectives formulated initially? Second, formal and informal monitoring would also aid us in detecting the *existing obstacles* that need to be rectified if regional integration is to be deepened. Third, and in contrast, monitoring will also assist policy makers in pinpointing *best practices* in the path towards deeper integration, and create conditions for *comparison* with other regions. Finally, the systematic review of national policies on a specific regional integration sector will *pressure* national states to improve their performances. In the public arena, no country wants to be dismissed by the comparative judgment of its peers.

The setting up of formal monitoring instruments is useful to increase the level of effectiveness in integration in the institutional, political, trade, and societal sectors; it amplifies the level of awareness and legitimacy of the integration process, and facilitates comparative exercises with other regional integration groups. In a globalized world marked by regionalization, lack of formal monitoring, on the other hand, will further marginalize the region in the club of regional integration projects.

The Obstacles of Regional Integration in South Asia

As formal and informal monitoring in the South Asian context is a debilitated exercise, it becomes compulsory, therefore, to understand what the real hurdles in the road towards (monitoring of) regional integration in South Asia are:

- The main obstruction towards regional (economic) integration and cooperation in South Asia is the problematic political situation between India and Pakistan. Both countries have realized the costs of non-integration. India is willing to apply the 'China model' to Pakistan i.e. economic acceleration as a pacification tool. Pakistan, however, will not embark on sound economic integration until the Kashmir dispute is satisfactorily settled.
- Economic hindrances: (a) the production and export machinery of the South Asian countries is more competitive than complementary; (b) marginal integration in world trade (1 percent of world exports, 1.3 percent of world imports); (c) amount of informal trade as high as formal trade.

11 Mrs. Laurence Argimon-Pistre was interviewed in her capacity as Head of Unit of RELEX H-3. She stepped down from the post, however, in early 2005.

- No region in the world is so overwhelmingly dominated by one single power as is the case of India in South Asia (as elaborated above). And as India is a stronger advocate of bilateralism, balance of power, and nuclear deterrence to an extent that leaves little room for effective regional integration, SAARC will keep dancing to India's tune.
- As the level of economic integration and liberalization is abysmal (the share of South Asia's intra-trade is 4.7 percent of the region's total international trade volume), several countries have pointed their interests at other markets. India-China trade is USD 25 billion (in 2006); India-US is USD 40 billion (in 2006); India–EU: USD 40 billion (in 2006), India-ASEAN is USD 19 billion (in 2006). Moreover, several sub-regional preferential treaties may undermine the South Asian Free Trade Area (SAFTA), namely BIMSTEC and IOR-ARC.
- South Asia is also grappling with low levels of development and a deficient infrastructure network;
- In a region where the issues of sovereignty and national identity assume a fundamental relevance, regional integration is still regarded with skepticism;
- SAARC's decision-making capacity is also marked by a lack of flexibility. At the creation of SAARC, India made her participation dependent on the adoption of the unanimity rule and the exclusion of 'bilateral and contentious issues' from the deliberations, which enables her to keep the regional dynamics under control.

SAARC: QUO VADIS?

SAARC has reached a fork in the road. The pressure of globalization tends to punish the states that fail to cope with intensive trade liberalization and the internationalization of capitals and finance. And in a world where states have increasing difficulties in employing foreign policies that derive strictly from the classical notions of sovereignty and national interest, regional arrangements tend to serve as buffer zones between the asphyxiating forces of globalization and the increasing pressure of civil society to regain their rights to welfare in a globalized world. Three future scenarios may describe the near future of SAARC/South Asian integration.

Standstill Since its inception in 1985, SAARC has not been able to meet the goals that were laid out in the Charter. As the main paralyzing forces of regional integration (namely India and Pakistan's stubbornness in not advancing the process) look set to remain for the near future. For the moment, there are no indications that SAARC will overcome these fundamental problems. In this scenario, SAARC will remain a conservative and strictly intergovernmental organization with an unresponsive decision-making mechanism. As noted by its critics, SAARC will linger as a summit-oriented organization, jailed in the Indo-Pakistan dispute. While South Asia is dwelling upon the technical possibilities and the political repercussions of economic integration in South Asia, India has been negotiating trade liberalization

elsewhere. Trade between India and ASEAN is expected to hit USD 25 billion by 2007, and India's Prime Minister Manmohan Singh has raised the vision, at the Third ASEAN-India Business Summit (2004), of an 'Asian Economic Community' encompassing ASEAN, China, Japan, Korea and India, which would exceed the EU in income and NAFTA in terms of trade. Surprisingly or not, SAARC was not in the Prime Minister's mind. If SAARC remains stranded in its current lukewarmness, formal monitoring is bound not to progress (Council of Ministers and Standing Committee not attaining any major breakthrough), whereas informal monitoring will increasingly show signs of pessimism over the status of integration.

Economic Integration The most plausible scenario for South Asian integration is, despite the impediments, economic liberalization. SAARC member states established in the Delhi Summit in 1995, the South Asian Preferential Trade Arrangement (SAPTA)[12] in order to grant preferences or concessions for both tariff and non-tariff restrictions on imports. In 1999, South Asian intra-trade was 4.7 percent as a share of world trade. In the same year MERCOSUR was 20.5 percent, ASEAN 22.2 percent, NAFTA 54.6 percent and the European Union 62.6 percent (World Bank, 2001). Even though the South Asian states have daringly agreed on the establishment of a South Asian Free Trade Area (SAFTA) by the year 2000 (at Dhaka Summit 1993) – later procrastinated to 2005 (at Kathmandu Summit 2002), the first four rounds of trade concessions, under SAPTA, have not produced convincing results. In the first round (1995), out of the 100.000 tariff lines traded within SAARC, the tariff concessions were offered on 226 commodities,[13] on the second round (1997) product coverage reached 1871 items, on the third (1998) another 3456 commodities were included under the preferential regime, and on the fourth (2002) Pakistan offered 250 items for tariff concession, but of these 146 were found to be on the 'negative list' for trade with India, which led to mutual accusations and a general stalemate. Running away of these bleak picture, SAARC countries reinforced at the Islamabad Summit (2004) their objective to put in place a free trade area, which came into effect on 1 January 2006.[14]

The strident announcement of SAFTA confirmation is an inevitable outcome for which several factors contributed. First, the smaller states are gradually playing a more proactive role demanding more economic integration. This eagerness, which grows in part because they have been left out of other major economic arrangements (as APEC and ASEAN), is translated in the bilateral free trade agreements that Nepal, Bhutan and Sri Lanka[15] have with India (signed in 1998 and in operation

12 The agreement was signed during the 7th SAARC Summit in Dhaka in 1993.

13 India proposed soft custom duty rates on 106 items, Pakistan 35, Sri Lanka 31, Maldives 17, Nepal 14, Bangladesh 12,and Bhutan 7.

14 Pakistan and India are to complete implementation by 2012, Sri Lanka by 2013 and Bangladesh, Bhutan, Maldives and Nepal by 2015.

15 A trade gap that favored India has come down sharply since the two countries signed a free trade agreement in 1998. According to the central bank in Colombo the balance of trade which favored India 15.7 to 1 – when the agreement was signed – has come down to 4.5 to 1. Bilateral trade reached in 2003 $1.3 billion. In a meeting held in October 2004, trade ministers and officials of India and Sri Lanka called for taking their economic cooperation well beyond

since March 2000) or in their willingness to embark upon extra-regional economic arrangements such as BIMSTEC or IOR-ARC. Second, there are some indications that Pakistan is now more willing to interact commercially with India. This change of attitude comes from the pressure put on the government by the Pakistani business community and by the World Trade Organization's (WTO) recommendations in giving Most Favored Nation (MFN) status to India.

The pacification of political relations through beneficial economic integration seems to be the most feasible route to take (Mallick 1998:25; Mallick 1993; interview Muni 2003). In 2003, seduced by the same optimism, former Indian Prime Minister Vajpayee declared in a conference on 'Peace Dividend – Progress for India and South Asia' organized by Hindustan Times, in Delhi, that once closer economic ties are attained, 'we would not be far from mutual security cooperation, open borders and even a single currency' (BBC News, 12 December 2003). The attainment of an agile SAFTA, whereby SAARC member states embrace effective deregulatory measures, is likely to promote formal monitoring mechanisms of regional economic integration so that economic flows and transactions are properly controlled and supervised.

Incorporation of a Security Profile SAARC could also serve as an organization that responsibly addresses conflict management. Although this possibility is currently not on the agenda (as stated in the General Provisions in the Charter) it could potentially be highly beneficial. By doing so, SAARC could start acting under Chapter VIII of the United Nations Charter as a regional organization with considerable latitude of action to take initiatives connected to peace settlement (see Graham and Felício 2006). In this capacity it would start participating in the ongoing annual High Level Meetings between the UN Secretary General and Regional Organizations (thus far seven HLMs have been held) and also in meetings with the UN Security Council. By taking in a security component, SAARC could offer several advantages in intra-regional conflict management. First, as the members of SAARC share the same cultural background, they are likely to be more in tune with a conflict at hand. Second, personal relationships with the leaders have developed in the past, which results in greater understanding of the situation and may result in fruitful dialogue based on personal trust. Third, as time is of the essence in a crisis situation, SAARC could offer a more timely response, compared to bureaucratic global organizations as the UN, or foreign countries. Fourth, as the members of SAARC are the countries who would suffer the impacts of the conflict more directly, they have a legitimate and vital interest at stake in preserving regional stability. Despite being potentially effective, as reflected by previous interventions made by the African Union (AU) or Economic Community of West African States (ECOWAS), SAARC members are unlikely to accept the possibility of having a regional power interfering in their internal/external disputes. Furthermore, as the atmosphere of distrust is so ingrained, the partiality of the intervention would inevitably be questioned.

Parallel to this, SAARC could also formalize the relations that its members have with extra-regional powers. As suggested before (Bajpai 1999), SAARC could create

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the current free trade agreement to the proposed Comprehensive Economic Partnership Agreement (CEPA) (The Hindu, 2 October 2004).

guidelines for interaction between China, ASEAN, the European Union, Russia or the United States and the region. This can be done by following the ASEAN example and establishing a similar mechanism to the ASEAN Regional Forum (ARF). In this regard India's experience as a member of the ARF could be put into practice in South Asia. The ARF is a security related forum that brings together the ASEAN countries plus Australia, China, the EU, Japan, Russia, the USA, and India. It operates at the official governmental level and also at Track II. The creation of the SAARC Regional Forum (SRF) could work as an instrumental strategy to minimize the conflict between India and China and to involve the South Asian, Southeast Asian and East Asian powers in a security framework that would facilitate the establishment of confidence building measures and the informal discussion of certain issues, such as the border conflict between India and China, that have generated acrimony. In a visit to Kathmandu in November 2004, as outgoing Chairman of SAARC, the Prime Minister of Pakistan, Shaukat Aziz, favored an amendment in the Charter to create a 'regional forum' along the lines proposed here (*Daily Times*, 3 November 2004). As noted by an Indo-China expert, if SAARC reaches a certain level of maturity and cohesion I see no difficulty in it opening up to outside members (…) SAARC must open to outside players (like the US, Russia, China) because they play an important role in South Asia (interview Singh 2004). Nonetheless, as observed by Ajai Sahni 'at this stage, and as far as conflict resolution aspects are concerned, the SAARC countries are not prepared to trust any third power or to bring any third power into the forum' (interview 2004).

The incorporation of a security profile would need to be anteceded by a dramatic alteration of the mindset in South Asia. If this attained, the potential predisposition of South Asian states to empower SAARC and to transcend their state-centric orientation, could also entail a new interpretation of the need to formally promote and monitor regional integration.

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PART 3
Africa and the Middle East

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Chapter 9

Monitoring Regional Integration and Cooperation in the Gulf Region

Bernard Savage

Introduction

The geographical region of the Arab Gulf is home to only one regional integration initiative, the Gulf Co-operation Council (GCC). Although the proposal for a wider Arab common market covering the membership of the Arab League was first articulated in 1951,[1] it was not until many years later that the idea took root in the Gulf region. During a meeting of the foreign ministers of the six states in 1981, the text of the 'Charter for the Gulf Cooperation Council' was agreed upon.[2] The heads of state of the United Arab Emirates, State of Bahrain, Kingdom of Saudi Arabia, Sultanate of Oman, State of Qatar and State of Kuwait signed the Charter on May 25, 1981 in Abu Dhabi. The GCC member states are also committed politically to the creation of the Greater Arab Free Trade Area.

The six Gulf States agreed a cooperative framework committing the signatories to, according to article 4 of the GCC Charter, 'effect coordination, integration and inter-connection among the Member States in all fields in order to achieve unity'. Article 4 also emphasized the deepening and strengthening of relations, links and areas of cooperation among their citizens. One of the primary motivations for the formation of the GCC was the need to pool defence resources at a time when two of the main military powers in the wider sub-region, Iraq and Iran were in the first year of a war that was to last for most of the decade (Anthony 2004).

The GCC Charter states that the basic objectives are to effect coordination, integration and inter-connection between Member States in all fields, strengthening ties between their peoples, formulating similar regulations in various fields such as economy, finance, trade, customs, tourism, legislation, administration, as well as fostering scientific and technical progress in industry, mining, agriculture, water and animal resources, establishing scientific research centres, setting up joint ventures, and encouraging cooperation of the private sector.

The objectives as set out above are of a global nature and cover a very wide area, but within the first few years of operation the GCC had adopted specific targets in two primary areas of co-operation, defence and economics:

1 1951 Arab League Joint Defence And Economic Cooperation Treaty.

2 Full text of charter: http://www.gcc-sg.org/CHARTER.html.

- The creation of a joint military rapid reaction force – Peninsula Shield and the decision taken in 1997 to create a joint early-warning military communications system.[3]
- The adoption of a series of economic integration objectives, including; the creation of a customs union and eventual monetary union.[4]

For the rest of this chapter the focus will be on the economic integration/co-operation aspects of the GCC. Nevertheless it should be noted that the defence imperatives of the GCC Member States have been a major factor in driving the integration process in the region, and this despite the fact that the GCC has yet to devise and implement common defence procurement and materiel interoperability policies.[5]

In addressing the specific issue of monitoring, the term refers both to the overall framework of monitoring i.e. objectives, results, and timeframe for monitoring purposes as well as the mechanisms available through public or private institutions or publications which process the information available from the monitoring framework for use in the evaluation and formation of policies or in analysis.

Economic integration objectives

Economic cooperation is considered as one of the basic pillars of joint work in the GCC. The broad goal is to move from cooperation and coordination to advanced stages of economic integration. In an endeavour to fulfil this goal, the GCC States laid down a comprehensive framework for economic cooperation. Such approach is manifested in the Unified Economic Agreement, which was signed in 1981 and ratified in 1982.[6] In 1983, the GCC Member States set up a free trade area, according to which the goods of national origin have become exempted of customs tariffs. This is considered as the first stage in the process of economic integration.

Free trade among member states in all agricultural, animal, industrial, and natural resource products of national origin were among its aims. Also, the agreement set an objective of achieving a common external tariff and trade policy. In 1984, the Gulf Investment Corporation was formed to consolidate economic activities among member states in agriculture, commerce, industry, mining, and general investment. When the Saudi Arabian Standards and Measures Organisation was transformed into a regional body in November 1982, the Gulf Standards Organisation was created. In December 1992, the Patent Office was created in order to carry out the implementation of patent regulation. The Gulf Standards Organisation was re-founded in 2003 as the GCC Standards Organisation with overall responsibility for

3 The Closing Statement of the Eighteenth Session of the Gulf Cooperation Council Supreme Council Kuwait City - The State of Kuwait20 to 22 Sha'baan 1418 Hijri Corresponding to 20 to 22 December 1997 A. D.

4 The Economic Agreement Between the GCC States Adopted by the GCC Supreme Council (22nd Session; 31 December 2001) in the City of Muscat, Sultanate of Oman.

5 The GCC's 22nd Summit, Security and Defense issues, Gulfwire special supplement 08.01.02.

6 Full text at http://library.gcc-sg.org/book5/book5007-b.htm.

all quality infrastructure. In order to settle trade disputes between GCC citizens both between each other and with foreigners, the GCC Commercial Arbitration Centre was created in December 1993.[7]

At the Riyadh GCC summit in 1999 Member States approved a timetable to set up a Customs Union effective March 2005. Legally however the Customs Union came into being on the 1st of January 2003 albeit with a number of transitional provisions. The objective is to move rapidly towards the creation of a Common or Single Market in the shortest period of time possible by creating the conditions for the free movement of goods, people and capital amongst the Member States.

The GCC is an eminently inter-governmental construction with a basic institutional structure in which all decision making powers are retained by the Ministers or Heads of State of the Member States. If we refer to the European Union in comparison there is virtually no room at all within the GCC institutional framework for the equivalent of community or common policies, the conception and execution of which is confided to a 'community' institution. However an examination of the GCC's long term objectives described above, are based on a similar sequence of integration benchmarks as that of the European Union. The GCC could therefore be described as taking an intergovernmental route to integration as opposed to a 'community' or supranational route based on common independent institutions. To the extent that any success in integration has been achieved to date this is primarily the result of political impetus without the benefit of legally enforceable rights superseding the sovereignty of individual member states.

Nevertheless a number of questions remain. While, as outlined above, the regional co-operation process in the GCC region clearly benefits from the political commitment of the region's political leadership, the reluctance to pool sovereignty, while technically not posing a problem at the Free Trade Area stage or even at the Customs Union stage of economic integration, does however pose an obstacle regarding the creation of a single market and especially a single currency. To date, available documents from the GCC do not suggest that substantial modifications of the institutional structures are foreseen. The conclusion must therefore be that a GCC Single Market would rest on a network of mutual recognition agreements. Although feasible, such an approach could result in intense disputes and technical confusion in the absence of some form of regional arbitration body. It is difficult to see the creation of a single currency without, as a minimum, some common institutional framework for setting monetary policy and indeed preparations are underway for the creation of a Joint Monetary Authority.

The Unified Economic Agreement stipulates equal treatment of GCC citizens in respect of freedom of movement, work, residence, engaging in economic activities, movement of capital, and ownership of real estate. Thus it is legally possible for nationals of each Member State to exercise retail and wholesale trade in other Member States, own shares and real estate, engage in different professions and economic activities such as agriculture, industry, contracting, animal resources, establishment

7 Details of all the GCC institutions and agreements mentioned can be found at http://www.gcc-sg.org/home_e.html.

of hotels and restaurants, establishment of training centres, and obtaining loans from industry development funds and banks in the GCC States.

In addition, GCC States have created the framework for the harmonization of their respective economic policies. A number of instruments relevant to the objectives and policies of the development plans have been ratified, as well as Joint Agricultural Policy, Unified Industrial Development Strategy, the General Framework of the GCC Population Strategy, and the Long-Term Comprehensive Development Strategy 2000-2025. With respect to linking GCC infrastructures, the Member States intend to link their respective high voltage electricity grids. They also intend to create a GCC-wide network of main trunk roads and telecommunications, as well as a Gulf network of ATM machines.

The Unified Economic Agreement stresses the establishment of GCC joint projects in industry, agriculture and services, using public, private or mixed capital, in order to achieve economic integration with productive interface, and common development on sound economic bases. The Unified Economic Agreement also encourages the private sector to set up joint projects linking the economic interests of the citizens in all fields. Within this framework, a number of joint projects in industry, insurance, airline services, animal husbandry and fisheries have been created.

In the field of joint institutions, the GCC set up the Gulf Investment Corporation based in Kuwait with a capital of US$2.1 billion, Standardization and Metrology Organisation for GCC in Riyadh, Technical Telecommunication Bureau in Bahrain, Commercial Arbitration Centre for GCC in Bahrain, Regional Committee for Electrical Energy Systems registered in Qatar, and Electricity Grids Linking Commission based in Dammam, Saudi Arabia. In the field of approximation and unification of procedures and regulations, GCC Member States approved a long list of obligatory and guidelines in areas such as agriculture, water resources, ports, oil, agencies and trademarks, patents, foreign investments, practice of auditing and accountancy, insurance, telecommunications, and the encouragement of joint ventures.

In the domain of developing collective positions and unified representation, GCC Member States coordinate their trade policies and relations with other economic blocks in order to create and guarantee equal basis and conditions in trade relations. In an endeavour to attain that objective, as provided for in the Unified Economic Agreement, the GCC launched negotiations with major trading partners and signed the Cooperation Agreement between GCC Member States and the European Economic Community in 1988.[8] At present, negotiations are ongoing with the European Union to reach a free trade agreement. Initial discussions on trade co-operation with other regional bodies have also been initiated, notably with SADC (Southern Africa Development Co-operation) and Mercosur as well as trade agreements with Lebanon and Syria and discussions with Morocco and China.

Recent developments are however not all positive. Despite the formal creation of a Customs Union on 1 January 2003, Bahrain signed a bilateral trade agreement with the United States in June 2004 and both Qatar and the United Arab Emirates have

8 Full text at http://europa.eu.int/comm/trade/issues/bilateral/regions/gcc/eu_gcc_agr_en.htm.

signed bilateral framework agreements with the United States (TEFA). Nevertheless the GCC Council of Ministers has not made any formal comment on this apparent breach of the Common External Tariff (CET) and this would tend to indicate an inability of the political process to surmount an inevitable technical problem. The limits of a purely political process are graphically displayed by this situation.

Nevertheless, at this stage neither the GCC Secretariat nor the individual member states of the GCC have publicly committed themselves to a set of indicators beyond those of process. In other words, the targets for achieving the aims of the GCC's integration programme are essentially couched in inter-governmental agreement and legislative terms or, as regards 'functional' co-operation in areas such as transport in particular, the completion of specific projects (viz. the 'land bridge' railway project between the Gulf and the Red Sea). The emphasis on process underlines political rationale for the integration process in the Gulf region as opposed to a detailed economic one.

On the occasion of the twenty fifth anniversary of the GCC, the Secretariat General published a summary document outlining the achievements of the GCC since its foundation.[9]

Organisational structure of the Gulf Co-operation Council and monitoring[10]

Supreme Council

The Supreme Council is the highest authority of the GCC composed of the Heads of Member States. Its presidency rotates according to the Arabic alphabetical order of the names of Member States. It convenes one regular session every year. However, extraordinary sessions may be convened at the request of any Member State seconded by another. In 1998, during the 19th summit held in Abu Dhabi, the Supreme Council decided to hold a consultative meeting in between two summits every year. Meetings of the Supreme Council are considered valid if attended by two-thirds of the Member States, at which each has one vote. Resolutions on substantive matters are issued by unanimous approval of the members present, while a majority is enough to approve those of procedural nature.

The Consultative Commission Established in 1997 and formed of 30 GCC citizens (five from each of the Member States) chosen according to their experience and qualification for a period of three years. The Consultative Commission is charged with studying matters referred to it by the Supreme Council. The Consultative Council has conducted a number of studies on behalf of the Supreme Council. The Commission has prepared two major studies on the collective processes of the GCC; in 2000 and 2005 respectively.[11]

9 Text available at http://www.gcc-sg.org/GCC_Achievements_in_Brief.mht.

10 See also: http://library.gcc-sg.org/English/thecharter.htm.

11 Not publicly available. Other areas of study include education, energy, environment water, scientific and technical research role of the private sector and scientific development.

Commission for the Settlement of Disputes This is not a permanent body but is convened by the Supreme Council for every case on an ad-hoc basis in accordance with the nature of the dispute between Member States.

The Ministerial Council[12]

The Ministerial Council is composed of the Ministers of Foreign Affairs or other ministers acting on their behalf. The Presidency of the Ministerial Council held by the Member State that presided the last ordinary session of the Supreme Council, or when necessary, by the Member State that is next to preside the Supreme Council. The Ministerial Council convenes every three months, and may hold extraordinary meetings upon the request of one Member State seconded by another.

A meeting is considered valid if attended by two-thirds of the Member States.

The Secretariat General[13]

The Secretariat-General is charged, among other functions, with preparing studies related to cooperation, co-ordination, and integrated plans and programmes for joint work. It is also entrusted with the preparation of periodic reports on the work of the GCC, follow up implementation of the resolutions, and prepare reports and studies when requested by the Supreme Council or the Ministerial Council. The Secretariat also prepares meetings, the agendas and draft resolutions for the Ministerial Council.

The Organizational body of the Secretariat-General is comprised of the following:

1. A Secretary-General appointed by the Supreme Council for a period of three years renewable only once.
2. Three Assistant Secretaries-General for political, economic and military affairs, as well as the head of the GCC delegation to Brussels, who are appointed by the Ministerial Council for three renewable years, upon nomination of the Secretary-General.
3. Directors-general of the Secretariat-General sectors as well as other staff that are appointed by the Secretary-General.

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12 Among other jurisdictions, the Ministerial Council is authorized to propose policies, lay out recommendations, and encourage and coordinate the already existing activities in all fields. Resolutions adopted by other ministerial committees are referred to the Ministerial Council, which in turn would refer the relevant matters, along with appropriate recommendations, to the Supreme Council for approval. The Ministerial Council is also charged with arranging the Supreme Council meetings and preparing their agenda. Procedures of voting are similar to those applicable at the Supreme Council.

13 The administrative structure of the Secretariat General consists of a number of sectors: Political Affairs, Economic Affairs, Military Affairs, Human and Environment Affairs, Legal Affairs, Office of the Secretary-General, Finance and Administrative Affairs, Patent Bureau, Administrative Development Unit, Internal Auditing Unit, and Information Centre, in addition to the GCC Delegation in Brussels and the Telecommunications Bureau in Bahrain.

Analysis of the monitoring process

As regards the specific institutional structures responsible for monitoring, the basic reporting and analysis are provided by the Secretariat General based in Riyadh. The Consultative Commission receives its mandates directly from the Supreme Council and does not have a permanent monitoring mandate. There are no institutional provisions in the Charter for specific monitoring tasks outside those mentioned above although the Consultative Commission is concerned primarily with forward planning and future strategy. In particular there is no consultative organ independent of the executive bodies created by the Charter such as an Economic and Social Committee or non-governmental associations composes of trade unions, consumer associations etc. The only body with a mandate for reporting and monitoring on a permanent basis is therefore the Secretariat General.

However, the Ministerial Council has ultimate oversight of the monitoring process and is the primary destination for reports from the Secretariat General either directly or via the technical ministerial committees. As a result, the Ministerial Council is the central actor in the monitoring process; receiving input from both the Secretariat General and the specialized technical ministerial committees and responsible for determining policy direction for approval by the Supreme Council.

Although the Secretariat General maintains close and cordial relations with a number of other international and regional bodies, none of these plays a formal consultative role in the monitoring process. It should be noted that the GCC Secretariat is financially supported entirely by the Member States of the GCC and does not receive external assistance from traditional donor organisations such as the World Bank, the United Nations Development Programme or the European Commission. The European Central Bank does co-operate with the GCC in the preparation for the creation of the GCC single currency foreseen in 2010.

As stated above, the European Commission does not provide external assistance to the GCC Secretariat, however EU-GCC relations are of interest to a number of think tanks based both in Europe and the Gulf, most notably; the Bertelsmann Foundation in Germany and the Gulf Research Centre based in Dubai. There has been a degree of interest in the developing relationship between the GCC and EU and the parallels between their economic integration programmes.[14]

Relations between the GCC and the International Monetary Fund are focussed primarily on the planned GCC single currency with IMF officials attending regular meetings of GCC Central Banks. Recently the GCC has also sought observer status on the International Monetary and Financial Committee (IMFC) of the IMF. Nevertheless the last substantive piece of public IMF research on the proposed currency union dates from 1997 (Iqbal and Erbas 1997). The IMF and the GCC have also co-operated in the effort to fight money laundering and terrorist financing through adherence to the G-7 Financial Action Task Force (FATF) recommendations. The GCC is a member of the FATF.

14 Recent publications by the Bertelsmann Foundation include Luciani and Neugart (2002, 2005). See also Research Bulletin of the Gulf Research Centre.

The United Nations Economic and Social Commission for Western Asia (UN-ESCWA) has, since 2002, published an Annual Review of Developments in Globalisation and Regional Integration in the Countries of the ESCWA region.[15] Although the report covers all the countries of the sub-region and the various economic integration initiatives amongst the constituent countries, there is a detailed descriptive and statistical section on the GCC. The most recent version of the report covers the year 2004. The report is published in Arabic with a summary available in English.

Civil society, in the form of professional associations, non-governmental organisations, political parties, trade unions, pressure groups are all at a very early stage of development in the states of the GCC. In some of the bloc's Member States most forms of associative organisations are in fact illegal (political parties, trade unions etc.) There is no formal or institutional role for civil society input into monitoring although university research departments both inside and outside the region follow political and economic developments closely. A notable exception to the situation described is that of the Gulf Research Centre mentioned above, based in Dubai (United Arab Emirates). This private think tank has produced a number of publications dedicated to the development of the GCC.[16]

The primary partner for input into the monitoring process insofar, as it is formalized in either publications or reports to the Council of Ministers and the Supreme Council, are the national administrations of the Member States of the GCC.

As can be seen from examining the Secretariat's list of publications from the mid-nineteen nineties, the only regular publication which could be categorized as a monitoring tool is the Statistical Yearbook. There are no publicly-available industry or business surveys, opinion polls (such as an equivalent of the regular Eurostat opinion polls) or questionnaires. The Secretariat provides the various Ministerial Council meetings with regular technical reports (see website for official communiqués from Ministerial meetings).[17]

Conceptual and methodological framework[18]

The objectives of the GCC are extremely ambitious and there is some evidence that, despite difficulties in the past, there is real political will to achieve the integration objectives set by the regional leadership. It must be said however that there is little evidence to date of the development of a reinforced monitoring framework to provide input into the policy making process in the run-up to the ambitious objectives set by the Supreme Council. At present the content and framework is largely confined to the institutional structure of both the Member States and the Secretariat General with little outside input. In setting policy and output benchmarks the primary references

15 Summary in English available at http://www.escwa.org.lb/divisions/grid/flagship/main.html.

16 Koch 2005 and The Gulf Yearbook 2004.

17 Full list of GCC publications available at http://library.gcc-sg.org/.

18 For overall concepts of the monitoring of regional integration, see De Lombaerde and Van Langenhove 2006.

are the abovementioned communiqués from Ministerial meetings in which it is often difficult to determine the quantitative results expected from policy initiatives or how these are related between different sectors. Nevertheless given continuing political commitment to the GCC project and the fact that the GCC States share a common culture, religion, language and political organisation it would be difficult to state categorically that current frameworks were insufficient to achieve the targets set by the GCC Supreme Council.

Specific technical issues

The GCC shares a number of characteristics with other regional groupings dominated by a large economy in that current and future monitoring should take into account the economic and demographic predominance of the primary economy. A useful comparison of this situation is that of the Southern African Customs Union (SACU) and the Southern African Development Co-operation (SADC), both of which are dominated economically by South Africa (the analogy is not perfect given the specifics of the Gulf region). Given the predominance of South Africa in SACU/SADC and of Saudi Arabia in the GCC we should be careful to interprete intra-regional trade flows as being attributable to regional integration/co-operation effects rather than the sheer size and importance of the main regional market.

This effect can flow over into other aspects of RI/C such as the voluntary use by smaller economies of obligatory manufacturing standards imposed in the major regional market. The absence of the use of non-tariff barriers within a regional grouping is not systematically attributable to the regional integration project where there is an evident imbalance in the relative size of member state economies.

In the case of the GCC, another standard measure of regional integration, that of income convergence is also problematic. Saudi Arabia, although possessing the biggest economy, is not the richest per capita (by any measure, market prices or PPP). Economic growth figures at the level of the region will tend to be dominated by Saudi figures as would average per capita income growth figures, capable of being interpreted as indicating a convergence not reflected by reality. Conversely dealing with each economy on its own would give prominence to large local effects within small markets which could be unrepresentative of wider trends.

A third issue of specific interest as regards the GCC is the similarity between the economies involved in terms of structure and a greater or lesser dependence on the extraction of mineral hydrocarbons, either gaseous or liquid. All the GCC economies have limited primary farming sectors, small manufacturing bases and growing tertiary sectors. The overall similarity of the six economies and the limited nature of the manufacturing sector means that growth in inter-regional trade is potentially greatest in the service sector which is far from integrated due to differing banking, insurance and personal service cultures in each country. Trade in manufactured goods between GCC countries contains a large amount of re-exportation and is unlikely to be a motor for regional economic integration in the future.

The dependence on hydrocarbon extraction also means that GCC currencies tend to track closely the US Dollar and interest rates tend to follow currency trends

without either phenomenon being directly related to the regional integration project. The fact that all GCC member states have weak primary and secondary sectors and de-facto close currency policies means that trends in inflation rates are closely linked due to the fact that all six GCC states import in large measure most of their needs for consumer and capital goods, the underlying price of which is determined by movements of the US Dollar.

All the economies of the GCC are monitored intensively by both governmental sources and private financial companies. The importance of the GCC both as a market for exporters and as a key producer of hydrocarbons results in a steady stream of statistical and analytical publications relating to the performance of the economies of the region both inside the member states themselves and from outside the region. Many of these publications are produced by prestigious and internationally recognized companies operating in the fields of oil market analysis, financial analysis and consulting, in addition to banking. Virtually all commercial banks operating in the region produce regular quarterly reports on the economies in which they operate and many provide more periodic economic and financial analysis on their web-sites. When added to official statistics from the governments of the GCC member states, the overall availability of reliable economic and financial statistics on both the region and the individual economies within it can be considered to be good.

As a result the raw data and a considerable amount of analysis are widely available to feed into any monitoring process. However given the specific features of the region as outlined above, additional analysis of the impact of GCC policies would be required to identify the specific impact of these as distinct from the structural factors independent from the GCC as a regional integration initiative.

Factors underlying lack or deficiencies in monitoring

As stated above, the GCC integration process is essentially an inter-governmental process with little if any pooling of sovereignty amongst the Member States. All substantive decisions taken at the level of the Supreme Council are taken unanimously and to the extent that common institutions have been created these tend to be technical secretariats for specific intergovernmental actions rather than bodies developing common policies, a prerogative which effectively remains with the Council of Ministers.

The strict intergovernmental nature of the GCC means that there is little institutional oversight of the regional integration process except in the shape of the Secretariat General as described above. In institutional terms therefore, the GCC is about to move to Balassa's deeper stages of integration with a structure more suited to a free trade area.

However there are a number of factors, independent of the organisational or political aspects of the GCC, which tend in favour of regional integration. By the very nature of their economies and their similarities, trends in inflation, economic growth, interest rates and currency rates tend to move together between Member States. The weakness of the productive sectors in all of the GCC member states

is an additional factor in reducing protectionist postures amongst the respective leaderships of the GCC partners. In terms of industrial standards, phyto sanitary regulations etc., and with some very specific exceptions, the GCC member states are 'importers' rather than 'manufacturers' of regulations. The result of the latter is that there is little conflict in market regulatory structures between the member states. Finally, and unusual outside of the OECD group, GCC Member States do not depend on customs revenues for fiscal stability and have traditionally low tariffs both vis-à-vis each other and the rest of the world.

The factors underlying the minimal level of monitoring of the economic integration process as opposed to the wealth of economic and financial analysis of the economies of the region described above can therefore be attributable to the conscious political decision to maintain the GCC as a purely intergovernmental project and the structural factors which create a situation where there is a natural tendency for alignment across a wide range of policy instruments and measures.

The generally low levels of organisation and involvement by civil society in political and economic decision making are a feature, to varying degrees, of all the member states of the GCC. Non-governmental organisations are few in number and the region as a whole lacks a strong tradition of organized political lobbying by non official actors. As a result, in the absence of a strong institutional monitoring architecture the overall level of monitoring of the regional economic integration process is relatively low.

For the moment, the issue of monitoring the process of regional integration is not widely or publicly debated. Consequently it is not possible to determine whether this is the result of any technical or political opposition to a stronger monitoring process or the fact that the issue has not been raised. In the absence of such a discussion it could be that the political leadership consider the current structures as sufficient to its need for input into the policy process. As discussed above there are a number of elements which predispose the region to a dynamic of regional integration even without a specific regional integration project. Determining the impact of the GCC project as distinct from the impact of GCC policies is not at present raised in the available literature.

However, as the GCC moves towards more ambitious projects such as a Customs Union and Economic and Monetary Union, the question emerges whether this 'laissez-faire' model of regional integration can survive the differing policy making, enforcement and monitoring needs of these stages of regional integration? As the GCC approaches its ambitious integration objectives the absence of a more elaborate monitoring process could make it difficult to assess whether policy initiatives are having a measurable beneficial effect on the region's economy.

Monitoring needs for the future. Research and policy agenda

However, as discussed below, the development of statistical measures for monitoring the regional integration process in the GCC faces a number of specific difficulties, not least the overwhelming role played in virtually all the member states by the extraction and export of hydrocarbons and the relatively undiversified economies

that result. This has implications beyond limiting the usefulness of intra-regional trade flow statistics and has an impact, for example, on exchange rate and monetary policies which will tend to move in tandem throughout the region regardless of the integration process as such.

The ambitious agenda set for itself by the GCC provides a number of distinct areas where future monitoring needs can be defined. The customs union, implementation of which started on 1st January 2003 is a useful starting point for this analysis of monitoring needs. As stated above, the similarity of production profiles in GCC economies, the narrow range of industrial manufactures and agricultural produce mean that the potential for inter-GCC trade in agriculture and manufactures is limited. However, given the dominance of the Saudi economy within the geographical region it is probable that the sheer size of this market would provide a magnet for sales from the smaller GCC countries and a production base for exportation from Saudi Arabia to the smaller Gulf States. Increased regional trade is not therefore a wholly reliable indicator of integration.

However the advent of the customs union provides the GCC with a series of indicators for monitoring, notably as regards the agreement on and implementation of a customs revenue sharing agreement. The conclusion of such an agreement is an indicator of some cession of fiscal sovereignty within the regional grouping in that it concedes that fiscal revenue raised and generated in one state may not in the end be allocated to that state. GCC external tariffs are historically low and not a major source of Government revenue so that an agreement in this area should be relatively easy. The customs union will also require the development of common procedures regarding documentation, certification and inspection.

The next planned step on the road to integration is the creation by the GCC of a single market. For simplicity's sake we could look at this from the point of view of four basic 'freedoms'; free movement of goods, free movement of persons, fee movement of services and free movement of capital. Additional areas include intellectual property rights, company law and competition policy but for our immediate purposes we can concentrate on the four freedoms.

The monitoring tools required in this phase of deeper integration include:

(1) Free movement of goods:

There are two approaches possible here, either a continuation of an 'open market' approach whereby mutual recognition is the basic principle or the development of harmonized product legislation. The first approach may appear attractive but can also lead to mutually contradictory standards and non-compatible equipment (throughout the GCC electronic equipment can be found on sale based on all available specifications and power connections). Furthermore an 'open door' approach to product legislation effectively precludes much of the basis for consumer protection legislation since there are no obligatory conditions laid down by law. This may be about to change, however, since the Saudi Arabia Standards Organisation is currently considering moving to a comprehensive set of standards as opposed to the much lighter situation described above. In effect, the adoption by SASO of thousands of product standards would in effect either apply automatically to all GCC

member states or result in a fragmentation of the GCC market depending on the attitude adopted by the other GCC member states.

The development of harmonized product legislation and common procedures for the authorisation of product certification bodies as well as minimum product requirements would require a level of technical and legislative co-operation which has not yet been in evidence within the GCC. In the only other existing single market involving more than one state, the European Union, these tasks are assumed by the European Commission which develops, promulgates and monitors the evolution of the single market in goods via a number of highly technical systems with enforcement powers deriving from the European treaties (first pillar or community competencies). Evidence of movement towards this level of co-operation whether at the level of the GCC member states or a GCC institution would be a good indicator of progress in this field.

(2) Free movement of persons:

The relative absence of sophisticated social security systems and highly developed labour law within the member states of the GCC means that achieving the free movement of Gulf state nationals between the member states should be relatively easy. Although there is no statistical base to use as a reference, the decisions already taken by the leaders of the GCC as regards the free movement of persons and the strong personal and family ties within the region in addition to the relatively small indigenous populations of at least four of the member states (Kuwait, Bahrain, Qatar and UAE) mean that this freedom is well on the way to being established.

(3) Free movement of services:

The different service industry cultures that exist in each of the GCC member states requires the development of a common framework of mutual recognition of qualifications and a guarantee of a right to establishment, at present no overall framework of co-operation exists to guarantee this nor is there a legislative reference establishing these rights. However, in specific sectors, notably wholesale and retail trade this right has been introduced. The development of either of these would provide a good indicator for progress in this area. A common regulatory framework for financial services is another major indicator in this area (insurance, banking and financial brokerage).

(4) Free movement of capital:

Whereas certain measures providing for the free movement of financial capital are in place; the right to open bank accounts, hold shares and bonds and transfer funds to certain limits, and other measures are required to create a single market in the GCC. Furthermore, individuals and corporations of GCC countries have been granted national treatment for tax purposes, and nationals have been permitted to own real estate and invest in the stock markets of all GCC member states. However,

differences in regulations on foreign investment, ownership, capital markets, and integration with the global banking system remain (Fasamo and Iqbal 2003).

The primary purpose of any monitoring process is to provide the principal information input into strategic planning activities. The information provided by monitoring serves to assess the results of previous policy implementation and set benchmarks for future policy direction. In the case of the GCC the presence of a number of factors renders the technical requirements for producing this information in a useful way rather difficult. As an example, the overall economic performance of the GCC (as measured by GDP growth) is primarily dependent on price variations in the international hydrocarbons market. Determining the quantitative impact of GCC policy decisions therefore depends on being able to distinguish whether regional policies can limit the negative impact on GDP of declining oil prices or amplify the beneficial effects of rising oil prices. One of the major areas of focus for any strengthened monitoring process would therefore be to provide a counterfactual against which to reference the impact of regional integration projects.

Conditions and major obstacles for implementing the agenda

As noted above, the GCC does not possess a strong institutional framework for the ambitious levels of economic integration adopted as policy by the leadership of its Member States. To date there is little evidence of an agenda for monitoring the implementation of further steps in regional integration: no reform of the institutional or legal framework is currently envisaged; no detailed programme of work has been published nor is there any equivalent of the European Single Act to provide a reference. Secondary indicators such as harmonized economic statistics do not currently exist to provide raw data for evaluating the different aspects of implementing the integration agenda. Nevertheless, a number of elements for the creation of a statistics database are being planned as well as a unified GCC statistics law. A unified glossary of statistical terms and concepts has already been published.

Over the past 25 years the GCC has made major steps towards achieving economic integration, helped in large part by a number of factors favourable to convergence and by the evident political commitment to accelerating the process. It is clear however that the path chosen by the political leadership is an inter-governmental one which may, in light of the factors favouring integration, allow the GCC to achieve its regional agenda without the necessity for common institutions beyond the planned Joint Monetary Authority. Only sophisticated economic research will be able to determine whether continuing convergence is a result of the regional integration project or attributable to underlying conditions favourable to the process and the Joint Monetary Authority could provide the institutional framework to conduct this.

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Chapter 10

Monitoring Regional Integration and Cooperation in the South: The Arab Maghreb Union

Thouka Al-Khalidi

Introduction

The Arab Maghreb Union is one of seven regional economic communities in Africa, considered as the building blocks of the African Economic Communities, which include (UNECA 2004: 14):

- The Common Market for Eastern and Southern Africa (COMESA), whose 20 members include all of East African countries (except Tanzania) and seven countries of Southern Africa;
- The Community of Sahel-Saharan States (CEN-SAD), whose 18 members are in West, Central, Southern and North Africa;
- The Economic Community of Central African States (ECCAS), whose members span Central Africa;
- The Economic Community of West African States (ECOWAS), whose 15 members encompass all of West Africa;
- The Intergovernmental Authority on Development (IGAD), comprising seven countries in the Horn of Africa and the Northern part of East Africa;
- The Southern African Development Community (SADC), whose 14 members cover all of Southern Africa; and
- The Arab Maghreb Union (AMU) encompassing all of North African Countries except Egypt.

In addition, there are seven geographically more limited regional economic communities' subsets of the above Building Blocks, excluding AMU. The latter, therefore, is the only regional integration initiative which encompasses Arab Maghreb (or, Mashrek) countries. However, these countries are also members of the Greater Arab Free Trade Area (GAFTA) which came into effect under the auspices of the League of Arab States (LAS), on January 1 2005, and encompasses all the Arab countries, including the Arab Mashrek.

The Arab Maghreb region consists of five countries, which are the Kingdom of Morocco, the Republic of Tunisia, the Popular Democratic Republic of Algeria, the Popular Arabic Republic of Libya and the Islamic Republic of Mauritania. The five

countries have currently a total population of more than 80 million people, a total area of 6 million kilometers and a total GDP of around $160 billions (see Table 10.1):[1]

The five countries, however, differ greatly from each other; Algeria, for instance, dominates the region as it makes around 40 percent of the region total area, population and GDP. Morocco comes next in population and GDP with shares of around 38 percent and 31 percent respectively; while it occupies only 12 percent of the region's area. This means that the biggest two countries make around 78 percent of the population and 72 percent of the G:DP. Tunisia comes third in the size of population and GDP with shares of 12 percent and 16 percent respectively; yet it occupies only 3 percent of the region total area. Libya, while it comes second after Algeria in area, with 28 percent, it comes fourth in population and GDP, 7 percent and 12 percent respectively. Finally comes Mauritania, the poorest of the region in population and GDP, around one percent each, though it occupies approximately 17 percent of the region's area.

Table 10.1 Key figures of Maghreb region

Country	Population (million)	Percentage of total	Area (million sqm)	Percentage of total	GDP (Billion US Dollars)	Percentage of total
Algeria	32.3	39.9	2.4	40.0	65.0	41.4
Libya	5.5	6.8	1.7	28.3	18.0	11.5
Mauritania	2.8	3.5	1.0	16.7	1.1	0.7
Morocco	30.5	37.6	0.7	11.7	48.0	30.5
Tunisia	9.9	12.2	0.2	3.3	25.1	15.9
Total	81.0	100.0	6.0	100.0	157.2	100.0

Agreement of the Arab Maghreb Union

The idea of a unified Arab Maghreb is not new, but goes back to the 1920s; yet the many attempts never came to fruition for a number of reasons including territorial disputes, especially between the two dominating countries, Algeria and Morocco on the status of the Sahara, as well as to political rivalries and ideological differences, especially between Tunisia and Libya. On February 17 1989, however, the attempt came to light when the five countries signed an Agreement to establish a Union among them, called the 'Arab Maghreb Union'.

The preamble of the Agreement indicates that the populations of the Arab Maghreb countries have strong historical, religious and linguistic ties that bring them together. The people of these countries have the will to establish a union which aims to strengthen the already existing relationships, and paves the way for a more comprehensive integration. Such integration is expected to allow the Arab Maghreb to gain a larger weight in the international arena, to strengthen peaceful relations in the international community, and to give support to peace and security in the world.

1 Economic Intelligence Unit EIU on line, http://store.eir.com.

The understanding that the establishment of an Arab Maghreb Union requires the accomplishment of tangible achievements and the establishment of common rules to manifest actual cooperation and secure their economic and social development and the intention to make the Arab Maghreb Union a venue to build a comprehensive Arab Unity and a starting point to establish a wider Union comprising other Arab and African countries, where mentioned as motivations for the Arab Maghreb countries to have agreed to sign the Agreement to establish the Union.

Article 2 states the Union Agreement's aims as follows:

- Strengthen brotherly relations among member countries and their people;
- Achieve progress and social welfare and defend their rights;
- Contribute to secure peace based on fairness and justice;
- Follow a common policy in all areas;
- Work gradually to achieve free movement of goods, services, capital and persons among member countries.

The Agreement, in article 3, identified three areas for developing common policies: the international field, the economic field and the education and cultural field.

The purposes of common policies in the three areas are, respectively:

- To create conciliation among member countries and establish strong diplomatic cooperation among them, based on dialogue;
- To achieve industrial, agricultural, commercial and social developments in member countries and adopt all possible means to achieve the development target especially through the establishment of joint projects and prepare general and specific programmes in this respect;
- To develop education at all levels and maintain Arabic and Islamic principles and undertake all possible means to reach these targets especially through the exchange of students and teachers, and the establishment of joint-universities and research institutes.

The Agreement, however, does not distinguish between short and long-term objectives, as all the objectives seem of medium and long term nature. Moreover, the Agreement's aims and areas of interest are general, flexible and present no commitments on member countries to achieve any measurable target within a specific time frame.

The Agreement was signed on 17 February 1989, following a two-day summit in Marrakech, Morocco, with formal ratification following shortly afterwards.[2]

2 Department of Foreign Affairs/Republic of South Africa, http://www.dfa.gov.za/foreign/Multilateral/africa/amu.htm.

Organizational Structure of the Union

Articles 4, 5, 6 and 7 of the Agreement state the organizational structure of the Union and the decision-making organs as follows:[3]

- A Supreme Council, consisting of all heads of states of member countries;
- A Council of Prime Ministers consisting of the Prime Ministers of all member countries;
- A Council of Ministers of Foreign Affairs consisting of the Ministers of Foreign Affairs of all member countries;
- A Monitoring Committee;
- Specialized Ministerial Committees;
- The Monitoring Committee and Specialized Committees report to the Council of Ministers of Foreign Affairs, and the latter reports to the Supreme Council.
- Union establishments including:
  - Secretariat General;
  - Al-Shoura Council (Consultative Council);
  - The Union Legal body;
  - The Maghreb Academy of Sciences;
  - Arab Maghreb University;
  - Maghreb Bank for Investment and Foreign Trade.

Monitoring: Definition, Approaches, Instruments, Outputs, and Actors Involved

For regional integration, monitoring means a process where an authorized regional body, individually, or in cooperation with other actors: national, regional and international, works to ensure a timely implementation of the contractual obligations of the regional agreement to achieve the integration's goals. The monitoring body, while undertaking its task, should not only identify progress made in the implementation of the agreement, but also assess how effectively the agreement is operating and the need for additional measures, or even suggest modifications to current measures to ensure the attainment of the integration goals.

Approaches

Output-Based Management (OBM) was for a long time the only approach generally used in monitoring. It quantitatively measures achievements by the number of activities accomplished against a pre-determined agenda of work and inputs of human and financial resources. However, this approach which is concerned with the timely implementation of programmed activities, does not guarantee that these activities lead to the attainment of goals. This shortcoming has led to the development of a new monitoring approach called Result-Based Management (RBM). Instead of satisfying with the implementation of activities, this approach is concerned with

3 The Secretariat General of the Arab Maghreb Union; Agreement of Establishing the Arab Maghreb Union, http://www.maghrebarabe.org/ar/textesNormatifs/12_26012001-htm.

the contribution of these activities to the attainment of goals. RBM, however, is a relatively new approach, especially in developing countries, most of which still use the OBM approach because it is easier to implement and requires less skilled human resources and information necessary to verify the attainment of goals.

Instruments and Outputs

The OBM approach depends on a reviewing process of implementation of activities against a pre-determined agenda of work and producing periodical reports, commonly of quarterly nature, in addition to a final one. The RBM approach, on the other hand, being more concerned with the impact of activities on final goals, tends to use indicators of achievement through interviewing end-users, distributing questionnaires and collection of data. A final report on the result of the monitoring and instrument used is usually produced. However, during the monitoring process, the monitoring agent discusses with concerned bodies obstacles that arise during the implementation which may hinder the attainment of goals as well as raising the interest of end users.

Actors Involved

Consumers, producers, and civil society are the end users of economic integration. Their participation in planning, implementation, monitoring and even evaluation of the integration is, therefore, essential and becoming increasingly popular. However, in many developing countries, such participation is not yet institutionalized and has not gained strong ground. Governments still consider regional integration a process among governments and not among nations. In addition, due to a lack of democracy, in the real meaning of the word, no body can hold the government accountable for failing to meet promises. In general, monitoring is still a new practice in most developing countries and often faced with suspicion and doubt about its purposes and what the monitoring agent aims for. Difficulties facing monitoring are more evident in areas where monitoring is still a voluntary practice like regional integration. In addition to the private sector, international and regional organizations, especially those active in the issue of regional integration can be very effective in identifying problems and suggesting solutions. Again such participation in developing countries is even rarer than that of the private sector, as well as lacks the proper legal and administrative frameworks.

Monitoring Organ and Mandate in the Arab Maghreb Union

Monitoring is explicitly mentioned in Articles 8 and 9 of the Arab Maghreb Union Agreement. Article 9 requires each member country to assign one member of its Council of Ministers to be responsible for the Union's affairs. Those members constitute the Monitoring Committee of the Union affairs. The Committee has to submit the results of its monitoring work to the Union's Council of Ministers of Foreign Affairs. Article 8 states that the latter is responsible for reviewing what the Monitoring Committee and other Specialized Committees submit to it.

The Agreement, however, does not give a specific definition of monitoring, but specifies the role of the Monitoring Committee by stating that it is entrusted with the task of follow-up in, an integrated manner, on all issues related to the Union with its organizations, and in coordination with them, especially the Secretariat General and Specialized Ministerial Committees in order to avoid duplication. In addition, the Monitoring Committee is concerned with, mandated to and responsible for the following:

- Implementation of the Union's decisions and activating the Unity-oriented endeavors;
- Convening periodical meetings with the General Secretariat to evaluate progress made, identify obstacles and suggest suitable solutions;
- Present the results of its work to the Union's Council of Ministers of Foreign Affairs;
- Cooperate with the Secretariat General to develop the activities of all organizations concerned;
- Secure good coordination with the Specialized Ministerial Committees for the purpose of preparing and implementing the Union's work-program;
- Envisage, in cooperation with the Union's four Specialized Ministerial Committees and the Secretariat General, plans and timetables necessary to implement the Union work-program. Specialized Committees are mandated to submit the results of their work to the Union's Council of Ministers of Foreign Affairs and execute their activities in coordination with the Monitoring Committee and the Secretariat General.

During the period 1993-2000, the Arab Maghreb Union signed a number of Letters of Understanding and Cooperation Agreements with more than ten Arab, regional and international organizations. Their texts, however, did not indicate the existence of any monitoring mechanism to follow-up on their implementation, showing the low importance of monitoring in the Union.

Moreover, between 1990 and 1994, member countries, under the auspices of the Union, signed more than twenty-one Agreements, Protocols and Declarations; however, only in four Agreements, an article indicated the existence of a monitoring body responsible for monitoring the implementation of the Agreement and proposing suggestions. But, most of the Agreements have not been implemented.

Regarding actors involved, instruments used and outputs of monitoring of the Arab Maghreb Union, it is clear that apart from the Monitoring Committee and its mandatory relations with the Union's Organizations such as Specialized Ministerial Committees, Council of Ministers of Foreign Affairs and the Secretariat General, the Agreement mentions no other actors involved in the task of monitoring such as regional organizations, international organizations, national authorities, academics and civil society. In fact, the AMU has no umbrella framework for public-private sector consultation concerning implementation of the Union Agreement; also the role of regular private sector interface through various sectors associations is not evident.

Regional and international organizations do not seem directly involved in the Union's monitoring process; but it is worth mentioning that the UN Economic Commission for Africa issued in 2004 its policy research report titled 'Assessing Regional Integration in Africa' (UNECA 2004). The Commission, in this report, tried to assess progress made by all regional economic communities in Africa including the AMU. Regarding the latter it concluded that its progress has been slow. The United Nations Economic and Social Commission for Western Asia (UNESCWA), started to issue its annual publication titled, 'Review of Regional Integration in the ESCWA member countries', in 2002. But since the Arab Maghreb Union is not part of the ESCWA region, the Review has not been concerned with it. However, a decision has been taken recently by the Executive Secretariat of ESCWA to extend the coverage of the Review to include the Arab Maghreb countries, consequently, the AMU.

On the other hand, though, the AMU Agreement explicitly assigned a Committee for monitoring, it did not indicate any specific institutional mechanism and instrument used to monitor implementation, or indicated the approach of monitoring. In practice, however, the instrument used is periodical meetings organized with the Secretariat General to evaluate progress made, identify obstacles and suggest suitable solutions. The latter are based on discussions and coordination with the Union's Specialized Committees.

The monitoring outputs are a report submitted by the Monitoring Committee to the Council of Foreign Ministers and results of periodical meetings.

During the 1989-2001 period, the Monitoring Committee held more than thirty-seven sessions, almost four sessions a year, and issued many recommendations and directives. However, only few were implemented, which indicates the lack of required support to the Committee to enforce the implementation of its directives and recommendations.

Recent Attempts to Reactivate the AMU and Opportunities and Challenges they Imply for Monitoring

The Union's Secretary General admitted, in his speech to Al-Shoura Council's forth regular session in September 2001, that during the twelve year period since the establishment of the Union in 1989, much had been initiated, but little has been implemented.[4]

However, rapid regional and international developments accompanied the beginning of the millennium and inspired a new life in the Arab Maghreb Union process. Between 2001-2002, the Arab Maghreb Union saw extensive and intensive activities to activate all aspects of the Agreement in the capitals of member countries in order to overcome delays occurred in the implementation. The new initiative aimed to enhance continuation in the integration process as the only strategic choice available in light of international developments and the emergence of big blocs.

4 Publication of the Secretariat General of the Arab Maghreb Union, http://www.maghrebarabe.org/ar/Espace_Information/communiqué/actu20010717.htm.

The Union's Secretary General in his statement at the Union's 13th Anniversary in 2002, admitted the role of political will in reactivating the Union when he said, quote, 'renewal of the Union process, which has been provided for by intensive bilateral closeness within the Maghreb Union, strongly aims to evaluate, objectively, the Union's experience by its positives and negatives, and assess the results of the Maghreb integration efforts, which have been important on more than one front'.[5] In his statement he gave credit to Specialized Ministerial Committees, the Monitoring Committee and Teams for their role to develop the Union's organizations and set a time table for the effective implementation of Agreements signed under its auspices, in order to adapt the Union to new developments on national, regional and international levels.

He also appraised the role played by the Maghreb Civil Society in the renewal process of the Union and requested all its components to continue to play this role as stakeholders in the integration process.[6]

In February 2002, the Union's Monitoring Committee held a meeting to study organizational and procedural issues in the framework of developing the performance of the Arab Maghreb Union and further activate its progress. The Committee put some visions and practical and positive suggestions in a framework of a rational approach to achieve the targets specified in the Union Agreement.

The Union's Council of Ministers of Foreign Affairs, which has a supervisory role over the Monitoring Committee, convened its 20th session in January, 2003 and issued a final Declaration to indicate that the Council had reviewed progress made by the Arab Maghreb Union, and considered ways and means necessary to give the Union a further push to achieve more successful integration under international developments including globalization and the emergence of big blocs. The integration required the development of the Union's programs and patterns of undertaking its activities according to newly emerging issues on the regional and international levels.

Upon a request made by the Council in that session, a Committee of experts in economics and law studied the possibility of reaching an agreement on a time table for the implementation of all the Agreements concluded under the auspices of the Arab Maghreb Union. The Committee issued practical recommendations regarding the timing of the implementation of all the Union's Agreements especially those of economic, trade, financial, investment and food security nature.

The recommendations also covered Agreements in the area of basic infrastructure, post and communications.[7]

In October 2003, a round table took place on required procedures to implement the Union's Work Programme on transport in the framework of the New Partnership for Development in Africa (NEPAD). Representatives of the Arab Maghreb

5 A publication of the Arab Maghreb Union/Secretariat General,http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

6 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

7 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

Union, including the private sector, discussed the current situation of the transport infrastructure and prospects of their development in the framework of implementing the regional goals of NEPAD. Participants also emphasized the importance of implementing programmes which have been agreed upon by members of the Union to reinforce the basic infrastructure of roads, railways, maritime and air transport, in order to enhance the existing capital formation and rationalize future investments The United Nations Economic Commission for Africa (UNECA) participated in the organization of the round table.[8]

In March 2004, the Arab Maghreb Union Secretariat General, UNECA, the private sector, the United Nations Conference for Trade and Development (UNCTAD) and the African Bank for Development, with participation of experts from member countries, organized a symposium titled, 'Multilateral Trade and Development of Trade Transactions among Countries of the Arab Maghreb Union'. The symposium recommended speeding up the creation of the Maghreb Free Trade Area, which principles were declared during the Tunis Summit in April 1994; and the importance of launching the Maghreb Bank for Investment and Foreign Trade, in order to participate in financing projects in Maghreb countries and develop intraregional and external trade. Participants also emphasized the importance of unifying all Maghreb's perspectives and strategies in the area of multilateral trade, and find a common ground in all sectors especially textile, agriculture and services as well as including the private sector in the integration process of the Maghreb economy.[9] To enhance further the progress of the Union, the Council of Ministers of Foreign Affairs issued in December 2003 its directive to establish a 'Maghreb Economic Group' capable to speed up the Maghreb economic integration process.

The Monitoring Committee, on the other hand, recommended the establishment of a think-tank Group consisting of academics from member countries, to work in coordination with the Secretariat General and the Maghreb Academy for Sciences to prepare a project proposal for a strategy to the Union's joint activities in the medium and long runs. However, the establishment procedures of the Maghreb Bank for Investment and Foreign Trade, a Maghreb Free Trade Area and the activation of the Industrial Integration were still waiting decisions from the Union's Specialized Committee on Economic and Finance.

In December 2004, the Monitoring Committee concluded a two-day meeting, the first of its kind, to discuss the Union's financial and administrative issues. Participants agreed on the importance of developing financial and administrative means to activate the Union's work. Delegates of member countries considered the meeting's results important and that they would make a qualitative change in the administration and the financial aspects of the Union's Secretariat and its organizations including the

8 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

9 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

Council of Ministers of Foreign Affairs, the Monitoring Committee and other related organizations.[10]

However, after two years of meetings, decisions, and recommendations to reactivate the Union implementation, the statement issued by Al-Shoura Council in June 2004 on the 16th anniversary of the establishment of the Arab Maghreb Union, did not indicate any solid achievements but only expressed willingness to continue its effort to activate the results of previous meetings and recommended to intensify efforts to achieve the Union's goals.[11]

Reactivation of the AMU, undoubtedly present the Monitoring Committee with opportunities and challenges. On the former, the Committee is expected to exercise its role in a better atmosphere through gaining more political support from member countries and the Secretariat of the Union. Such support can be manifested in making monitoring compulsory, having access to more human and financial resources and including other actors in the monitoring process especially universities, research centers and civil society, as well as other regional communities with successful experience. Simultaneously, however, reactivation of the Union put the Monitoring Committee in face of new challenges. It has to re-structure itself, enhance its staff's skill to help the Secretariat and the Specialized Committees to match between ambitions and resources through setting priorities and focus on achievable goals as well as enabling them to implement more effective approach of monitoring like RBM in which the main concern becomes not the number of meetings, reports, and recommendations produced, but their impact on attaining the Agreement's goals.

Conclusion

There have been substantial gaps between goals and achievements in the AMU, particularly in intraregional trade, macroeconomic convergence and production. Regional integration in the AMU has been broadly perceived as having produced few concrete results and has done little to accelerate growth or intraregional trade. Although the specified objective of the AMU is reaching full economic union, a free trade area is not yet achieved. When the Union was established in 1989, member countries signed a protocol in 1991, under which goods originating and traded among member countries would benefit from the elimination of tariff and non-tariff barriers. However, tariff elimination has not been fully implemented and members trade more through bilateral arrangements than through the AMU trade protocol.

It is worth mentioning, however, that the overall direction of trade in Africa indicates that the Continent is highly dependent on the rest of the world in export and import. During the period 1994-2000, the average African intracommunity export and import were 7 percent and 5 percent respectively. Exports to and imports from the rest of Africa were 6 and 10 percent respectively. As a result, 87 percent of all Africa's export went to the rest of world, mainly the EU; and 85 percent of total

10 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

11 A publication of the Arab Maghreb Union/Secretariat General, http://www.maghrebarabe.org/ar/Espace_Information/communique/takdime.htm.

imports came from the rest of world, and here again mainly from the EU. The AMU intraregional export and import were much lower than the average of all economic communities in Africa, with 3 percent each; but its trade partnership with the EU was more important than that of other African economic communities with an average of 71 percent and 61 percent to export and import respectively (UNECA 2004).

In sectors where measurable success has been achieved, such as communications, it was not due to integration efforts, but to other factors such as the global revolution in telecom technology and the growing commercialization and privatization of national services.

The private sector can be an important partner to the governments of member countries and to the Union Secretariat in achieving the goals of the integration by providing financial and human resources, on the one hand, and contributing to monitoring on the other. Under the Maghreb Union, a large number of civil society or non-governmental associations, organizations and vocational have been established. Twenty-seven of these arrangements are of economic nature, and sixty of social nature. Since the Union's main objectives are economic and social development, these civil society organizations should have been active actors in evaluating progress made in the implementation of the Union's goals, and make good forums to discuss obstacles and suggest solutions. As 'people' is the aim of the integration arrangement, the last and most effective mechanism to monitor implementation of the integration arrangements and evaluate their effects is through periodical follow-up by these associations and holding periodical discussions with the Monitoring Committee. Available literature, however, indicates that only recently the private sector has started to take up a role in the monitoring process.

The Monitoring Committee has been performing its routine assignments by holding meetings and producing recommendations, but its impact on the progress of the AMU has been little. Without undermining the role of monitoring, the latter alone cannot create a success story. Monitoring can only make a difference when it is compulsory and politically supported, when it has enough human and financial resources and, above all, when there is a well-defined, coherent and achievable work programme.

It is essential to admit that implementing a successful regional integration is not an easy task, and requires a comprehensive and coherent programme of work with the participation of different actors. Regional integration does not only produce benefits, but there are also high costs involved. Hesitation of member countries to go ahead with a serious work agenda to implement the regional integration initiative is largely attributed to the costs involved, and the lack of sufficient information for policy makers about the costs and economic and social impacts. Such costs include loss of jobs, abolishment of industries, establishment of new ones, conversion of lines of production, rehabilitation of workers to undertake new jobs, loss of revenues and others. Politicians are not ready to take such risks unless they are presented with studies clearly assessing costs and benefits for each member country. Therefore, a compensation mechanism should be available to compensate the losers. More clarity on the costs and benefits of regional integration, in combination with compensation mechanisms, is crucial for the future development of the AMU.

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Chapter 11

Monitoring Regional Integration in Eastern and Southern Africa

Dirk Hansohm and Jonathan Adongo

Introduction

Integration differs from cooperation, which refers to loose forms of interstate activity designed to meet some commonly experienced needs. It is a much more formal arrangement that involves some political and economic sacrifices as well as commitments, concessions, processes and political will to redefine participation in the international economy (Axline 1979 and Ihonvbere 1981).

Regional integration (RI) occurs at a less than global level in a group, based on some mutual relevance that need not necessarily be geographic (Adetula 2004). Its meaning remains elusive. In one sense it means bringing parts of a group together to form a whole or create interdependence. It can also signify a process that hastens the achievement of certain objectives in the interest of a larger body that individual members cannot achieve autonomously. RI is defined along various dimensions, i.e. economic, political, social, cultural, etc. Economic integration is defined in terms of liberalisation or absence of economic discrimination among economic units. It is achieved by the progressive elimination of trade and tariff discrimination between national borders (Adetula 2004).

RI is viewed by many policy makers all over the world as an important policy instrument. Due to this, there have been increasing calls to monitor RI in recent times for various reasons. From an academic perspective, monitoring RI allows one to get a more precise idea of the depth and speed of certain RI processes, more clarity on the relative importance of regionalization versus globalization processes (and their interaction), and a better understanding of the meaning and significance of the so-called new regionalism, viewed as a multi-dimensional phenomenon. It also allows one to explore the future of the international governance architecture, and clarify whether trends may be expected in the direction of multilateralism, multi-regionalism or a (new) combination of both (De Lombaerde and Van Langenhove 2006; De Lombaerde et al. 2006). From a policy-making perspective, better monitoring has the capacity to make integration policies more effective and integration processes more transparent, involving higher degrees of participation and legitimacy, and therefore, making the processes more sustainable (De Lombaerde et al. 2006).

This chapter aims to contribute to the development of systems of monitoring RI by assessing existing initiatives in Eastern and Southern Africa. Monitoring RI is concerned with the design of indicator systems to track RI processes in a systematic

way, involving the use of a 'significant' number of indicators and variables (De Lombaerde et al. 2006).

Following this introduction, the rest of this chapter is organised as follows. Section two outlines the most important initiatives that monitor RI in Eastern and Southern Africa. Section three then evaluates the regional initiatives based on those identified in the previous section. Section four concludes with assessing the future needs for monitoring in the region and their implications for the research and policy agenda.

Regional Integration Monitoring Initiatives in Eastern and Southern Africa

Monitoring of RI in Eastern and Southern Africa is recognised as vital. Table 11.1 illustrates the various regional and extra-regional initiatives existing that monitor RI according to various concepts (De Lombaerde et al. 2006) and the features of these initiatives which are based on who does the monitoring, whether or not they compile an overall RI index, the nature of data that is collected and disseminated, and the form and frequency of dissemination. The rest of this section focuses on describing these various initiatives.

Regional Initiatives

The Common Market for Eastern and Southern Africa The main goal of COMESA is to achieve economic prosperity through RI. The COMESA secretariat is mandated to conduct monitoring and evaluation of the integration process. It consists of a strategic planning research unit, legal corporate affairs, internal audit, public relations, secretary general and an assistant secretary general in finance and administration. In addition, the Secretariat is responsible for overall co-ordination and initial communication for the bloc.

COMESA's principal institutions are created to promote sub-regional cooperation and development, cross border initiatives, a common industrial policy and a monetary harmonisation programme. In this context, COMESA, at a RI Facilitation Forum in Swaziland in 2002, presented a Surveillance Questionnaire, as an instrument that it would use to collect data that would be used to measure how successful regional policies are in promoting RI in COMESA as a first step towards monitoring RI.

The indicators the questionnaire uses to monitor RI include trade liberalization, trade facilitation, transit facilitation, monetary convergence, domestic payments and settlement systems, banking and exchange rates, fiscal rates, government intervention in the economy, capital flows and foreign investment, governance issues, the regulatory environment and licensing requirements.

The aim of the data collected is to assist COMESA in:

- Highlighting at an early stage potential issues which will slow down regional economic integration and allow the region to develop a policy response in a timely manner;

Table 11.1 Regional Integration Monitoring Initiatives in Eastern and Southern Africa

Institution	Monitoring Body	Overall Index or Specific Instrument Used to Monitor Regional Integration	Data collected and Disseminated	Data Category	Output	Frequency
			Regional			
COMESA	Secretariat	Yes	Trade, monetary, financial, regulatory, economic freedom	Quantitative and Qualitative	COMESA Annual Report	Annual
SADC	Secretariat	No (but used to)	Political, Human Development	Quantitative and Qualitative	SADC Annual Report	Annual
ISS		Yes	Political	Qualitative	Africa Security Review	
SARPN		Yes	Poverty and Human Development	Quantitative		
AERC		No (Once off)	Trade	Quantitative	Oyejide et al. (1999).	Once
NEPRU		Yes	Economic, political, institutional	Quantitative and Qualitative	Monitoring Regional Integration Yearbook	Annual
			Extra-regional			
World Bank		Yes	Trade	Quantitative	World Development Indicators	Annual
UN		Yes	Macroeconomic, Finance, Technology, Human Development, Transport, Energy, Labour	Quantitative and Qualitative	Trade and Development Report, Global Investment Report, Handbook of International Trade and Development Statistics, Human Development Report, Assessing Regional Integration in Africa	Annual

- Determining what parameters the region itself thinks are important in terms of poverty reduction and development rather than relying on the preconceptions of outside agencies;
- Developing a set of indicators to measure the progress being made in RI, which can act both as a set of consistent 'conditionalities' for the Poverty Reduction Strategy Paper approach and as a basis for assessing risk for outside investors;
- Developing a set of regional 'lock-in' mechanisms through a peer pressure system;
- Developing a trigger mechanism for budgetary support in cases where countries need such assistance to continue with the process of liberalization.

The results of the surveillance questionnaire and its report on the progress of RI are yet to be published and disseminated.

The COMESA Secretary General's office also compiles a set of macroeconomic convergence indicators for the bloc based on the International Monetary Fund's (IMF) Africa Department Database, which are compared with those of Sub-Saharan Africa. The indicators include real Gross Domestic Product (GDP) per capita growth, inflation, investment, savings, fiscal balance, current account balance and external debt. These indicators are presented in COMESA's annual report.

Southern African Development Community The first objective of SADC is 'the development of the people of Southern Africa (especially the socially disadvantaged) through [RI] aimed at economic growth which will alleviate poverty and enhance the standard and quality of life' (SADC, 2005).

The Secretariat, which is the principal executive institution of SADC, is the body within the structure of SADC that is specifically mandated to carry out the monitoring of RI. It comprises the Office of the Executive Secretary, the Deputy Executive Secretary, the Department of Strategic Planning, Gender and Development and Policy Harmonization, Legal Affairs; Internal Audit; Information and Communication Technology including statistics and library services; Administration; Finance and the Department of Strategic Planning, Gender and Development and Policy Harmonization.

The importance of SADC's first objective is articulated in the Secretariat's vision, which is to be a reputable, efficient and responsive enabler of RI and sustainable development. To support this vision, one of the SADC Secretariat's stated functions is to undertake research on SADC building and the integration process.

In line with its first objective, SADC issued a Regional Human Development Report in 2000 focusing on RI, in conjunction with the United Nations Development Program (UNDP) and Southern African Political and Economic Series (SAPES). In this report a statistical measure, termed the SADC Integration Index (SII), was developed. This index, focusing on economic integration, measured the level of intra-SADC activities in the goods, capital, and labour markets. The measure ranged from 0 (no integration) to 1 (full integration), and constituted a start to the quantitative and therefore comparative measuring of the state of integration. Unfortunately, the value of the indicator was hindered by the deficient data situation and by the arbitrary

nature of the definitions of full integration. The series was discontinued, which hinders the ability for SADC to monitor comparison over time.

SADC no longer produces it Regional Human Development Reports. Instead it publishes an annual report that presents macroeconomic and development convergence indicators for the region that show trends over time. This data, collected by the Secretariat, includes real GDP growth rates, inflation rates, savings, domestic investment, fiscal balances, ratio of current account to GDP, population growth rates, human development indices, foreign direct investment (FDI) flows, primary school enrolment ratios, gender enrolment ratios, infant mortality rates, percentage of population with access to safe water, access to telephone lines and the size of telecoms infrastructure relative to population.

To achieve its main goal of providing strategic expertise and coordinating the harmonization of policies and strategies to accelerate RI and sustainable development, another function of the SADC secretariat is to monitor and evaluate of the implementation of regional policies and programs. In accordance with this function the Secretariat tracks the adoption of protocols that are signed to give practical effect to its aims. These protocols represent the agreement by Member States on how to proceed in the implementation of certain agreed strategies for RI. This attempt to monitor the political dimension of RI makes no attempt to assess the effects of protocol adoption.

To support its functions, the Secretariat is responsible for the collation and dissemination of information on SADC and the maintenance of a reliable database. At the national level of each SADC member country, this effort is supported by members of a Strategic Planning, Gender and Development and Policy Harmonization Board, chaired by an Executive Secretary. This Board has a direct functional relationship with SADC National Committees and technically advises the Integrated Committees of Ministers by providing regular inputs into its work serving as a Think Tank for community building, RI and development.

In the following sections, we review further regional monitoring initiatives, outside the official regional organizations.

Institute for Security Studies The ISS, located in South Africa, works with regional organisations and their security frameworks in Africa and follows matters of security and security policy. Its main aim is to conceptualise, inform and enhance the debate on human security in Africa in order to support policy formulation and decision making at all levels towards the enhancement of human security for all in Africa.

Through its regional projects ISS tracks the commitments of African Heads of State to peace, security, human rights and good governance, through a network of NGOs working in these areas (political RI). It captures this information in the Africa Fact Files database. In addition to information on major international agreements and treaties by country, this database also contains data on economic statistics on selected African countries.

Southern African Regional Poverty Network SARPN's main aim is to contribute to the sustainable reduction of poverty through effective pro-poor policy, strategy and practice in the SADC region. Its objectives are to deepen and widen debates on

policy, strategy, practice and decision-making processes that impact on poverty in the region.

To support its aims and objectives SARPN has developed a series of indicators to track poverty as an effort to monitor the link between poverty and RI. The poverty indicators include a human poverty index, life expectancy rate, adult illiteracy rate, population without access to safe water and health services, malnourished children and children not reaching grade 5. This effort captures the social dimension of RI which, although different from economic or political RI, captures the effect of RI initiatives in a developing context.

The African Economic Research Consortium AERC, located in Kenya, was established in 1988. It is a public not-for-profit organization devoted to advanced policy research and training in economics. Its objectives are to enhance the capacity of locally based researchers to conduct policy-relevant economic inquiry, to promote retention of such capacity and to encourage its application in the policy context.

Although AERC does not monitor RI, it sponsored what is probably the most comprehensive and rigorous study of evaluating RI in SSA in the late 1990s as part of its research capacity building initiative. This four-volume study entitled 'Regional integration and trade liberalisation in Sub-Saharan Africa' (Oyejide et al. 1997-99), focuses on economic RI and concentrates on trade as the principal field of integration.

Namibian Economic Policy Research Unit The Namibian Economic Policy Research Unit (NEPRU) is an independent non-governmental organisation (NGO), established in 1990 and located in Namibia. Its main aim is to contribute as a centre of professional excellence to local capacity building through training, applied socio-economic research and dissemination of information, thereby enhancing informed policy decisions for national development. Secondly, it also has a mandate to serve the Southern African region.

In line with its main aim NEPRU has annually published the *Monitoring Regional Integration in Southern Africa Yearbook* to provide an empirical basis to the process of regional integration since 2001 (Hansohm et al. 2001-2005). This goes back to an initiative of the German NGO Konrad-Adenauer-Foundation (KAF) regional office in Harare to invite academics in order to regularly assess the state, direction and pace of regional integration in SADC and Southern Africa.

This initiative was based on the conviction that regional integration in Southern Africa is vital for development and growth. It was hoped that this process could be strengthened by monitoring its progress, and thus by confronting policy makers with a 'mirror', their bold rhetoric and ambitious plans with the reality on the ground.

The yearbook on monitoring SADC's integration sets out to:

- describe the intended goals for integration in selected sectors (i.e. policy areas) with regard to the specific goals set and the institutional framework in place;

- analyse the implications of full integration in these sectors with special emphasis on the questions whether sectoral integration was politically and economically feasible, and which possible drawbacks could be expected;
- analyse the de facto state of integration in each of the policy fields selected, stating the existing obstacles to further and deeper regional integration.

The Yearbook presents studies on various African countries in key economic, political, and institutional areas of integration by covering key topics such as macro-economic trends, trade, democracy and security. It also looks at more specialized topics such as monetary policy, transport, investment, natural resources, institutional restructuring. The Yearbook presents data on convergence indicators that enables the assessment of their pace and direction. To disseminate this information NEPRU organises annual workshops on the monitoring of economic, political and institutional aspects of RI with experts from the region and beyond. From 2005 onwards, NEPRU aims to explicitly monitor the progress of RI within SADC.

The original objective had been to construct quantitative indicators to measure and monitor the process of RI (Peters-Berries and Marx 2000). However, in light of the severe data shortages this objective was soon abolished and replaced by a pure qualitative approach. But as over recent years both the interest in RI and the availability of data have increased, the ambition for RI indicators has resurfaced (Hansohm 2004).

Extra-Regional Initiatives

Extra-regional initiatives to monitor RI occur at the multilateral level and are undertaken by the United Nations and the World Bank.

The United Nations Economic Commission of Africa The most comprehensive effort to monitor RI is undertaken by the United Nations Economic Commission of Africa (UNECA). This body has created an overall index to monitor RI based on data collected from the Secretariats of the various regional blocs using a questionnaire that collects both quantitative and qualitative information on the institutional, policy, and process dimensions of integration. Data gaps are filled by data drawn from the United Nations Conference on Trade and Development (UNCTAD).

The questionnaire captures data on indicators in various categories *viz*. trade, money and finance, transport, communications, energy, agriculture, manufacturing, and human development and labor markets, water, mining, peace and security, HIV/AIDS and gender. Some of the data captured in these categories include dependence on primary commodities for export earnings; values and shares of intra-community exports and imports; macroeconomic convergence; mining legislation and fiscal issues.

A weighting methodology is used to calculate sectoral and regional indices. The composite RI index for Africa is calculated as an average of the integration indices for the regional economic communities, weighted by GDP. This index is disseminated in an annual report titled 'Assessing Regional Integration in Africa' (UNECA 2004). It focuses on the process, progress and current status of RI in Africa.

The United Nations Development Program The UNDP generates a regional monitoring summary statistic known as the human development index (HDI). This summary measure captures the social dimension of RI and has three basic dimensions i.e. a long and healthy life represented by life expectancy at birth, knowledge represented by adult literacy rate and gross enrolment ratios in primary, secondary and tertiary institutions; and decent standards of living represented by GDP per capita in terms of purchasing power parity denominated in United States Dollars (USD). UNDP disseminates this index in its annual Human Development Report.

The World Bank The World Bank in its World Development Indicators (WDI) report collects data on economic RI variables in East and Southern Africa on tariff barriers with data from its World Integrated Trade Solution System. These tariff data are matched to the Standard International Trade Classification (SITC) revision 2 codes to define commodity groups and import weights.

Evaluation of Regional Integration Monitoring Initiatives

In review, the preceding section shows that:

- Data that can be used to monitor RI are collected to some degree by various institutions, but data are not collected in a comparable way over longer periods of time.
- Various institutions collect and present largely qualitative data in selected fields.
- There is no consistent and continuing effort of monitoring RI as yet in the region.
- Both donor and civil society organisations are often more pro-active than the RI bodies themselves. However, their monitoring remains partial. The civil society organisations concentrate on the results of RI, rather than RI itself.

Despite the recognition in the region that monitoring of RI is vital, there are only few and fledging initiatives. Of the few that monitor RI in Eastern and Southern Africa, only UNECA currently calculates an overall composite index that measures economic RI (SADC used to but stopped). This section argues that the very limited extent of monitoring RI is linked to the initial objectives, overlapping membership in regional blocs, different sizes of partners in RI, conceptual and methodological issues and external factors. These factors are discussed in turn.

Initial Objectives

All monitoring agents in Eastern and Southern Africa have a set of initial objectives. From the regional multilateral initiatives, those that have an economic focus have been more successful in their attempts to monitor RI.

COMESA's main objective is to achieve economic growth through RI. Even its predecessor's, the Preferential Trade Area, main goal was to cooperate in developing

the natural and human resources of its members for the good of all their people. Therefore, the effort to formally capture an overall index based on survey data generated from a questionnaire operationalizes this goal.

SADC, although it began with the political aim to 'reduce the region's economic dependence on the dominant, apartheid South African regime through the implementation of regional initiatives aimed at self-reliance' (SADC 2005), transformed this following the inclusion of South Africa as a member to 'building a region in which a high degree of harmonisation and rationalisation enables the pooling of resources to achieve collective self-reliance and improving the welfare of the people in the region' (SADC 2005). Therefore, the SADC Integration Index (SII) it developed in its Regional Human Development Report and its efforts to monitor the signed protocols are based on this goal.

The Common Monetary Area (CMA) is a regional arrangement between South Africa, Lesotho, Namibia and Swaziland that is a hybrid of a currency board and a monetary union with Botswana as a de facto member as its currency is pegged to a basket that is heavily weighted in favour of the South African Rand. Although, it has an economic focus, the CMA is more concerned with monetary as opposed to macroeconomic or trade integration. Currently, its main purpose is the stabilization of the monetary policy variables among its members. However, plans in Southern Africa for a common currency for the region are gaining momentum at the meetings of the central bank governors of its member countries. As a result, the CMA has no instrument for monitoring RI and does not produce any output that is related to RI.

Adetula (2004) argues that the blocs that were set up with political aims based on Pan Africanism were disillusioned when this vision was interrupted. This led most of these blocs into states of inertia over the years. Therefore they are less successful in establishing initiatives to monitor RI.

From the regional institutional initiatives, those that have a focus on monitoring political social or economic progress based on data, in addition to their information dissemination functions, have been more successful in their attempts to monitor RI.

SARPN's main aim is to track poverty dynamics as part of its aim to widen the debate in the region around the issue. ISS in its effort to monitor security dynamics in the region tracks treaties on security, human rights and good governance. NEPRU in its effort to monitor RI through its Yearbook intends to embark on this initiative.

Institutions such as the South African Institute of International Affairs (SAIIA), an independent NGO in South Africa that aims to promote an understanding of international issues among South Africans, the Southern Africa Research and Documentation Centre (SARDC), a regional information resource centre in South Africa that documents, analyses and communicates trends in the region, and the Institute of Global Dialogue (IGD), an independent NGO also located in South Africa that aims to analyze and promote the understanding of factors that advance or hinder regional co-operation, sustainable development and security in southern Africa, focus mainly on the information dissemination component of their main aims as opposed to the tracking component.

In line with this focus on information dissemination, SAIIA produced the SADC Barometer for two years, which was a quarterly publication that contains short articles focusing on key political and economic issues and trends affecting SADC

based on the ratification, implementation and achievement of integration initiatives. SARDC produces SADC Today, which is a publication that is disseminated six times a year containing articles on various issues that affect members of SADC, some of which focus on issues that affect integration in the region. IDG produces Global Dialogue, a publication that contains articles that focus on issues affecting Southern Africa and the continent as a whole, some of which also focus on issues that affect RI. None develop or disseminate specific instruments to monitor RI. However, in the effort to track RI, institutions such as the ISS have not compromised their information dissemination function. ISS still publishes the African Security Review, which contains articles related to security issues in the region.

Overlapping Membership in Regional Blocs

One of the distinguishing features of regional blocs in Eastern and Southern Africa is that all countries except Burundi, Mozambique, Rwanda and Somalia are members of at least two different regional blocs with different mandates and progress towards achieving their objectives including RI. This is illustrated in Table 12.2 below.

This overlapping membership in the regional blocs creates various constraints. One of this is that each country is usually involved in a plethora of activities that do not necessarily or at least directly support the objective of regional economic integration. Although one can argue that the mandating of Secretariats to monitor RI is supposed to minimize this concern, it is important to realize that all national activities at the member country level compete for the same scarce human and financial resources and are sometimes even duplications. Therefore, efforts by the Secretariats to compile data run into various difficulties. In the first place, competing with other more basic and essential activities, monitoring takes a backseat. This problem is magnified by the multiplicity of RI schemes.

The plan of the European Union (EU) to replace the ACP-EU relationship with regional economic blocs, economic partnership agreements (EPAs), puts pressure on the countries in the region to decide for one RI scheme. This is supposedly one of the development motivations of the EU for the EPA scheme. However, arguably the limited institutional capacity of the RI bodies in the region makes it impossible for them to negotiate effectively with the EU and to reap fully the benefits of the EPA agreement (Meyn 2005). In reality, some countries have rationalised their RI memberships, and one can argue that the impending EPA scheme has stimulated this – for example in the case of Namibia's withdrawal from COMESA (Hansohm et al. 2005). However, overall the EPA negotiations have added new complications to the already messy state of RI by creating new groups that are not identical with the original bloc membership configurations (Table 11.2). Arguably trade integration is the most important first step for economic integration. RI in other fields generally follows economic integration. Thus, the upcoming EPA configurations are likely to undermine integration through the existing bodies COMESA and SADC.

Table 11.2 Membership in the Regional Blocs of Eastern and Southern Africa

COUNTRY	COMESA	COMESA FTA	ESA EPA	SADC	SADC EPA	SACU	IOC	IGAD	CMA	ECCAS	EAC
Angola				✓	✓					✓	
Botswana				✓	✓	✓					
Burundi	✓	✓	✓							✓	
Comoros	✓		✓				✓				
DRC*	✓		✓	✓						✓	
Djibouti	✓	✓	✓					✓			
Egypt	✓	✓									
Eritrea	✓		✓					✓			
Ethiopia	✓		✓					✓			
Kenya	✓	✓	✓					✓			✓
Lesotho				✓	✓	✓			✓		
Libya	✓										
Madagascar	✓	✓	✓	✓			✓				
Malawi	✓	✓	✓	✓							
Mauritius	✓	✓	✓	✓			✓				
Mozambique				✓	✓						
Namibia				✓	✓	✓			✓		
Reunion							✓				
Rwanda	✓	✓	✓							✓	
Seychelles	✓		✓				✓				
Somalia								✓			
South Africa				✓	Observer	✓			✓		
Sudan	✓	✓	✓					✓			
Swaziland	✓			✓	✓	✓			✓		
Tanzania				✓	✓						✓
Uganda	✓		✓					✓			✓
Zambia	✓	✓	✓	✓							
Zimbabwe	✓	✓	✓	✓							

Note: DRC represents the Democratic Republic of Congo, ECCAS is the Economic Community of the Central African States.
Source: Jakobeit et al. (2005).

Small and Large Countries in Regional Integration

A related and as yet neglected aspect of RI in Southern and Eastern Africa is the role of small countries in the process, notably towards the dominant economy of South Africa in the South, but also towards Kenya, the dominant economy in the East. It is generally, but wrongly, assumed that every Government is keen on RI. But in reality it needs to be recognised that small countries have serious concerns (Helleiner 1996). These include:

(i) Policy autonomy

Small countries' access to the integration arrangement is likely to be highly conditioned. Thus, it would be misleading to address benefits and costs of integration primarily (or even exclusively) on the basis of trade effects. Modern integration arrangements are increasingly about the rights and obligations of partner countries' governments in respect of foreign investors, capital flows, intellectual property, modes for the supply of a variety of services, and the 'harmonization' of innumerable other laws. Small countries can expect to have little influence over the rules that are to be harmonized. Small country negotiators need to devote most of their current attention to these non-trade issues. Despite the advantages of policy credibility, policy autonomy may be desirable to permit the encouragement of innovation, technical change, indigenous learning, and diversification into more developmentally 'nutritious' activities. The degree of dependence on the agreement in the small country is bound to be much greater than that of the larger countries. Reciprocal agreements can generate benefits for the small countries in terms of increased credibility of their own policies, but the policies to which such commitments are made may not always be in the development interests of the small countries.

(ii) Adjustment costs

The standard trade theory argument abstracts from adjustment costs, but these may be substantial – in any case they are larger for the small countries.

(iii) Risk

The small countries face the risk of non–adherence of the large country to the agreement. The short term adjustment costs and large country's possible failure to adhere to the agreement pose significant risks to the small countries.

These concerns apply very much to the situation in the region. These concerns can explain why the progress of RI is not faster than it is. The concerns are reinforced by the fast differences between rich and poor countries in the region in terms of capacity.

This leads to the (research) question on the motives of the actors, the incentives – again an as yet largely ignored research question. It is an urgent question because only an understanding of the incentives actors face will allow policy recommendations that are successful in terms of contributing to policy change.

Conceptual and Methodological Issues

Among the various regional initiatives in Eastern and Southern Africa, there are many that collect and disseminate data on various economic statistics. However, most of the data and indicators are related to convergence as opposed to RI.

Currently, the main purpose of the CMA is the stabilization of the monetary policy variables, which represents monetary convergence. In line with this it disseminates various position papers that contain data on convergence indicators.

The main goal of the Indian Ocean Community (IOC) is the promotion of sustainable, integrated development of the South Western Islands of the Indian Ocean. To achieve this goal its objectives focus on peace, security, economic integration, sustainable development, cultural cooperation, environment and natural resources, science and technology, education and legal affairs. Its management committees, which are responsible for implementing policies and programs, are the bodies within the structure of the IOC specifically mandated to undertake the function of monitoring. Each management committee focuses on sectoral programs.

The IOC's program that focuses on regional integration in trade and development is known as PRIDE, which began in 1996. However, the IOC collects statistics over time for various economic variables that capture convergence which it disseminates in an annual report in French for its member countries. In addition, PRIDE maintains a database (IOC-InfoNet) which carries statistics in addition to regulatory texts and details of business opportunities that are unrelated to monitoring RI.

This conceptual conflict between convergence and RI extends to the external initiatives in the region.

The United Nations Conference on Trade and Development (UNCTAD) presents the coefficient of variation of GDP growth. This growth divergence statistic is based on data from the World Bank's WDI report but it provides an aggregate measure for the whole of Africa. This statistic is disseminated in its annual Trade and Development report and in its annual Global Investment Report.

The World Bank in its Global Development Finance report and the Global Economic Prospects report presents data on various convergence indicators such as GDP growth, current account balance, external debt and inflation. In its WDI it collects data on various trade statistics at the regional level.

Similarly the IMF also collects data on convergence indicators. These include macroeconomic statistics on real GDP, inflation, external debt and the current account balance, trade statistics on imports and exports and labour statistics such as labour productivity. In line with its mandate it collects data on monetary statistics including monetary aggregates, interest rates, exchange rates and financial statistics such as the size of the capital market, financing, loan syndication and financial soundness indicators based on regulatory and loan book characteristics of the banking system. These are disseminated in its World Economic Outlook Report that covers macroeconomic indicators, the Global Financial Stability Report of selected African countries, Sub-Saharan Africa and Africa as a whole and a direction of trade statistics database, which are presented in its Direction of Trade Statistics yearbook and Direction of Trade Statistics quarterly.

The Organization for Economic Cooperation and Development collects data on various convergence indicators such as GDP, GDP per capita, annual real GDP growth rate, current account balance, current account structure, public finance and inflation. These are disseminated in its African Economic Outlook report.

Finally, the World Trade Organisation (WTO) simply presents trade statistics on intra-regional exports over time, which it disseminates through the WTO Trade Statistics Handbook that is produced annually.

Oyejide et al. (1997-99) discusses the methodological problems of measuring economic integration and its effects. One of these is the lack of a counterfactual to the actual developments, another of the difficulties of disentangling the impact of policies of integration and liberalisation from that of other economic reform policies. A third complication relates to the issue of timing, while another concerns appropriate performance indicators (Collier, Greenaway and Gunning 1997).

External Factors

Despite the intent of a regional initiative to monitor RI, various external factors may derail this objective. This section describes some of these.

The main goal of the Southern African Customs Union (SACU) is to maintain the free interchange of goods between member countries. Despite this economic objective the member states of SACU, from 1994 to 2000, focused on renegotiating the original agreement signed in 1969 to democratise SACU so that it could more effectively address the needs of its members following South Africa's democratic transformation in April 1994. This far-reaching process planning to take SACU to a higher level of integration and balanced development requires setting up a number of new institutions – a process only in its beginning (Hartzenberg 2003, McCarthy 2004). Effective monitoring of the outcomes of RI will also be essential for the success of the new SACU. But this has not yet been given attention to.

The main goal of the Intergovernmental Authority on Development (IGAD) is to coordinate the efforts of its members in the priority areas of economic cooperation, political and humanitarian affairs and food security and environment protection. To achieve this goal its objectives include: promoting joint development strategies and harmonizing macro-economic policies and programs in the social, technological and scientific fields; harmonizing policies with regard to trade, customs, transport, communications, agriculture, and natural resources, and promoting free movement of goods, services, and people within the region; creating an enabling environment for foreign, cross-border and domestic trade and investment; initiating and promoting programs and projects to achieve regional food security and sustainable development of natural resources and environment protection, and encourage and assist efforts of Member States to collectively combat drought and other natural and man-made disasters and their consequences and developing a coordinated and complementary infrastructure, in the areas of transport, telecommunications and energy in the region.

IGAD's Secretariat is responsible for handling its policy harmonisation program and has been mandated to disseminate information on progress towards RI in trade and macroeconomic policy. However, initiatives in the bloc have been dominated

by the peace process negotiations in Sudan and Somalia. Therefore, its monthly newsletter that disseminates information on regional initiatives is dominated by political articles.

The East African Community (EAC) began as a Customs Union in 1917 [Tanzania (then known as Tanganyika) joined in 1927]. Following a period of dissolution, during which a Mediation Agreement for the Division of Assets and Liabilities was negotiated in 1984 and a Cooperation was formed from 1993 to 1999, the EAC was re-launched in 1999. Its main goal is fostering regional peace and security, while providing an appropriate response for economic development and competitiveness in the context of globalisation. It has a broad based focus including economic, political, social and cultural aspects, research and technology, defense, security, legal and judicial affairs.

The Secretariat is the institution within the structure of the EAC that is mandated to carry out overall monitoring of the EAC programs. Its structure consists of a Secretary General, deputy Secretaries General and the Counsel to the Community. This Secretariat initiates studies and research related to program implementation, the strategic planning and management of EAC programs. The findings are used to provide recommendations and report to the Council and promote and disseminate information relating to the EAC in the EAC News, which is a quarterly newsletter of the EAC secretariat that was first published in 1998. In addition, Sectoral Committees are responsible for monitoring and reviewing programs at the sectoral level.

In 2002, the members expressed the need to move towards a customs union. One committee of interest, which was formed in August, 2004, is one that has been created to fast track integration in the bloc. As part of this renewed interest in RI, the EAC plans to take steps, under its trade liberalization and development focus, to design a mechanism for monitoring non-tariff barriers to cross-border trade. In addition, its free movement of capital initiative aims to monitor foreign exchange flows associated with a liberalized capital account. However, these are all future plans and are currently not being undertaken. As the RI process in East Africa is still at its infancy, monitoring is not yet undertaken.

Another important external factor influencing the monitoring of RI is the high dependence of the monitoring initiatives. The short-termism of donor funding undermines sustainability of RI monitoring in the region. This short-termism may create uncertainties that distract resources dedicated to monitoring to trying to find new sources of funding for various programs or trying to re-orient existing programs to fit into donors' priorities.

Future Implications for Regional Monitoring Initiatives

The review above of both general and specifically regional issues suggests the following points as a basis for the development of a system of RI indicators (see Hansohm 2004):

- Quantitative indicators should be combined with qualitative indicators. The belief that only quantitative data are 'objective' is too narrow. Objectivity is relative and will be established through openness.
- So as to be useful and relevant, the indicator system should be developed with involvement of stakeholders.
- In the first place, the indicator system should be of use to regional bodies, in particular SADC. This means that the indicators should take the plans of the RI bodies as benchmarks.
- At the same time, RI monitoring experiences from other regions should be looked at to benefit from. A second type of indicators allowing comparison to other regions also needs to be utilized. This is particularly true as the other regions are further advanced in implementing RI.
- The following areas are important to be looked at:
  - The production of and subscription to relevant treaties, memoranda of understanding (e.g. on macroeconomic convergence, cooperation on taxation), strategic documents, creation of institutions etc.
  - The implementation of these and obstacles: adherence to agreed principles and actions, functioning of created institutions, tendencies of bureaucratization.
  - Financing of SADC: sufficiency for present and planned activities, dependence on ICPs, distribution of membership fees.
  - Relation to continental and other regional initiatives, especially the African Union (AU) and NEPAD, but also to SACU, CMA and COMESA: the progress or otherwise of other inter-state initiatives in which members states of SADC are participating may strengthen SADC (SADC as a stepping stone to African integration, SACU as a building block for deeper integration within SADC), but it may also direct scarce human and financial resources away from SADC.
  - Relation to the private sector and civil society (including trade unions, churches, media, NGOs, etc.): the degree of their knowledge of and participation in the process of regional integration as well as the real and perceived impacts the process will have on civil society.
  - Effects of regional integration on economic and human development: The promise and test of the success of regional integration is convergence of SADC with the richer world ('catching up'), but also of the poorer countries within SADC with the richer members.
  - Cost and benefits of the process of regional integration and the perceptions of these on countries and various interest groups. This is believed to be a key driving force for the speed and sustainability of regional integration.

Hansohm and Shilimela have produced a first report that addresses all these issues (Hansohm and Shilimela 2006). The very weak state of RI monitoring in Eastern and Southern Africa reflects in the first place the slow progress of institutional RI. However, the gloomy perspective the state of RI institutions suggests needs to be qualified by the fast pace of RI driven by private business as well as the civil society. While this gives hope, the delays in institutional RI and increasing gap between

RI on the micro and the institutional levels provide reasons for serious concern. Without strong and capable RI institutions, the regions cannot participate effectively in international negotiations on relevant issues as trade, security etc. Without an effective regional regulatory framework, the results of economic RI are likely to be increasingly inequitable. This might lead to a backlash in the region against RI.

RI monitoring is an important part of institutionalisation of RI, as argued above. The international cooperating partners as World Bank, IMF, UNCTAD, WTO, OECD, EU, but also bilaterally, can play an important role in strengthening the process of RI monitoring. In the first place this can be done by pooling their resources in order to raise the quality of RI monitoring reports by the RI institutions themselves.

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PART 4
Europe and North America

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Chapter 12

Monitoring and (Good) Governance of the Integration Process in the European Union

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Introduction

This chapter looks at the extent to which monitoring processes and activities provide the integration in the European Union (EU) with sufficient levels of transparency and accountability to make it the relatively well-governed, deep and sustainable process as it is generally perceived to be. This is a usually neglected aspect of European integration. The chapter attempts to show that the complexity of the integration scheme is – to an important extent – matched by or – at least – accompanied by a complex monitoring system. Looking at EU integration through the lens of monitoring actors and actions, reveals also the specificity of the whole integration project and hints at the underlying political culture and historically determined societal equilibria in Europe. This way, the chapter will inform the new social constructionist approaches to regional integration (Duina 2006). At the same time, we will also discuss the more technical aspects of (good) monitoring of regional integration.

After a brief panoramic view of the state of (institutionalized) integration in the EU and a sketch of our conceptual framework, the subsequent sections discuss the different forms and modalities of monitoring in the EU, and the actors involved. Both internal and external monitoring will be discussed. A final section concludes.

The European integration process

Capturing the (institutionalized) European integration process in a few words is a complicated task, considering the diverse aspects of the process and its long history, even if we limit ourselves to 'modern' integration in the post-WWII era, formally starting with the Treaty of Paris establishing the European Coal and Steel Community (ECSC) in 1951. The ECSC was deemed to ensure peace and security to a region that was origin of two devastating global wars. By putting the coal and steel production, crucial for armament, under common supervision and co-

ordination, distrust between the six founding members[1] was reduced, also leading to a significant increase of productivity in this sector. This lead to further economic integration, as expressed in the creation of the European Economic Community (EEC) in 1957. Together with Euratom, these three institutions formed what later became the EU. Although economic goals, like the creation of a free trade area and the single market, were the driving forces of integration, political integration was not neglected. With the Commission and the Parliament,[2] the Treaty of Rome already introduced supranational institutions besides the intergovernmental Council of Ministers and the European Court of Justice. European law overruled national laws since the 1960's.

From this starting point onwards, regional integration in Europe experienced both deepening and widening. It was deepened by successful projects such as the establishment of a customs union, the realization of a single market, and the creation of the Euro-zone; and it was widened by several rounds of enlargement, resulting in a EU with 27 member-states in January 2007, after the accession of Rumania and Bulgaria. The EU counts around 480 million citizens, and includes several former Soviet countries. Yet, the provisions laid down in the founding Treaties of Rome still determine many aspects of the European Union and its working. The first substantial revision of these provisions was undertaken by the Commission under the presidency of Jacques Delors in 1986. After the slowdown of integration in the 1970's,[3] integration regained momentum especially with the accession of Spain and Portugal in 1986, shortly before the Single European Act (SEA) was ratified. Delors' ambitious goal was to reach the single market by the end of 1992,[4] economic vantages being again a major driving force of the entire integration process. But the heads of state and government agreed not only on economic integration at this occasion: political integration was also brought forward. What was before a non-binding de-facto political consultation in the context of the European Political Co-operation (EPC), was given a legal basis which associated it more closely with the European Commission and European Parliament. The European integration process should thus be seen as a broader process, never confined to being a narrow free trade area (Gavin 2005: 224; Rosamond 2001).

With the Treaty on the European Union, the so-called 'high politics', namely security and foreign policy, in addition to justice and home affairs entered the European political arena. Although already existent in the EPC, they were now incorporated in what is known today as the three-pillar structure of the EU (see below). However, they were not integrated in the European Community structure, and thus not part of the community decision-making, but rather intergovernmental scenes of political co-operation where the principle of unanimous decision-making applied. Co-operation in these field became necessary because of two developments: first, the four freedoms of the single market and the abolition of cross-border controls

1 Belgium, Federal Republic of Germany, France, Italy, Luxembourg and the Netherlands.

2 Initially named 'Assembly'.

3 Sometimes referred to as the 'dark age' of European Integration.

4 Thus often referred to as 'program 1992'.

within the Schengen states; second, with the end of the Cold War, European states, especially Germany, pushed for closer collaboration in the field of asylum policy and combating illegal trafficking.

Encouraged by the successful implementation of the single market program, economic integration was taken a step further with the realization of the European Monetary Union (EMU). As demanded in the TEU, it was introduced in 1999, and replaced the national currencies in 2002. The idea of the Euro[5] was not uncontested. Economists were at strife about whether the positive effects of the single currency, e.g. reduction of transactions costs, would outweigh the loss of control over monetary policy, and about the optimal size of the currency area (Cuyvers et al. 2005: 130). Last but not least, the currency was (and is) an important symbol of identification which is not always easily abandoned, as initial negative reactions to the EMU in Germany showed (Tsoukalis 2005: 36-37).

This deepening of integration, as constituted by the single market and EMU, was soon accompanied by a widening; the inclusion of eight Eastern European countries, plus Malta and Cyprus in 2005, and later, Rumania and Bulgaria in 2007. Their integration in the 'Pax Europea' should ensure peace and security to these regions, at the same time opening their markets and enabling them access to the Structural and Cohesion funds. Simultaneously, the question rose where the limits of European integration are. Applications of Morocco and Ukraine were answered by a polite 'no', Turkey has been given applicant status since 1987, yet still debates prevail whether it actually should join the EU at all.

The number of member states has almost quintupled, challenging the structure and procedures inherited from the Treaties of Rome. Minor adjustments have been introduced since then, often to ensure the set goals of economic integration; qualitative majority voting was introduced with the SEA, and then expanded to certain policy areas with the amendments made in Amsterdam and Nice. The accession of the ten new members in 2005 was, and still is, not only a challenge for the political integration, but for the economic as well. Their economies are considerably less developed than those of the EU-15, 'in economic terms, these ten new members together are smaller than the Netherlands' (Tsoukalis 2005: 172), although in general they now show higher growth rates.

The Lisbon Strategy, as adopted in 2000, aims at fostering growth in the EU and tackling the mentioned economic differences by creating the 'the most dynamic knowledge-based economy in the world, with full employment and increased levels of social cohesion, by 2010' (European Council 2004: 11). The revision of the Lisbon Strategy in 2005 introduced a change of focus towards growth and employment to meet the ambitious goals.

Facing the challenges of the fifth enlargement, a major treaty revision was prepared, which was designated to replace all other treaties by creating a European constitution. In 2004 heads of governments signed what was the result of two years work of the European Convention, led by Valéry Giscard d'Estaing. It attempted to provide answers to a series of challenges and criticisms. These cover, amongst others issues, the often mentioned lack of democracy (legitimacy) and transparency of the

5 Initially named 'ecu'.

EU institutions; the problem of obstructing behaviour of minority members; the absence of basic social rights standards; the low profile of the EU in 'high politics' on the global level. Resembling to modern national constitutions (Gavin 2005: 231), the planned correctives were not radical reforms compared to the existing TEU and its amendments, rather adjustments to sharpen the profile and competences of the institutions, increasing democratic legitimacy by enhancing the role of the EP and adjustments to the decision-making process. However, the ratification in the different member-states failed with the French and Dutch 'no' to the constitution, which was a severe drawback in the deepening of the European integration process.

Monitoring the European Integration Process

Conceptual Framework

In order to capture the multiple forms and meanings of monitoring in the context of the regional integration process in the EU, to identify its characteristics and to compare it with experiences in other regions in the world, we necessarily have to start from a relatively broad monitoring concept. For our purpose the concept will cover *all relevant processes of information gathering, processing and dissemination concerning the European integration process, performed by different kinds of actors in different moments and lapses of time, in order to control, evaluate, correct and/or influence the integration policies and the functioning of the regional institutions*.[6]

A number of elements need some further clarification. First, 'relevant processes' are those that actually lead to significant levels of control, evaluation or influence, and that are recognized as such by other relevant actors. Where to draw the line exactly between relevant and irrelevant processes is obviously debatable, however, for a number of monitoring actors and processes a wide consensus can probably be reached.

Second, 'monitoring' includes 'evaluation' but they are not synonymous. Monitoring covers both positive and normative aspects. Positive aspects refer to the systematic description and analysis of the policy process under consideration, including the development and application of methods and tools for this purpose, although accepting that certain biases and implicit value-judgements may influence the (positive) monitoring activity of an actor. Normative aspects refer to the explicit and purposive evaluation of the results of the 'positive' monitoring, approving or disapproving the course of the integration process. This evaluation provides inputs for explicit or implicit policy feed-back mechanisms. The criteria that are used in the evaluations, can be contractual obligations of different kinds (treaties, agreements, decisions, laws …) declared between different parties (European Commission, European Parliament, national states, governments, …), less formalized public declarations (declarations of intentions, electoral campaign programmes, policy reports…), general developmental goals and principles, or self-defined criteria of

6 'Regional' will be understood here as 'supra-national', i.e. involving a number of states.

the monitorers themselves. In this respect, our approach follows to some extent the shift from traditional understandings of accountability to more modern stakeholder views of accountability (Blagescu and Lloyd 2006: 216-17). In principle, the positive and normative aspects of monitoring can be taken care of by different actors. For example, EUROSTAT data can be used by different actors to draw different policy conclusions.

Third, as already suggested, monitoring processes involve different kinds of actors. When regional integration processes are not just the result of 'negative' integration measures[7] but lead to the creation of regional (supra-national or inter-governmental) institutions, like in the European case, monitoring mechanisms generally emerge at the same level. We will call these mechanisms 'internal monitoring' to the extent that they take place within the regional institutions. 'External monitoring' by contrast, will include any form of monitoring (of the regional integration process), performed by other actors, independently of their level of operations (local, sub-national, national, regional/supra-national, pluri-lateral, multilateral/global) or ownership structure (international organization, governmental, other public, non-governmental, mixed). Examples of external monitoring agents could include, for example, the UN or World Bank (at the global level), the OECD (pluri-lateral), a regional network of trade unions or employers organizations, national and sub-national (regional) parliaments, national political parties, local authorities and interest groups.

Fourth, monitoring takes place in different logical moments and lapses of time. If we look at regional integration as to a macro-project, monitoring would cover all the stages of the project cycle. Monitoring should not be confined to *ex post* evaluation.

Fifth, the object of monitoring ranges from grand strategies to small micro-projects. Given the purpose of this paper, we will be less interested in the monitoring and management practices at the micro-level but rather in the monitoring done at the policy and strategic levels.

Sixth, the purpose of monitoring is to have an impact on the integration policies and the course and quality of the integration process. Effective monitoring leads to a traceable policy impact. At the same time, the monitoring activities themselves can target any conceptual component of the regional integration process: (i) relevant actors and their activities, (ii) structural factors affecting the regional integration process, (iii) the institutionalization of the process, (iv) policy implementation, (v) policy effects, and last but not least, (vi) the course of effective regional interdependencies (De Lombaerde and Van Langenhove 2006: 24-31), or a combination thereof.

EU Institutional Setting and Mechanisms

The main difficulty when analysing the tools available for the monitoring of regional integration in the EU comes from the complexity of the institutional settings and mechanisms. This is not only relevant for the internal monitoring but determines

7 'Negative' integration is used here as proposed by Tinbergen (1954) and refers to the elimination of regional barriers to trade, whereas 'positive' integration refers to the design and implementation of (new) common policies and institutions.

also the scope and modalities of external monitoring. And bridges exist between internal and external monitoring when external actors (civil society, for example) are involved in monitoring activities launched by the European institutions.

Let us, however, start with a look at the institutional setting and mechanisms of the EU. The EU is different both from the traditional nation-state and the international organization structures. The five core institutions – the European Commission, the Council of Ministers, the European Parliament, the European Court of Justice, and the European Court of Auditors – reflect this complex interaction and continuous struggle between supranational and intergovernmental characteristics of European integration. While the Council of Ministers acts as the full representative of the Member States governments, the four other institutions are predominantly supranational in nature: though appointed by the national governments, their members are meant to act independently in order to fulfil the supranational Community interest.

Each of the institutions plays a role in the internal monitoring of the European integration process, but their role varies according to the different integration 'pillars' set up by the Treaty of Maastricht, with a clear difference between the first pillar based on the Community-method and the fully intergovernmental pillars of the Common Foreign and Security Policy (CFSP) and Justice and Home Affairs (JHA) (Figure 12.1). Next to this organization of policies along three pillars, the complexity of monitoring is increased by the allocation of competences between the Community and Member States which varies between the different policy fields, and, in the absence of clear Treaty provisions, is often advanced through practice. So far, the distinction has been made between the areas where the Community had *exclusive* competences,[8] the areas of *shared* competences in which states act individually only where they have not already acted through the EU or where the EU has ceased to act,[9] and the areas of *complementary* competences where the Union intervenes to complement or coordinate the actions of the Member States[10] except for specific fields where Treaty provisions clearly prohibit harmonization of the national laws.[11]

Community pillar The European Commission plays an important monitoring role in the Community pillar in several ways. First, the Commission prepares several transversal programming and monitoring documents. Each new Commission adopts at the start of its mandate a strategic programming document setting out its key strategic objectives. The *Strategic Objectives 2005-2009*, issued on 26 January 2005, have as aim the delivery of Prosperity, Solidarity and Security for all Europeans by the end of this decade. Every year, the Commission publishes[12] the *General Report on the Activities of the European Union*, which is presented to the European Parliament in February and reviews the activities of the European Union in the previous year.

8 Customs union, competition rules, monetary policy of the Euro-zone, conservation of marine biological resources, common commercial policy, and the conclusion of certain limited international agreements.

9 Most of EU policy fields: here the principles of subsidiarity and proportionality act.

10 Research, technological development, development cooperation and humanitarian aid, economic and employment policy.

11 Education, vocational education, youth and culture.

12 Article 212 of the EC Treaty and Article 125 of the EAEC Treaty.

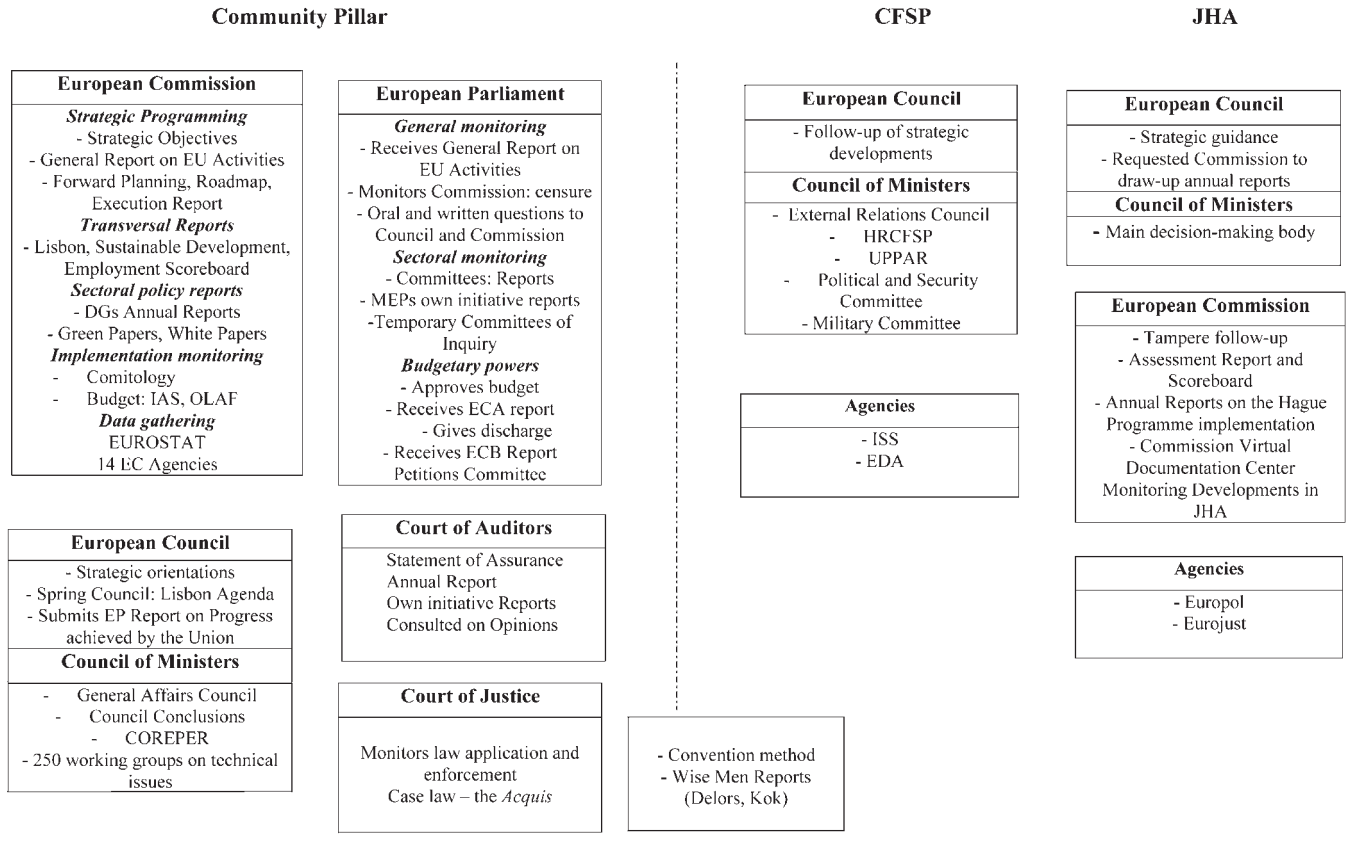


Figure 12.1 Role of the Different Institutions in Internal Monitoring of EU Activities

The General Report[13] is not organized identically every year; its structure aims to reflect the main institutional and policy developments of each year, prefaced by a general introduction. Additionally, the European Commission adopts every year a *Legislative and Work Programme* (often called 'Work Programme'), presented by the President of the Commission to the Parliament and the Council, which aims to translate the annual policy strategy into policy objectives and comprises a list of priority legislative and policy initiatives the Commission commits itself to adopt by the end of the year. The Work Programme is accompanied by a *Roadmap* comprising short fiches of each legislative proposal prepared by the various Directorate-Generals aiming to assess the main problems identified, the policy objectives, the regulatory or non-regulatory instruments to be considered, and the impacts likely to result and requiring further analysis, what type and level of analysis will be carried out, which stakeholders and experts will be consulted. Next to this, the Commission issues a more detailed *Forward Programming*[14] document comprising information on the legislative and non-legislative proposals prepared and an *Execution Report*[15] which follows the same pattern listing the date of adoption, the legal basis, the policy motivation and the budgetary implications of the proposal.

Second, The European Commission issues regular monitoring reports on the economic, social and legal situation of the Union (Lisbon Strategy, Sustainable Development Strategy, Employment scoreboard). The Secretariat of the Commission issues an *Annual report on monitoring the application of Community law*[16] *and keeps an update on the transposition of European Directives into national law. N*ext to these yearly transversal programming and monitoring documents, each Directorate-General produces a wide array of reports which can deal with more general policy issues or more detailed and technical aspects. As an example, the Environment DG produces annual *Environment Policy Reviews* (EPR) highlighting the main developments in environmental policy at EU and Member State level over the past year, which provide input to the Spring European Council and help to monitor progress towards the EU's key environmental goals, as set out in the 6th Environmental Action Programme. Next to this, the same DG produces a wide array of more thematic or detailed monitoring documents, such as the Annual Report on Monitoring the Average Specific Emissions of Carbon Dioxide from New Passenger Cars.

Third, the European Commission plays several important functions in decision-making which have important repercussions on its monitoring function. The Commission has the monopoly of initiating legislation by submitting proposals to the Council and the European Parliament. In this context, the Commission produces discussion papers or *Green Papers* gathering the opinions of various stakeholders on a specific policy development in preparation, and *White Papers*, containing concrete official proposals for Community action in that specific area. Quite often, both green

13 http://europa.eu/generalreport/en/2005/index.htm.

14 http://ec.europa.eu/atwork/programmes/docs/forward_programming.pdf.

15 http://ec.europa.eu/atwork/programmes/docs/execution_report.pdf.

16 http://ec.europa.eu/community_law/eulaw/pdf/XXII_rapport_annuel/22_rapport_annuel_en.htm.

papers and white papers play a monitoring role as they take stock of the current situation in a policy field and bring forward proposals for future developments. Using its decision-making powers regarding competition policy, the Commission acts as Guardian of the Treaties ensuring acts are adopted properly, and may instigate legal proceedings against member states and failing enterprises comply legislation, bringing them in front of the Court of Justice.

Finally, the Commission has implementing powers under the conditions set by Member States (the comitology procedure), being in charge of monitoring how the legislation is implemented once it has been adopted by the EU Council of Ministers. Also, next to preparing the draft budget of the EU, it manages the adopted budget for the monitoring of projects and funds[17] and performs the internal audit of the Community funds through its Internal Audit Service (IAS) and the European Anti-Fraud Office (OLAF).

The European Parliament plays an important role in the Community pillar, acting as co-legislator with the Council of Ministers, and scrutinising the European Commission's activities. Next to that, its budgetary powers which have gradually grown since the 1970s, give the Parliament an important monitoring role over the development of EU policies through the final voice over EC non-compulsory expenditure and the power to reject the budget. But even in the first pillar, the power of the Parliament to monitor policy developments varies, its voice being best heard in the co-decision procedure which covers now 43 policy areas following the entry into force of the Treaty of Nice. Next to the legislative work based on Parliamentary reports drawn in Committees specialized in the various EC policies, the EP monitoring powers include its power of censuring the Commission as a college, the questions addressed to the Council and the Commission, and the reception of reports from other institutions such as the Commission, the ECA, and the ECB.

The Council of Ministers, acting as main EU decision-making body and as co-legislator together with the European Parliament, represents the voice of the national governments. Closely associated with the activities of the Council of Ministers is the European Council, made of the Heads of State and Government of the Member States and the President of the European Commission, which despite of not being a European institution plays a key role in issuing strategic orientations for the Union activities. Both the Council of Ministers, and the European Council perform an important role in the monitoring of EU integration developments in the Community pillar.

First, at the level of the meetings of the European Council, the Heads of States and Government discuss four times a year (March, June, October/November and December) the general political guidelines for the development of the EU based on reports and documents produced by the other institutions. The Spring European Council plays a special role in the Community pillar through the monitoring and review of the Lisbon strategy and the review of the EU Sustainable Development Strategy. According to art. 4 of the Treaty on European Union, the European Council

17 Art. 205 of the EC Treaty.

submits to the European Parliament a yearly written *Report on the Progress Achieved by the Union.*[18]

Second, the national governments monitor developments of EU policies through each of the nine different configurations of the Council of Ministers meeting with variable intensity over the year. The General Affairs Council, composed of the Foreign Ministers of Member States and meeting once a month, plays a transversal role in the discussion and monitoring of dossiers that affect more than one of the Union's policies, such as negotiations on EU enlargement, preparation of the Union's multi–annual budgetary perspective or institutional and administrative issues. Similarly, the Economic and Financial Affairs Council composed of the Economics and Finance Ministers of the Member States has, next to economic policy coordination, a function of economic surveillance and monitoring of Member States' budgetary policy and public finances. At a more detailed level, the COREPER and the 250 technical working groups preparing the Council's work play an important role in the follow-up of integration developments.

The European Union Court of Justice monitors the uniform interpretation of Community law and the way in which Community institutions act according to the Treaties. The Court of Justice issues an annual report comprising the list of proceedings and statistical data on the yearly developments in European law.

Although operational since 1977, the European Court of Auditors was acknowledged as a fully-fledged institution only in 1993, following the entry into force of the Treaty of Maastricht. Composed of one national from each Member State, chosen from among persons who belong or have belonged in their respective countries to external audit bodies or who are especially qualified for this office, the ECA's main task consists[19] of performing the external auditing of the accounts and the implementation of the budget of the EU with the dual aim of improving financial management and reporting to the citizens of Europe on the use made of public funds by the authorities responsible for their management.

In the financial and monetary fields, the European Central Bank (ECB) monitors the activities of the European System of Central Banks (ESCB) through the production of a yearly report, while the European Investment Bank (EIB) through its Operation Evaluation Department performs thematic, sector and regional/country ex-post evaluations of projects financed by the Bank once they have been completed. Two other EU bodies – the Committee of the Regions (CoR) and the European Economic and Social Council (EESC) – play a less important role in decision-making due to their consultative status. The CoR is nevertheless involved in the monitoring of the subsidiarity through the setting up in 2005 of a subsidiarity monitoring network as a tool for exchanging information between European territorial (sub-state level) actors on policy documents and proposals of the European Commission which - when adopted – will have an impact on local and regional authorities and the policies for which they are responsible. The EESC is performing, through its 170 advisory documents and opinions issued every year, an indirect monitoring of European policies by economic and social interest groups in its field of competence.

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18 http://www.consilium.europa.eu/uedocs/cms_data/docs/2004/12/2/2003.pdf.

19 Art. 246 to 248 of the EC Treaty.

Next to the main institutions, an important role in the first pillar is played by the EU Community Agencies, bodies set up by an act of secondary legislation in order to accomplish a specific technical, scientific or managerial task which is specified by EU Law. There are currently 16 EU Community Agencies[15] with different functions. Some of these agencies are playing an important role in the monitoring of developments in a specific, well defined, policy field as it is the case for the European Monitoring Centre for Drugs and Drug Addiction, the European Monitoring Centre on Racism and Xenophobia, the European Environment Agency, the Community Plant Variety Office, the European Foundation for the Improvement of Living and Working Conditions, the European Food Safety Authority. Other agencies have functions in training (European Training Foundation, European Centre for the Development of Vocational Training) or the production of regional standards for harmonization (the Office for Harmonization in the Internal Market) and safety regulations (European Maritime Safety Agency; European Aviation Safety Agency; European Network and Information Security Agency; European Centre for Disease Prevention and Control; European Railway Agency). But even the agencies without an openly stated monitoring function play a role close to monitoring through the production of regular reports used by the Commission as policy input for future actions.

Decision-making in the two intergovernmental pillars created by the Treaty of Maastricht – CFSP and JHA– is dominated by the role of the Council of Ministers. In these two pillars the European Commission and the European Parliament have little authority.

CFSP pillar In the second pillar, the governments of the Member State, the Council of Ministers and the European Council have the leading role in the control of CFSP. The European Council defines the principles and general guidelines for the common foreign and security policy and adopts common strategies specifying policy guidelines, objectives and resources for activities with individual countries or regions. The Council of Ministers adopts joint actions and common positions. Its External Relations configuration, meeting every month, plays a leading role in the transversal monitoring and coordination of the whole of the EU external policies, dealing, next to common foreign and security policy and the European security and defence policy, with the follow-up of policies with external impact from the first pillar: foreign trade and development cooperation. The Secretary-General of the Council, who plays at the same time the role of High Representative (HR) for CFSP helps the Council with the follow-up of decisions and policy implementation. Within the Council secretariat, a Policy Planning and Early Warning Unit is specifically in charge of monitoring, analysis and assessment of international developments and events, including early warning on potential crises, and drafting policy recommendation to the Council. CFSP decision-making is supported by a Political and Security Committee composed of senior national representatives meeting twice a week in Brussels, in charge of the drafting of opinions and of the political control and strategic direction of EU crisis-management operations, as well as by a Military Committee composed of Chiefs of Defence.

The Commission does not play a monitoring role in this pillar where it shares its right of initiative with the Council and is involved in the implementation of the CFSP budget (under the EC budget). It has nevertheless an important monitoring role of EU's external policies related to the first pillar of which it has responsibility for trade, humanitarian aid, development assistance, rehabilitation and reconstruction. The European Parliament plays a limited role in CFSP decision-making being only consulted on the choices in this area, but it has a certain monitoring role through its power to give assent to association and adhesion treaties, and to receive reports on foreign policy from the Council. Two agencies play an important role in the CFSP monitoring. The European Defence Agency (EDA) monitors the development of EU defence capabilities, in the light of the 2010 Headline Goal, and gathers data on R&T cooperation setting priorities and developing a roadmap for R&T ad hoc projects. The EU Institute for Security Studies performs research and debate on the major security and defence issues that are of relevance to the EU providing forward-looking analysis for the Union's Council and High Representative.

JHA pillar In the Justice and Home Affairs pillar, the situation is slightly different from CFSP. Following the Treaty of Amsterdam which has 'communautarized' a broad number of policies, shifting them to the first pillar (illegal immigration, visas, asylum, and judicial co-operation in civilian matters), this pillar deals at present with Police and Judicial Co-operation in Criminal Matters. Despite the dominance of the European Council and the Council of Ministers over decision-making, the Commission has earned an important role in monitoring policy developments.

The October 1999 Tampere European Council adopted a five-year programme aiming to create an Area of Freedom, Security and Justice encompassing activities from the first and third pillar in this areas putting the European Commission in charge of monitoring its implementation through a scoreboard to review progress every six months. Following the European Commission evaluation of the achievements of this programme, the Council adopted in 2004 a new programme for the years 2005-2010, also called the 'Hague Programme'. The Commission is in charge of monitoring the implementation of this new programme on an annual basis by using a new scoreboard[20] which, next to following the institutional decision-making process at EU level – as in the case of the Tampere scoreboard – also assesses how measures adopted at EU level are put in place by Member States and draws conclusions in this field. The two lead agencies dealing with JHA co-operation – the European Police Office (Europol), and the Eurojust – deal with monitoring in a more indirect way being mainly involved in enhancing cooperation in specific fields (i.e. combating organized crime and trafficking).

20 http://ec.europa.eu/justice_home/doc_centre/scoreboard_en.htm.

Internal Monitoring

Commission Instruments

EUROSTAT Quantitative monitoring requires the availability of statistical data, preferably consolidated at the regional level using uniform methodologies across the member states. The provision of such data for the EU is the task of EUROSTAT (DG Economic and Financial Affairs).[21] Its creation was thus a logical first step in the process of developing (internal) monitoring capacities. Although the formal launching of EUROSTAT, under this name, took place in 1959, its history goes back to the creation of the Statistical Division of the European Coal and Steel Community in 1953.[22]

Important milestones in the history of EUROSTAT include:

- the publication of the European System of Integrated Economic Accounts (ESA) and adoption of the general industrial classification of economic activities (NACE) in 1970;
- the extension of its role following the agreement on establishment of the European Economic Area and adoption of the Maastricht Treaty in 1991, leading to the establishment of Intrastat for the production of statistics on intra-EU trade within the context of the Single Market;
- the organization of the first European household panel in 1994, analysing income, employment, poverty, social exclusion, households and health; and
- the first issue of specific indicators for the EMU area in 1998.

EUROSTAT functions under the authority of the Commissioner for Economic and Monetary Affairs (DG ECFIN).

However, the prime function of EUROSTAT is not to monitor the European integration process. Its main tasks lay in the harmonization of statistical practices of the national statistical authorities and the consolidation and publication (in different formats) of various statistics for the EU as a whole. Most of the statistics that are published are country statistics. They are organized in the following thematic areas:

- general and regional statistics,[23]
- economy and finance,
- population and social conditions,
- industry, trade and services,
- agriculture and fisheries,
- external trade,
- transport,
- environment and energy,
- science and technology.

21 See EUROSTAT homepage at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,1&_dad=portal&_schema=PORTAL.

22 For a recent overview of EUROSTAT's history, see De Michelis and Chantraine (2003).

23 In the EUROSTAT terminology, 'regional' refers to sub-national regions.

In addition, harmonized government finance statistics are produced. Thus, only indirectly these indicators inform us about the integration process *sensu stricto*. Normally, EUROSTAT does not calculate, for example, convergence or dispersion indicators on the basis of the country statistics. It provides the user with comparable and transparent data, which is obviously already a major achievement.

Quality assessments of the produced data are available, following the principles of the European Statistics Code of Practice of the European Statistical System (ESS).[24] For the Euro-indicators and Structural indicators (see below), for example, quality profiles are available. These quality profiles are user-oriented summaries of the main quality features of certain sets of statistics, covering relevance, accuracy, timeliness and punctuality, accessibility and clarity, comparability, coherence, and cost and burden (Eurostat 2003). They are very useful to enhance the transparency of the data and are very useful inputs in the (internal and external) monitoring processes.

Since a few years, EUROSTAT started to bundle sets of indicators that are directly relevant for particular EU strategies or policies. This way, the role of EUROSTAT in the (internal) monitoring of the European integration process has become clearer. Although the country data are usually (still) not used to calculate relevant indicators for the region as a whole (apart from averages and totals), the way of presenting the data and their link to Commission reports and policies indeed constitutes a value added for the policy community and the public in general.

A first set of these indicators are the so-called 'Structural Indicators'. They are published since 2001 to support the Commission's task to provide the Council with an annual monitoring report of progress made in the direction of the goals set forth in the Lisbon strategy.[25] This strategy refers to the strategic goals for the next decade that were decided upon at the Lisbon European Council in March 2000. The EU set a strategic goal of '[…] becoming the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion'.[26] The Annual Progress Report has become a relatively important document, not only towards the European Council, but also allowing the broader public to follow-up the results of the Lisbon strategy.

A shortlist of 14 indicators are included in the Annex to the Annual Progress Report (Table 12.1). They are available for all EU states since 1999 on an annual basis, together with EU averages and country and EU target values.

A second set of indicators consists of the 'Sustainable Development Indicators' (SDI), developed as a follow-up of the EU Sustainable Development Strategy, adopted by the European Council in Gothenburg in June 2001 (and renewed in June 2006), aiming at the reconciliation of economic development, social cohesion and environmental protection. Although EUROSTAT had published sustainable

24 The European Statistical System is refers to the partnership comprising EUROSTAT, national statistical institutes and other national statistical bodies responsible in each Member State for producing and disseminating European statistics (Eurostat 2005a).

25 The 2006 Report has been published as: European Commission (2006b). The 2001 figures were published in a 'Synthesis Report', the 2002-2005 indicators were published in the Spring Reports.

26 See Lisbon Strategy webpage at: http://ec.europa.eu/growthandjobs/index_en.htm.

Table 12.1 Structural Indicators Covered in the Annual Progress Report of the European Commission on the Lisbon Strategy

Categories	Variables		
General Economic Background	GDP per capita in PPS	Labour productivity	
Employment	Employment rate*	Employment rate of older workers*	
Innovation and Research	Youth educational attainment (20-24)*	Gross domestic expenditure on R&D	
Economic Reform	Comparative price levels	Business investment	
Social Cohesion	At risk-of-poverty rate after social transfers*	Long-term unemployment rate*	Dispersion of regional employment rates*
Environment	Greenhouse gas emissions	Energy intensity of the economy	Volume of freight transport relative to GDP

* Indicators disaggregated by gender.
Note: For further information on methodology, see: http://europa.eu.int/comm/eurostat/structuralindicators.
Source: European Commission (2006b: Statistical Annex).

development indicators (based on UN indicators) before, the first report with the European SDI was published in 2005, showing time series starting in 1990 (EUROSTAT, 2005b).[27] Several indicators are organized in ten 'themes': economic development, poverty and social exclusion, ageing society, public health, climate change and energy, production and consumption patterns, management of natural resources, transport, good governance, and global partnership. Seven themes reflect the priority areas of the 2001 Commission Communication (A Sustainable Europe for a Better World) and the 2002 Communication on Global Partnership, while 'good governance' and 'production and consumption patterns' arise from the Plan of Implementation of the World Summit on Sustainable Development. The theme on 'economic development' establishes bridges between the SDI and the Lisbon Process (see before).

From a methodological and practical point of view, an interesting feature of the SDI is related to its design as a hierarchical three-level pyramid. In order to facilitate communication, the three levels of the system match different user needs. The themes are thus subdivided in 'sub-themes' and 'areas to be addressed', respectively (Table 12.2).

27 The SDI database can consulted via: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1090,1&_dad=portal&_schema=PORTAL.

Table 12.2 Three-level Design of the SDI and Targeted Users

Indicator level	Hierarchical framework	Objectives	Users targeted
Level 1	Themes	Headline indicators for initial policy analysis and monitoring progress towards headline policy objectives	High-level policy makers and general public
Level 2	Sub-themes	Evaluation of core policy areas and more detailed monitoring of progress in achieving headline objectives	Policy makers and general public
Level 3	Areas to be addressed (special issues within themes, and various measures implementing headline objectives)	Further policy analysis and better understanding of the trends and complexity of issues associated with the theme or interlinkages with other themes in the framework	More specialised audience (e.g. academic community)

Source: EUROSTAT (2005b).

Of particular relevance for us here, are the good governance indicators (Table 12.3). Contrary to most of the variables considered by EUROSTAT, these variables inform us directly about particular aspects of the functioning of the European institutions and (good) regional governance and will allow to monitor both policy coherence and public participation at the European level through a set of indicators.

Finally, a third set of indicators are the Euro-indicators. These have been designed for a more specialized public and contain monthly and quarterly macroeconomic indicators for the Euro-zone, the EU and individual Member States. Data are organized in eight main themes: balance of payments; business and consumer surveys; consumer prices; external trade; industry, commerce and services; labour market; monetary and financial indicators; and national accounts.[28]

Eurobarometer The Eurobarometer, created in 1970 by Jacques-René Rabier, forms a quite unique resource of cross-temporal as well as cross-national public opinion surveys. Today it is the public opinion analysis sector of DG Press and Communication that is responsible for the Eurobarometer. The surveys were meant to 'reveal Europeans to one another', by conducting standardized surveys in each member country (since 2003, in the light of the fifth EU-Enlargement, also in the

28 Euro-indicators can be consulted at: http://epp.eurostat.ec.europa.eu/portal/page?_pageid=1194,47773485,1194_47782287:1194_47791935&_dad=portal&_schema=PORTAL.

Table 12.3 Good (regional) Governance Indicators Included in the SDI

Level I indicators	**1. Level of citizens' confidence in EU institutions**	
Sub-themes	**Policy Coherence**	**Public Participation**
Level II indicators	1. *Proportion of environmentally harmful subsidies* 2. Number of infringement cases brought in front of the Court of Justice, by policy area 3. *Administrative cost imposed by legislation*	4. Voter turnout in national parliamentary elections 5. *Responses to EC Internet public consultations*
Level III indicators	1. Share of major proposals in the Commission's Legal and Work Programme for which an impact assessment has been undertaken 2. Transposition of Community law, by policy area	3. Voter turnout in EU parliamentary elections, *by gender, by age group and by highest level of education attained* 4. E-government on-line availability 5. E-government usage by individuals
Headline objectives in the EU SD strategy (SDS) Presidency conclusions of European Council (EC) WSSD Plan of Implementation (PoI) 6th Environmental Action Programme (6EAP) Millennium Declaration Goals (MDG)	SDS: Improve policy coherence; all policies must have sustainable development as their core concern. In particular, forthcoming reviews of Common Policies must look at how they can contribute more positively to sustainable development. (revised in Barcelone 2002): Ensure that all major internal and external policy proposals include an impact assessment. SDS: Earlier and more systematic dialogue, in particular with representatives of consumers. The views outside the Union should also be sought. EC Lisbon 2000: Real efforts must be made by public administrations at all levels to exploit new technologies to make information as accessible as possible. EC Gothenburg 2001: The Union must be served by modern, open and citizen-oriented institutions. The new rules on the public's right of access to documents are a major step in making the Union more open.	

Note: Normal text = 'best available' indicator i.e. indicator expected to be available. *Italics* = 'best needed' indicator i.e. needed but facing problems of definition, data availability or data quality.
Source: Based on European Commission (2005a).

acceding countries).[29] These surveys are not conducted by the Eurobarometer staff itself, but by private companies, nowadays by TNS Opinion & Social, a consortium created between Taylor Nelson Sofres and EOS Gallup Europe. For each member country, 1000 inhabitants are interrogated by the commissioned national institutes. Using Eurostat NUTS II, the surveys are covering the total population of a country.[30] The relevant population refers here to those who are older than 15 years with residency in the respective country, with a good command of the spoken national language(s), as the surveys are translated to the different languages of the member countries.

What makes the Eurobarometer particularly interesting for researchers in the social sciences is the fact that changes in attitudes, revealed in what is known today as the 'standard' Eurobarometer surveys, can be traced over a period of more than forty years. Although adjustments have been made to the way the surveys are conducted, many questions of the early reports have been kept until today. These trend questions are frequently used in the standard surveys, although not in every single survey. Table 12.4 shows topics frequently used in the Eurobarometer surveys.

Table 12.4 Overview of Main Topics Covered in the Standard Eurobarometer Surveys

General Topics	EU Topics	Demographics
Cultural and National Identity	European Unification	Respondent
International Relations	European Institutions	Household
Living Conditions	European Single Market	Region
Media, Information, and Language	European Policies	
Political Attitudes		
Political Participation		
Political Parties		
Values and Religion		

Source: Gesis (2006).

Since 1995 these standard reports can be obtained on-line on the DG Communication website, with the earliest report from 1974.

Besides the standard Eurobarometer surveys, different types of opinion polls have been developed: the special Eurobarometer, the candidate countries Eurobarometer and the flash Eurobarometer. These are not managed by DG Press

29 Sometimes, surveys are also collected in candidate countries, for instance in the special Eurobarometers.

30 NUTS stands for the EUROSTAT Nomenclature of Statistical Territorial Units (Nomenclature des Unités Territoriales Statistiques). NUTS II refers to territorial units with a size between 800.000 and 3 million inhabitants. These include: provinces (in The Netherlands and Belgium), *oblasti* (Czech Republic and Slovakia), regions (France, Italy, Ireland), counties (UK), etc.

and Communication alone, but can be requested by other DG's and institutions. The special Eurobarometer explores attitudes and opinions of European citizens towards single topics. Recent examples are the Avian influenza, attitudes towards EU enlargement and the future of Europe. The Flash Eurobarometer is based on a smaller scale, and focussed on specific topics and audiences.

A study undertaken by Irenius (2005) shows that since its creation in 1974, the (standard) Eurobarometer reports mainly focus on the view-points and preferences of European citizens, almost neglecting the collection of factual data. While statistical data collection is certainly the realm of EUROSTAT, the Eurobarometer has not taken the chance to provide data of how the citizens perceive their personal situation.[31] This can be compared with the questions dealing with the perception of other European citizens ('Trust in people from other Countries', EB 6, 14, 16, 25), which have been discontinued after EB 25. A content analysis of Standard Eurobarometer surveys shows that since the early 1990s the surveys serve as a tool to reveal the awareness of European citizens of certain topics and institutions, thus rather serving information policies of the EU institutions than the decision-making process (Irenius 2005).

Internal Market Scoreboard The Single Market Scoreboard, as it was first published in November 1997, was the result of the Action Plan for the Single Market, endorsed by the European Council of Amsterdam of 17 June 1997. The Council underlined 'the crucial importance of timely and correct transposition of all agreed legislation into national law; the need to fully inform citizens and business about the Single Market and the need for active enforcement of Single Market rules in the Member States' (European Commission 1997: 1). This initiative reflects a problem that is often seen as the Achilles heel of many regional integration projects: the correct and timely implementation at the national level of the decisions taken at the regional level.

In order to address this issue and to pressure member states to implement their commitments, DG Internal Market and Services developed quantitative and qualitative methodologies to assess (i) the transposition of Internal Market directives into national law, and (ii) the number of infringement proceedings initiated by the Commission against the member States. The Internal Market Scoreboard (IMS) is published twice a year.[32]

As far as transposition of Internal Market legislation into national law is concerned, transposition deficits are calculated for the different member States and the EU as a whole. The transposition deficit is calculated as the percentage of Internal market directives not yet communicated as having been transposed, in relation to the total number of Internal Market directives which should have been transposed

31 With the exception of the year 1975, where questions regarding the 'personal problems' were included in the survey.

32 The Internal Market Scoreboard can be downloaded from: http://ec.europa.eu/internal_market/score/index_en.htm.

Table 12.5 Main Findings of Internal Market Scoreboard No. 15

EU-25 Member State transposition deficit, as at 1/6/2006 – 1620 directives																									
Member State	DK	CY	HU	LT	SI	UK	EE	AT	PL	SK	SE	NL	FI	LV	ES	DE	FR	BE	IE	MT	CZ	PT	EL	IT	LU
Transposition Deficit (%)	0.5	1.0	1.1	1.2	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.7	1.8	1.9	2.0	2.0	2.2	3.0	3.7	3.8	3.8	3.8
Number of Directives	8	17	18	19	20	21	23	23	23	23	23	24	24	25	28	29	31	32	32	35	48	60	62	62	62

EU-15 Member State performance in meeting 0% target for Directives whose transposition is over 2 years late, as at 1/6/2006															
Member State	DK	NL	AT	PT	FI	UK	ES	BE	IE	IT	SE	EL	DE	FR	LU
Number of Directives	0	0	0	0	0	0	1	2	2	2	2	3	6	6	8

Infringement cases against EU-15 Member States, as at 1 May 2006															
Member State	DK	FI	LU	SE	NL	IE	BE	AT	PT	UK	EL	DE	FR	ES	IT
Number of open infringement cases	29	40	41	46	47	52	59	60	61	61	98	99	107	114	166

Infringement cases against EU-10 Member States, as at 1 May 2006										
Member State	SI	EE	LT	SK	CZ	MT	LV	HU	CY	PL
Number of open infringement cases	1	4	4	5	7	7	8	11	16	20

Source: European Commission (2006a).

by the deadline.[33] According to the latest available IMS, for example, the average transposition deficit of the EU is 1,9 per cent which is 0.3 percentage points up from the historically low 1.6 per cent of November 2005 (European Commission 2006a). This is also above the 1.5 per cent interim ceiling as confirmed at the European Council of Brussels on 25-26 March 2004 (Table 12.5 and Figure 12.2). In addition to the transposition deficits, other indicators are published: changes in backlogs of directives not communicated, fragmentation factor,[34] long overdue directives.

As far as infringements proceedings are concerned, absolute figures and changes of the number of infringement proceedings initiated by the European Commission against member States are reported (Table 12.5).

Especially the regularly published transposition deficits have become often cited figures in national parliaments and the mass media. The IMS is effectively contributing to pressuring member states to implement timely and correctly the regionally decided rules.

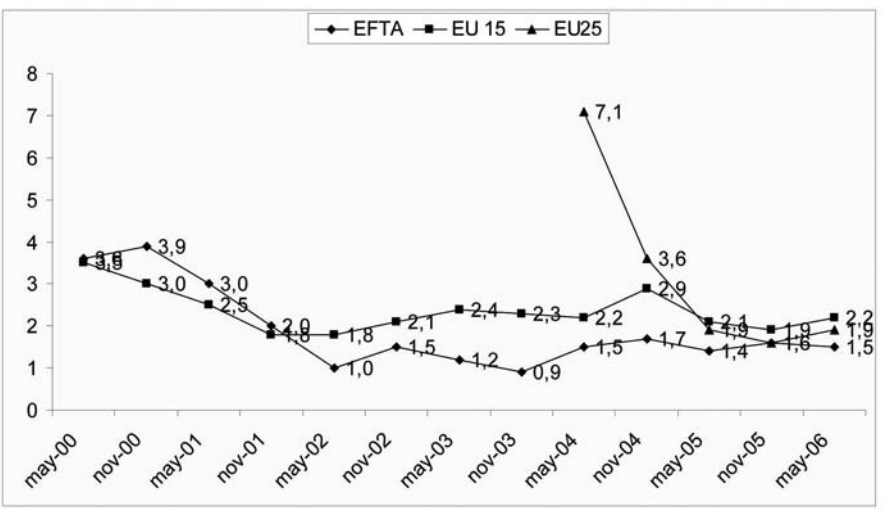


Figure 12.2 Transposition Deficits of EU-15, EU-25 and EFTA, Situation as per 30 April 2006

Interestingly, the methodology of the IMS has also been adapted to be used by the EFTA member states that signed the EEA Agreement.[35] With the 'Internal Market

33 As of 1 June 2006, 1620 directives and 570 regulations relate to the Internal Market as defined in the EC Treaty (European Commission 2006a).

34 The 'fragmentation factor' shows the percentage of the overall outstanding directives that have not been implemented in at least one Member State (European Commission 2006a).

35 EFTA member states include Liechtenstein, Norway, Iceland and Switserland (see: www.efta.org). The Agreement on the European Economic Area was signed between the EU member states, on the one hand, and the EFTA members Liechtenstein, Iceland and Norway, on the other, on 17 March 1993.

Scoreboard – EFTA States' (IMS-EFTA) the EFTA Surveillance Authority aims at measuring the effectiveness of the Internal Market rules that are part of the EEA Agreement and encouraging the transposition of the Internal Market directives in a timely manner. In addition, the IMS-EFTA contains information on the infringement proceedings commenced by the EFTA Surveillance Authority against the EFTA States with the objective to ensure correct enforcement of the rules. The IMS-EFTA, together with the *Interim Report on Transposition Status of Directives,* has been published since May 1998 and is normally published twice a year.[36]

Monitoring and the Commission's 'good governance' agenda The monitoring of European integration is not performed exclusively by the institutions themselves. More and more, in recent years, there was an increasing demand on the non-state actor's side to be involved in EU decision-making and indirectly in the scrutiny of EU policies. Next to concerns regarding the growing democratic deficit, which required a greater involvement of citizens in European policy-making, the European agenda has included a growing debate on the concept of 'governance'. Following a broad public consultation, the European Commission adopted, in July 2001, a *White Paper on European Governance* which developed its own concept of 'European governance' referring to the rules, processes and behaviour that affect the way in which powers are exercised at European level, particularly as regards openness, participation, accountability, effectiveness and coherence (European Commission 2001). These five 'principles of good governance' reinforce those of subsidiarity and proportionality.

The White Paper has set out key proposals for changes in four broad, action areas: 'better involvement', 'better policies, regulation and delivery', 'the EU's contribution to global governance' and 'refocused policies and institutions'. The Commission emphasized that 'there is a need for a wider choice and more flexible policy tools within, and in addition to, traditional legislation. The instruments available to the Community should be more conducive to better implementation. A better policy and regulatory framework thus establishes the conditions under which legislative, as well as alternative approaches such as co-regulation or the open method of coordination can be most appropriately and most effectively used. The choice of instruments should also build on a stronger factual base with ex-ante impact assessments incorporating the evaluation of economic, environmental and social consequences, a structured approach to the collection and use of expertise, as well as consultation of the public and stakeholders, all subject to transparency to allow public scrutiny' (European Commission 2003: 8).[37]

With the new initiatives following the White Paper, 'bridges' are being built between internal and external monitoring in the EU, although steered from the (regional) center.

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36 Full texts of the issues of IMS-EFTA can be consulted at: www.eftasurv.int.

37 The currently applicable set of guidelines for impact assessments at the European Commission has been published in 2005 (European Commission 2005b). In 2006, a Green Paper on transparency was published (European Commission 2006).

Role of the European Parliament

Despite the fact that it has been directly elected since 1979, and aims to represent the voice of the European peoples, the European Parliament (EP) does not have the same functions and powers as the national Parliaments which are in charge of monitoring the national government activities. This is due to the complex design of the European institutional-setting, where the EP acts as a co-legislator with the Council of Ministers and where the Commission has some governmental characteristics but could not be considered entirely as a European government.

From a formal point of view, the EP possesses according to the Treaties, several monitoring functions. First, as required by Article 212 of the EC Treaty and Article 125 of the EAEC Treaty, the Commission presents to the European Parliament each year, in February, the *General Report on the Activities of the European Union* which reviews the main activities and integration developments in the previous year. Second, the Parliament plays a monitoring role with regards to the European Commission's activities, having not only the power of approving or rejecting the candidate-President and the College as a whole, but also the power of voting a motion of censure which can force the College of Commissioners as a whole to resign.[38] Third, the Parliament can scrutinize both Council and Commission through presenting them with written and oral questions with or without debate[39] and questions for Question Time, to which the Commission and Council are required to reply. Fourth, the Parliament has the power to set up a temporary committee of inquiry to investigate alleged contraventions or maladministration in the implementation of Community law, and also receives, thorough its Petitions Committee, citizen requests to remedy problems in areas within the sphere of activity of the European Union.

Last but not least, due to its gradual accumulation of powers in the budgetary field, the EP plays a major role in the monitoring of the EU finances. The Parliament is one of the two arms of the budgetary authority, together with the Council of Ministers, having the last word on non-compulsory expenditure,[40] and the power to propose modifications to compulsory expenditure. It adopts the final budget and monitors its implementation,[41] having the power to give or refuse discharge to the European Commission on the implementation of the budget. In performing this monitoring, the EP receives the European Court of Auditors Annual Report, as well as the Annual Report on the Implementation of the Budget which is forwarded by the Commission together with a financial statement of the assets and liabilities of the Community. Additionally, the President of the ECB presents its annual report to the EP in plenary session, describing the activities of the European System of Central Banks (ESCB) and reports on the monetary policy of the past year.[42]

From a technical point of view, the Parliament monitors the different fields of European integration through its 20 Standing Committees which draw up, amend

38 Rule 100 par. 7, European Parliament Rules of Procedure.

39 Article 197 EC Treaty.

40 Art. 272 of the EC Treaty.

41 Art. 272, 275 and 276 of the EC Treaty.

42 http://www.ecb.int/pub/annual/html/index.en.html.

and adopt legislative proposals and own-initiative reports. The Committees' expertise covers all EU policies fields, and the European Parliament takes part in the drafting of Community legislation to varying degrees, according to the decision-making procedure involved (consultation, cooperation, co-decision, or assent). Next to them, the Parliament can also set up sub-committees and temporary committees to deal with specific issues. But despite the different competences and procedures followed, in general all legislative proposals and other legislative documents must be considered in committee, and the Council and the Commission are required, to provide information to the EP about their proposals on a monthly basis. Inside the Committees, a monitoring role on specific issues is played by the *rapporteurs*, the different MEPs mandated by the Committee to draft reports containing opinions on legislative proposals. Often, MEPs can also take the initiative of drawing-up own-initiative reports, raising awareness on a specific policy issue.

From a political point of view, the EP has also managed to develop its monitoring influence beyond its initial fields of competence using of its increased weight in the new decision-making procedures and the power to reject the budget. One field in which the Parliament was traditionally not involved but which holds great importance in monitoring the progress of integration, is the adoption of implementation measures for policies. The Commission has implementation powers delegated to it by the Council, which keeps the control of the whole process through several hundreds of committees composed of national civil servants that supervise the Commission's actions in more or less binding ways, depending on their mandate and type. The EP has not been involved in this procedure since its beginning in the 1960s, but, building on its growing power at the end of the 1990s, it has started to carve its place in the comitology procedure by obtaining, first, in 1999, the right to become fully informed on all comitology decisions, and, later on, through the 2006 comitology reform, the right to block any implementing measures for legislation measures adopted under co-decision. This was considered by the EP as an important step towards gaining the right of scrutinizing the daily management of the implementation of European policies, which can often bring forward items with high political relevance for the future development of integration.

Role of the Court of Auditors

The creation of the European Court of Auditors (ECA) in 1975 was based on the acknowledgement that, in parallel with the extension of the European Parliament's budgetary powers and the full financing of the European Union's budget by own resources, the European Community needed a 'financial conscience', a Community-level external audit body. While the European Commission has been endowed since the inception of the EC with an internal audit function, the Court's role, as external auditor, is to assess the financial management of the budget as a whole.

From a formal point of view, according to the EC Treaty (art. 248), the main ECA task is to examine the accounts of all revenue and expenditure of the Community, including the accounts of all bodies set up by the Community 'insofar as the relevant

constituent instrument does not preclude such examination'.[43] The Court of Auditors provides the European Parliament and the Council with a *Statement of Assurance* as to the reliability of the accounts and the legality and regularity of the underlying transactions which is published in the Official Journal of the European Union. This statement can be supplemented by specific assessments for each major area of Community activity. Additionally, the ECA examines whether all EU budgetary revenue has been received and the corresponding expenditure incurred in a lawful and regular manner and whether the financial management has been sound, and it draws up an *Annual Report* after the close of each financial year. It also assists the European Parliament and the Council in exercising their powers of control over the implementation of the budget. The Treaty requires that the ECA be requested to give a formal *opinion* on each proposal to introduce or amend legislation with a financial impact, including the fight against fraud. It may also, at any time, submit *observations*, particularly in the form of special reports on specific questions and deliver opinions at the request of one of the other institutions of the Community. These reports and opinions are published in the Official Journal of the European Union.

From a technical point of view, the Court of Auditors work is divided in several audit groups comprising a number of specialized divisions which cover the different areas of the budget: Agricultural Policies (Group I), Structural and Internal Policies (Group II), External Actions (Group III), Own Resources, Banking Activities, Administrative Expenditure, Community Institutions and Bodies (Group IV), and the CEAD audit group (Coordination, Evaluation, Assurance and Development) responsible for the coordination of the Statement of Assurance, quality assurance and the development of the Court's audit methodology. The subjects of audits vary from the 'recurrent' audit tasks, which the Court has the obligation to perform under the Treaty, and 'selected' audit tasks, where the Court chooses budgetary areas or managements topics of specific interest for detailed audit.

Each audit follows three main stages: the planning (through the multi-annual work programme and annual plan of the Court), the testing (gathering of data through statistics or field inquiry), and the reporting (with the draft report sent to the European institution concerned and, following a bilateral discussion procedure, the production of the final report) (Table 12.6). The procedure ends with the follow-up of the implementation of the Court of Auditors recommendations performed a few years after an audit was produced and communicated to the discharge authority.

The Court carries out its monitoring in accordance with its own audit policies and standards, based on the INTOSAI Auditing Standards and the International Standards on Auditing issued by the International Federation of Accountants. The ECA can perform on-the-spot audits in the European Union institutions, at the premises of the bodies or legal persons that manage funds on behalf of the Union and in the Member and beneficiary States, including all levels of administration through to the final recipient of the EU funds.

From a political point of view, the Court of Auditors acting as the external audit institution of the European Union plays an important role for the accountability of

43 Art. 248 §1 of the EC Treaty.

Table 12.6 Stages in Audit Procedure of European Court of Auditors

Planning Phase	
Strategic guidelines	Sets out the Court's overall audit strategy.
Multi-annual work programme	Survey of the audit field and identification of potential audit topics.
Annual work programme	Selection of topics for audit in the coming year based on the priorities established by the Court.
Preliminary study	Detailed survey of the selected audit topic: evaluation of risks; identification of key issues and possible audit objectives. Includes an assessment of the expected impact of the audit and proposal for whether it should go ahead. Approval by the audit group.
Audit planning memorandum	Detailed audit plan: Who? What? Where? When? How?
Audit programme	Sets out the detailed steps needed to meet the audit objectives.
Execution Phase	
Audit testing	• Collection of sufficient, relevant and reliable audit evidence. • Audit visits to EU institutions, Member and beneficiary State administrations, as well as final recipients of EU funds. • Each audit visit gives rise to a statement of preliminary findings, setting out the facts for confirmation by the auditee. • Drawing together of audit evidence to reach conclusions on the audit objectives.
Reporting Phase	
Draft report	Adoption of draft report ("preliminary observations") by the Court.
Bilateral discussion procedure with Commission (or other EU institution)	Commission (or other EU institution) checks facts presented in the draft report and prepares a reply.
Report	The Court adopts the audit report at its plenary meeting.
Publication	Publication of the audit report, together with the Commission's (or other institution's) reply in all EU languages on the Internet and in the Official Journal of the European Union.

the supranational institutions with regards to the use of public. The Court's work, performed independently of national or European institutions, is nowadays of major importance given the increased number of funds and policies managed from the European level and the growing citizens and media concern with the fight against fraud and mismanagement of EU funds at supranational, national and regional levels. Of major importance, the Court *Annual Report* is the starting point for the annual

discharge procedure, marking the completion of the cycle of accountability over the use of European Union budget approved by the Parliament and Council.

Additionally, the ECA has grown in importance carving its place in relation with the other institutions, especially the European Commission and the Council (Laffan 1999). The Court of Auditors is also playing a monitoring role by assessing the current state of projects implementation in specific policy fields and pointing to the causes of failures. As a recent example, in 2005 the ECA performed an audit aiming to assess the extent to which the Commission's management system – including the design and implementation of the legal framework, administrative procedures and internal control system – was conducive to the economic, efficient and effective implementation of trans-European networks in the area of transport (TEN-T).[44] The court's audit found that the execution of the 14 TEN-T priority projects is currently behind schedule and pointed to several aspects amongst which the fact that the tools used by the Commission are insufficient to allow monitoring to be carried out effectively and efficiently. In its replies, the EC acknowledged most of the observations raised by the court and is currently taking corrective action in fields such as the definition of new TEN-T evaluation guidelines, project reporting procedures, the creation of a TEN-T executive agency, an improved co-ordination of EU transport infrastructure funding within and between the EC services. Overall, the ECA recommendations would also allow lessons to be learned regarding the efficient implementation of TEN-T and the overall effectiveness of the Community funding in this area.

External Monitoring

The Multiplicity and Heterogeneity of External Monitoring

Next to the internal monitoring, the European integration process is characterized by a wide array of monitoring activities and actors, external to the European institutions. These include both governmental and non-governmental actors who are monitoring more or less narrow aspects of the integration process and policies, and who are using more or less sophisticated methods to do this. These external actors can operate on different governance levels (local, sub-national, national, regional/supra-national, pluri-lateral, multilateral/global).

The non-governmental actors involved in monitoring range from academia and think tanks to political movements, civil society groups and business interest groups. The borderline between monitoring and lobbying is often blurred. Part of these interest groups are organized regionally and have built an institutional capacity to influence the European institutions directly.

Based on Greenwood (2003, 2005), a 'guesstimate' of the number of actors would be as follows: >1500 EU civil society interest groups, >170 national groups

44 European Court of Auditors, Information note of the European Court of Auditors on Special Report No 6/2005 on the trans-european network for transport (TEN-T), ECA/06/8, Luxembourg, 20 April 2006.

with Brussels offices, >350 large firms, >140 public affairs consultants, >130 law firms, >170 offices of regions in Brussels, >150 missions from non-EU member states, and a series of informal networks. This gives an approximate idea of the scale and importance of organized monitoring and lobby activities of interest groups.

Governments have also created their own capacity to monitor directly European institutions and policies, charging staff with this task and/or setting up permanent delegations in Brussels. This is not only done by the national governments but also by the sub-national governments (regional, departmental, provincial) and cities.

In addition to these more informal forms of monitoring, national and sub-national parliaments in the member states also formally follow-up European policy and rulemaking through debates (plenary and in commissions) and ratification or transposition procedures. In the next sections, we will have a closer look at these modalities.

The Role of National and Sub-national Parliaments in European Decision-Making

In modern democracies, parliaments are a source of legitimization of the exercise of power. Since the Treaty of Maastricht, but surely since the non-ratification of the European Constitution, the conviction has grown that an increased contribution of National Parliaments in the EU can partially offer a solution to the legitimacy crisis in which the latter apparently finds itself (Follesdal 2004). In the Treaty of Amsterdam and in the European Constitution, but also in daily practice, we notice that the role of the National Parliaments is getting more and more important in the European decision-making process. In these sections, we will first examine the impact of National Parliaments on European decision-making and then look at the (potential) role of sub-national parliaments through a case-study of the Flemish Parliament.

National Parliaments National Parliaments can have an impact on European decision-making, through legislation, the control on European decisions, and/or communication over European policy (Sprungk 2003).

In the framework of legislation, European treaties are formally signed by National Governments but need to be approved by Parliaments. Furthermore, secondary legislation such as the European directives has to be transposed into National law, whereby the Parliaments can fully exercise their legislative competences. The Parliamentary autonomy is obviously *de facto* restricted by the dominance of the executive power vis-à-vis the legislative power (Kiiver 2006).

The control function applies to the Ministers in the EU Council as well as to the European Commission.

National Parliaments can influence European decision-making by exerting pressure on the Ministers who are politically responsible. In plenary meetings, panel commissions, or a specific European commission, the Minister cannot only be tackled on his/her voting behaviour but also on his/her negotiating behaviour. In countries such as Denmark and Finland, there even is a ‘mandate system’, in which the Parliamentary commission for European affairs determines which point of view ‘should’ be followed by the Minister. Anyhow, not only *ex ante* influencing (before or during the decision process) but also *ex post* control is possible. The way in which

this is organized and the degree to which such control effectively functions, differs quite a lot from Parliament to Parliament.

The National Parliaments can address resolutions and recommendations to the European institutions via COSAC. This refers to a European network of commissions for European affairs of National Parliaments and members of the European Parliament that meets every six months since 1989, and which is recognized by the Treaty of Amsterdam (1997).

Another possibility to monitor the European decision-making processes, and more specifically the legislative proposals of the European Commission, is through the so-called 'subsidiarity tests'. The principle of subsidiarity was included in the Treaty of Maastricht (1993) and is potentially a powerful control-instrument for the National Parliaments.[45] Subsidiarity entails that the EU can only act if this results in an added value and if this result cannot be obtained at the level of the Member States. The Treaty of Amsterdam (1997) stipulates in a Protocol that all new European legislative proposals and discussion documents are to be sent via the National Governments to the National Parliaments of the Member States. Two protocols to the Constitutional Treaty went even further and elaborated the subsidiarity control. Since 1 September 2006, documents of the European Commission are directly sent to the National Parliaments. The Parliaments have a period of six weeks in order to control whether the EU-legislative proposal respects the subsidiarity principle. Each Member State has in this early warning system the right to two votes, to be divided over its National Parliaments (taking into account the bi-cameral systems). If 17 votes (1/3 of the total votes) judge that the subsidiarity principle is being violated, the European Commission has to review the legislative proposal and to reply within three months to the remarks of the National Parliaments. However, the Commission is not compelled to change the proposal.[46] In the absence of a ratified Constitutional Treaty, new initiatives can be expected concerning the regulation and organization of the subsidiarity control.[47]

Apart from these formalized channels, a National Parliament can obviously apply a range of informal means to influence the European decision-making process. This may be achieved not only by developing relations with the members of the EP of the same nationality but also by straight lobby work at the level of the European Commission in order to provoke or adjust a particular legislative initiative.

Sub-national Parliaments: Case study on the Flemish Parliament The role that sub-national representative bodies can or cannot play in Europe depends obviously on the particular institutional setting in each member state. The potential role of sub-

45 For a discussion on the development and the legal, political and economic aspects of the subsidiarity principle, see e.g. Bainbridge and Teasdale (1995: 430-32), Weatherill, (1995: 57, 285-89), Sun and Pelkmans (1995), and De Lombaerde et al. (2001).

46 These rules concerning subsidiarity have been taken from the draft European constitution.

47 These initiatives do not have to originate necessarily at the European level. It has been proposed, for example, to horizontally cooperate and to pool the competences with regard to subsidiarity control at the (inter-)national and/or (inter-)sub-national levels (Wouters et al. 2006: 8).

national parliaments can probably best be illustrated through a case study of a member state with a high level of devolution of legislative and administrative competences to the sub-national level, like Belgium. In the Belgian constitutional context, the EU appears to be especially competent for matters belonging to the competences of (sub-national) communities and regions (environment, agriculture and fishery, mobility, media, …). In June 2005, the Flemish Parliament (FP) founded therefore its own European Office. This Office has a threefold task: (1) to offer information and training on European affairs to the members of the FP, (2) to strengthen the control of the FP over the Flemish Government when it is taking decisions at the European level and over the European Commission, (3) to bring Europe closer to the citizen. Let us concentrate on two issues: the control over the Flemish Government and the subsidiarity tests.

Within the Belgian institutional framework the division of competences in the area of Foreign Affairs is based on the principle '*in foro interno, in foro externo*'. The policy level which is competent for a particular policy area within Belgium is also competent to negotiate agreements in that area at the international (European) level. With the signing of the European Constitutional Treaty, Belgium also issued Declaration 49, especially under pressure of the Flemish Government, and which is very important in this context. The Declaration stipulates that all Belgian Parliaments (thus also the FP) act as components of the National Parliamentary system, with respect to the monitoring of the competences exercised by the EU. For that purpose, a Cooperation Agreement was signed on 19 December 2005 between the seven Parliamentary assemblies in Belgium. It was agreed that European legislative proposals were to be sent simultaneously to all Belgian Parliaments, and agreements were reached on the autonomy of each Parliament to execute subsidiarity tests, on the division of the two Belgian subsidiarity votes among the seven Parliaments, and on the procedure to follow when transmitting the Belgian standpoint to the European Commission. This Cooperation Agreement becomes, in principle, operative with the coming into force of the European Constitution, but a few transitory measures are foreseen. This kind of agreement allows sub-national parliaments thus to behave practically as any other national parliament within the EU, with respect to monitoring the European policy-making process.

Between 17 October and 9 December 2005 in the Commission for Environment and Nature, a first subsidiarity test was performed, in collaboration with the Committee of Regions, and supported by capacity building. From 7 October till 17 November 2006, the FP participated in a second subsidiarity test, organized again by the Committee of Regions, in the Commission of Education, Training, Science and Innovation. It is to be mentioned that the FP opts for specialized commissions rather than plenary session or the commission on foreign and European affairs. In addition, in both cases the test was not restricted to subsidiarity but included also considerations of proportionality and political desirability.

The control on Flemish Ministers taking decisions at the European level, is taking place in different ways in the FP. There are obviously the classical control mechanisms, such as interpellations addressed to a Minister in the plenary session or commissions or the organization of an (actual) debate, although it is rather rare that Europe is the subject of these forms of control. The European Office, in collaboration

with the parliamentary commissions, has also set up specific control mechanisms. Flemish Ministers can be asked to inform the members of a parliamentary commission on the decision-making process that takes in the working groups, the COREPER or the Council of Ministers, and on the position that is taken by the Flemish authorities. These de-briefings may be done before (ex ante, on the basis of the agenda), during or after (ex post) the decision-making process. A special role is thereby played by the Flemish Permanent Representation that has direct access to a considerable amount of up-to-date information.

In this context, we shouldn't forget though that the Belgian point of view – defended by a Flemish Minister– is already the result of often quite complex previous negotiations with other regions and with the federal Government. It is therefore easier for the FP to influence the position of the Flemish representatives in these negotiations than to influence the Belgian point of view in its totality.

In order to increase the control of the FP on the European decision-making, the Parliament, the European Office and the other concerned services are confronted with a couple of challenges. Three examples can be given:

First of all, although the FP has quite a lot of opportunities to play a role in the decision-making of the EU, it is still very dependent on the readiness of the Flemish Government and administration in order to release the necessary information and expertise (Baetens and Bursens 2005), although it is foreseen in article 92 of the Special Law of 8 August 1980 compelling the Flemish Government to send all proposals and documents of the European Commission to the FP. Since January 2005, the Flemish Government is sending a six-month report on important European affairs to the FP ('Flemish Finger to the European pulse'). However, this report is not sufficient to rigorously debate European themes in the specialized commissions.

Secondly, partially following the first issue, the Cooperation Agreement (see before) should be implemented and deepened. For that purpose, further practical arrangements are needed. In addition, the philosophy of the agreement needs to find its way through to the composition of the Belgian delegations. Flemish representatives need to be able to participate in meetings organized between the EP and members of the National Parliaments and to meetings between members of the National Parliaments and the Parliament of the Member State that is observing the chairmanship of the EU.

Thirdly, there should be an increased commitment of the members of the FP, although a gradual change in attitudes can be observed. With the creation of the European Office, new information flows, training activities and the elaboration of control mechanisms in the specialized commissions, have been foreseen. These should normally contribute to reaching these goals.

Flemish activism with regard to subsidiarity control at the sub-national level reflects the position of the Conference of the European Regional Legislative Parliaments (CALRE). The final declaration of their 2006 Assembly refers explicitly to subsidiarity and participation, and states that:

> [t]he Presidents are in favour of a rigorous application of the principle of subsidiarity unequivocally established by the treaties in force. The principle of subsidiarity is of basic importance within the democratic process and for the participation of citizens. […] [the

European Union] should regulate only those aspects which cannot be regulated at national, regional or local level. […] It must be possible to efficiently check the compliance with the principle of subsidiarity. Owing its very nature, such check of the subsidiarity principle cannot take place solely at European level. Regional parliamentarians with legislating authority constitute the lowest of the three decision-taking levels (European, national and regional) and hence are particularly favourably placed to oversee the principle of subsidiarity. The Presidents welcome the European Commission's decision to apply as from September 1st, 2006, the procedure to inform National Parliaments directly about all new proposals and consultations, so as to facilitate the taking of a stance with regard to these matters. Account is thus taken in substance of the request made by the Presidents in their Declaration of Catalonia of October 2005. The Presidents expect that Regional Parliaments with legislative powers should be involved in such activities in each member Country so as to be in a position to take a stance on the documents emanating from the Commission in a timely and efficient manner. […] In particular they invite the Commission to take due account of the positions taken by Regional Parliaments with legislative powers. Finally, the Chairmen welcome the experimental work carried out by the Committee of the Regions for its network of consultations on subsidiarity, also involving the Municipalities, Regional Governments and Regional Assemblies without legislative competences. They invite the Commission to take account of the results of these experiments […]' (CALRE 2006).

Conclusion

Our discussion of the role and modalities of monitoring in the European integration process shows a very developed system of monitoring actors and processes, mirroring the complexity of the integration process itself. The system is characterized by different types of actors (state and non-state), acting on different governance levels (supra-national, national, sub-national, local), combining formal and informal types of monitoring. The system in place generates great amounts of policy-relevant information, provides possibilities for checks and balances, and helps to (politically) equilibrate the whole integration scheme.

The chapter paid particular attention to the internal monitoring instruments created at the regional level. Internal monitoring spans the three integration 'pillars' (community pillar, CFSP, JHA) and involves several actors: the European Commission, the European Council, the Council of Ministers, the European Parliament, the European Court of Justice, the European Court of Auditors and other agencies.

From a technical point of view, in addition to classical reporting methods, statistical data gathering and financial auditing, innovative monitoring instruments have been developed that can certainly be inspiring for other regions in the world. These include: the Internal Market Scoreboard, the Eurobarometer, and EUROSTAT's policy indicators.

From a political and governance point of view, the wide array of instruments that has been put in place in the EU is the result of a dynamic interaction between the supply and demand for monitoring at the European level. On the supply side we find bureaucrats in the European institutions (e.g. in the European Commission) seeking to legitimize their activities, European politicians (in the EP) seeking exposure to their

electorate, technical monitoring capacities (in EUROSTAT) seeking applications, etc. On the demand side we find national and sub-national authorities exposed to their own electorates, organized citizens at different governance levels seeking accountability from the European institutions, etc.

The considerable amount of external monitoring, both by state and non-state actors, illustrates further the important degree of social participation in the European integration process, in spite of the widely shared view on the democratic deficit of the European institutions. 'Subsidiarity tests' appear here as innovative monitoring instruments that might well find replication in other parts of the world in similar or different multi-level governance contexts.

Finally, monitoring in the EU is gradually becoming a reflexive (two-way) process: national states give mandates to regional institutions and therefore the national (and even sub-national) level monitors what happens at the (supra-national) regional level. But at the same time, since the implementation of several regional policies is de-centralized and depends on the national implementation of community rules, the regional level also monitors the national level (e.g. Internal Market Scoreboard). In addition, in recent years, specific instruments have been proposed to bridge internal and external monitoring.

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Chapter 13

Seasoned Monitoring: The Case of North America

Kati Suominen

Introduction

Many developing countries that are members to a regional integration scheme are today negotiating bilateral free trade agreements (FTAs) with external partners. Some of these agreements, such as the US-Central American-Dominican Republic FTA (DR-CAFTA) and the Association of Southeast Asian Nations plus Three process (ASEAN+3, involving China, Korea, and Japan), are formed between an entire integration grouping and a third country. However, many of the new bilaterals are formed between a single member of a regional grouping and the third country. Some examples include Colombia and Peru, members of the Andean Community, and Oman and Bahrain, members of the Gulf Cooperation Council, each of which has recently concluded bilateral FTA negotiations with the US; Thailand and Singapore, both members of ASEAN, that have to date concluded negotiations on four and eleven bilateral free trade agreements, respectively; and India, member of the South Asian Free Trade Agreement (SAFTA) and Bangkok Agreement, that has recently pursued a number of bilateral agreements in Asia, and is considering agreements with the European Union (EU) and European Free Trade Association (EFTA). Still other countries that do not belong in any regional integration group, such as Panama, China, and Japan, have also recently pursued numerous bilateral FTAs both with regional neighbors and more distant partners.

Monitoring of bilateral FTAs and, in particular, what could be called 'monitoring cascades' – monitoring of multiple bilateral FTAs simultaneously – presents challenges that are distinct from those of monitoring intra-regional integration process. Further demands can be posed by differences between the various FTAs' stage of implementation: while some agreements may be nearing the end of the implementation period, others are only starting to enter into effect. The monitoring processes and national agencies and actors involved in the monitoring process are likely to be distinct in the two cases. Moreover, as the chapter on Central America in this volume illustrates, still further issues arise for countries that participate in a regional integration scheme as well as external agreements. One immediate question for them is how to delineate and reconcile the respective roles of regional and national monitoring entities when monitoring the extra-regional agreements.

The purpose of this chapter is to extract lessons for meeting some of these challenges from two seasoned monitorers, Mexico and the United States (US), on

Table 13.1 Mexican FTAs and Their Monitoring Mechanisms

Mexico's FTAs	Signed	Entry into Force	Administrative Levels			
			I	II	III	IV
North American Free Trade Agreement (NAFTA)	1993	1994	Free Trade Commission	Secretariat	Committees and Sub-Committess	
Mexico-Costa Rica	1994	1995	Administrative Commission	Secretariat	Committees and Sub-Committess	
Mexico-Colombia-Venezuela (G3)	1994	1995	Administrative Commission	Secretariat	Committees and Sub-Committess	
Mexico-Bolivia	1994	1995	Administrative Commission	Secretariat	Committees and Sub-Committess	
Mexico-Nicaragua	1997	1998	Administrative Commission	Secretariat	Committees and Sub-Committess	
Mexico-Chile	1998	1999	Free Trade Commission	Secretariat	Committees and Sub-Committess	
Northern Triangle (with El Salvador, Guatemala, and Honduras)	2000	2000	Administrative Commission	Administrative Sub-Commission	Secretariat	Committees and Sub-Committess
Mexico-European Union	2000	2000	Joint Council	Joint Committee	Committees and Sub-Committess	
Mexico-Israel	2000	2000	Free Trade Commission		Committees and Sub-Committess	
Mexico-European Free Trade Association (EFTA)	2000	2001	Joint Council	Joint Committee	Committees and Sub-Committess	
Mexico-Uruguay	2004	2004	Administrative Commission	Secretariat	Committees and Sub-Committess	
Mexico-Japan	2004	2005	Joint Committee	Sub-Committees		

Table 13.2 US FTAs

FTA	Signed	Entry into Force	Administrative Levels			
			I	II	III	IV
North American Free Trade Agreement (NAFTA)	1993	1994	Free Trade Commission	Secretariat	Committees and Sub-Committess	
US-Jordan	2000	2001	Joint Committee			
US-Israel	1985	1985	Joint Committee	Working committees		
US-Bahrain	2004	2006	Joint Committee	Selected Committees	Ad hoc and standing committees, working groups, or other bodies	
US-Australia	2004	2005	Joint Committee	Selected Committees	Ad hoc and standing committees, working groups, or other bodies	
US-Morocco	2004	NA	Joint Committee	Selected Committees	Ad hoc and standing committees, working groups, or other bodies	
US-Oman	2006	NA	Joint Committee	Selected Committees	Ad hoc and standing committees, working groups, or other bodies	
US-Singapore	2003	2004	Joint Committee	Selected Committees	Ad hoc and standing committees, working groups, or other bodies	
US-Chile	2003	2004	Free Trade Commission	Committees	Working Groups	
US-Peru	NA	NA	Free Trade Commission	Free Trade Agreement Coordinators	Committees	Working Groups
US-Colombia	NA	NA	Free Trade Commission	Free Trade Agreement Coordinators	Committees	Working Groups
US-Central America-DR	2004	2005	Free Trade Commission	Free Trade Agreement Coordinators	Committees	Working Groups

the process and challenges of monitoring multiple and differently sequenced trade agreements. The two countries opened their respective FTA sprees in North America – the US with Canada in 1989, and Mexico with the North American Free Trade Agreement (NAFTA) with the US and Canada in 1994. Both have since reached further agreements with Western Hemisphere and extra-regional partners alike. With 13 FTAs in effect today, Mexico has become one of the most prolific integrators in the world (Table 13.1) Mexico. It has forged agreements with most Latin American countries, as well as some of the world's largest economies, EU and Japan. The economic rationales for the agreements are clear: more than 90 percent of Mexico's trade is carried out with its FTA partners. For its part, the US has negotiated 12 agreements in the post-NAFTA era, of which 8 have entered into effect, and is in the process of negotiating 11 new ones (Table 13.2).

Given their experience of monitoring several and differently staged FTAs simultaneously, the US and Mexico can provide valuable lessons to countries that are only starting to set up monitoring systems and/or are entering manifold trade agreements. Both cases can also be instructive to countries with a federal system of government, which can quickly add complexity to the monitoring agenda given the potential involvement by the various state governments in the agreement implementation process. Furthermore, currently deepening and widening their bilateral integration in the context of NAFTA, Mexico and the US also offer lessons to monitorers of maturing and evolving trade agreements. Indeed, while trade in the NAFTA zone will be fully liberalized by 2008, in March 2005 the three partner countries launched the Security and Prosperity Partnership of North America (SPP), an extensive undertaking aimed at a wide range of areas of trilateral cooperation from energy to migration, port security, and trade facilitation – all of which require negotiation, technical work, and, indeed, monitoring.

The following section elaborates on the different models of monitoring spawned by the monitoring mandates of NAFTA and various subsequent Mexican and US FTAs. The third section discusses the structure and functions of Mexico's monitoring system, and assesses its outcomes, and the fourth section turns to the case of the US. The final section draws general lessons from monitoring in Mexico and the US.

'Monitoring' refers here to the *processes* carried out by national public and private sector institutions – rules, roles, and actual physical organizations – to ensure that the contractual obligations assumed in trade agreements will be implemented. As such, monitoring here primarily means the administration of the implementation of trade agreements. Monitoring takes place in the 'monitoring system', which here refers to the national public and private sector institutions that are involved and/or employed in monitoring.

Monitoring Mandates

For both Mexico and the US, NAFTA was an early and demanding introduction to monitoring. For its era rather unique in connecting two of the world's most developed countries with a reforming developing economy, NAFTA became arguably the most

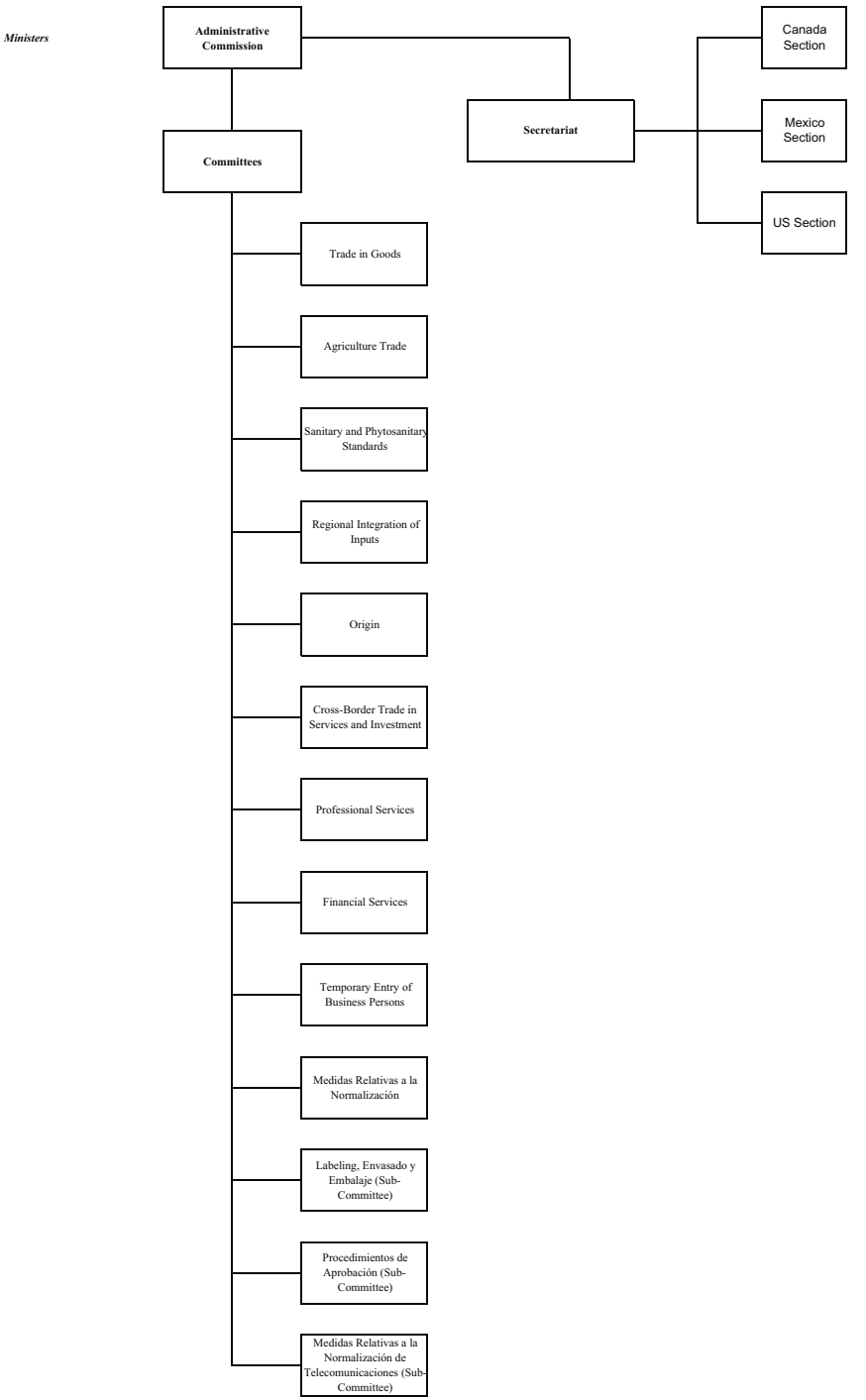


Figure 13.1 Monitoring System in NAFTA

complex and detailed trade agreement ever negotiated. Accordingly, it put in place extensive and binding trilateral mechanisms and processes for its implementation.

NAFTA also became a harbinger, inspiring the monitoring instruments in the FTAs signed by each of the North American countries. Indeed, the various agreements negotiated by Mexican and US FTAs contain well-defined and relatively similar monitoring systems (Tables 13.1 and 13.2). These monitoring blueprints have permeated various agreements signed by Central American countries, as well.

Mexican and US FTAs have four main monitoring models. The first model is based on NAFTA (Figure 13.1). The highest monitoring instance per NAFTA is the Free Trade Commission composed of the US Trade Representative and the Mexican and Canadian ministers responsible for trade. The Commission meets at least once a year; its agenda defines and drives the work plans of the lower administrative levels. Its main functions are to supervise the work of all committees and working groups established under the agreement, oversee any changes to the agreement, and resolve disputes that may arise in the agreement's interpretation or application. The Commission can establish its own rules and procedures, create working groups, expert groups and/or *ad hoc* or standing committees, and delegate responsibilities to them. The Commission's decisions are generally to be taken by consensus, and its meetings are chaired successively by each of the parties.

The subsequent monitoring level is a Secretariat comprised of National Sections. It is tasked with providing technical and administrative assistance to the Commission. To date, it has chiefly worked to monitor disputes and maintain a webpage for information on disputes and on general background issues on NAFTA. Each party is also required to designate an individual to serve as Secretary for its Section, and to establish a permanent office for its Section. Each is also responsible for the operation and costs of its Section as well as for the remuneration of panelists and members of committees and scientific review boards established under the agreement.

Mexico's FTAs with EU and EFTA put in place a similar system. The highest monitoring instance is the Joint Council; a Joint Committee occupies the second tier. However, the Joint Council is relatively detached for the monitoring process, so that the Joint Committee has responsibilities that are nearly identical to those of the highest monitoring instance in NAFTA, the Free Trade Commission. For example, the Committee supervises the implementation of the agreement, including the work of all sub-committees and working groups established under the agreement, and also oversees any changes to the agreement. However, the Joint Committee is not necessarily composed of minister-level officials, but primarily composed of senior civil servants from the Council of the EU and the European Commission, on the one hand, and the Mexican government, on the other. The Committee can meet at any time as needed; the Mexico-EFTA FTA also recommends annual meetings.

Other FTAs that employ NAFTA's Commission-Secretariat monitoring model and follow the NAFTA text in defining the functions of the monitoring instances are the Group of Three, Mexico-Bolivia, Mexico-Uruguay, and Mexico-Costa Rica FTAs; Mexico-Nicaragua FTA (which refers to the Free Trade Commission as 'Administrative Commission'); the Mexico-Chile FTA (which, like NAFTA, uses the term 'Free Trade Commission'); as well as the Central America-Dominican Republic FTA (where the Commission is referred to as 'Joint Administrative Council'). The

monitoring model of the US-Chile FTA can also be seen as falling in the NAFTA family of models, although it does not explicitly call for the establishment of a Secretariat. Rather, it establishes a cabinet-level Free Trade Commission and various committees and working groups.

The second monitoring system type is slightly more complex than that of NAFTA, and employed in the Mexico-Northern Triangle FTA, as well as in the Central America-Panama and Central America-Chile FTAs. These agreements require the creation of an Administrative Commission (a political level of ministers in charge of trade), an Administrative Sub-Commission (in the Mexico-Northern Triangle FTA, vice-ministers in charge of trade), and an Administrative Secretariat (Figure 13.2).

The functions of the Administrative Commission and the Secretariat are by and large identical to those of the Free Trade Commission and Secretariat in NAFTA. For its part, the Administrative Sub-Commission is in charge of following up on the decisions and agreements of the commission and supervising the work of the committees and sub-committees. It also serves as a technical secretariat in the meetings of the commission, and establishes a center of information in each party. The Sub-Commission is to meet twice a year, and prepare an annual report of its work to the Commission.

The third model is that employed by in US extra-hemispheric FTAs and the Mexico-Japan FTA. The chapter on agreement administration establishes a Joint Committee comprised of cabinet-level officials, which is empowered to create and delegate tasks to ad-hoc committees and working groups. Some other chapters of these agreements create regularly meeting committees, such as Committees (or Sub-Committees) on Market Access, Agriculture, Sanitary and Phytosanitary Measures, and on Financial Services in the US-Australia FTA. US FTAs with the Middle East and North African countries tend to be lighter, as is the US-Singapore FTA, which creates only a Financial Services Committee in addition to the Joint Committee. The US-Jordan FTA creates the Joint Committee only; similarly, the Mexico-Israel FTA establishes only a Free Trade Commission.

The fourth monitoring model, used in the DR-CAFTA and the recently negotiated US-Colombia and US-Peru FTAs, is akin to that of the US-Chile FTA, albeit slightly more complex (Figure 13.3). Like US-Chile FTA, these agreements establish a Free Trade Commission. However, the subsequent level is made up by Free Trade Agreement Coordinators, who are the directors of the national directorates of trade agreement administration (and, in the case of the United States, Assistant US Trade Representative).[1] As such, these agreements appear to go farther than US-Chile –

1 Per Annex 19.2 of CAFTA, 'The free trade agreement coordinators shall consist of:

(a) in the case of Costa Rica, the *Director General de Comercio Exterior*;

(b) in the case of the Dominican Republic, the *Subsecretario de Estado de Industria y Comercio Encargado de Comercio Exterior*;

(c) in the case of El Salvador, the *Director de la Dirección de Administración de Tratados Comerciales del Ministerio de Economía*;

(d) in the case of Guatemala, the *Director de Administración de Comercio Exterior del Ministerio de Economía*;

(e) in the case of Honduras, the *Director General de Política Comercial e Integración Económica de la Secretaría de Estado en los Despachos de Industria y Comercio*;

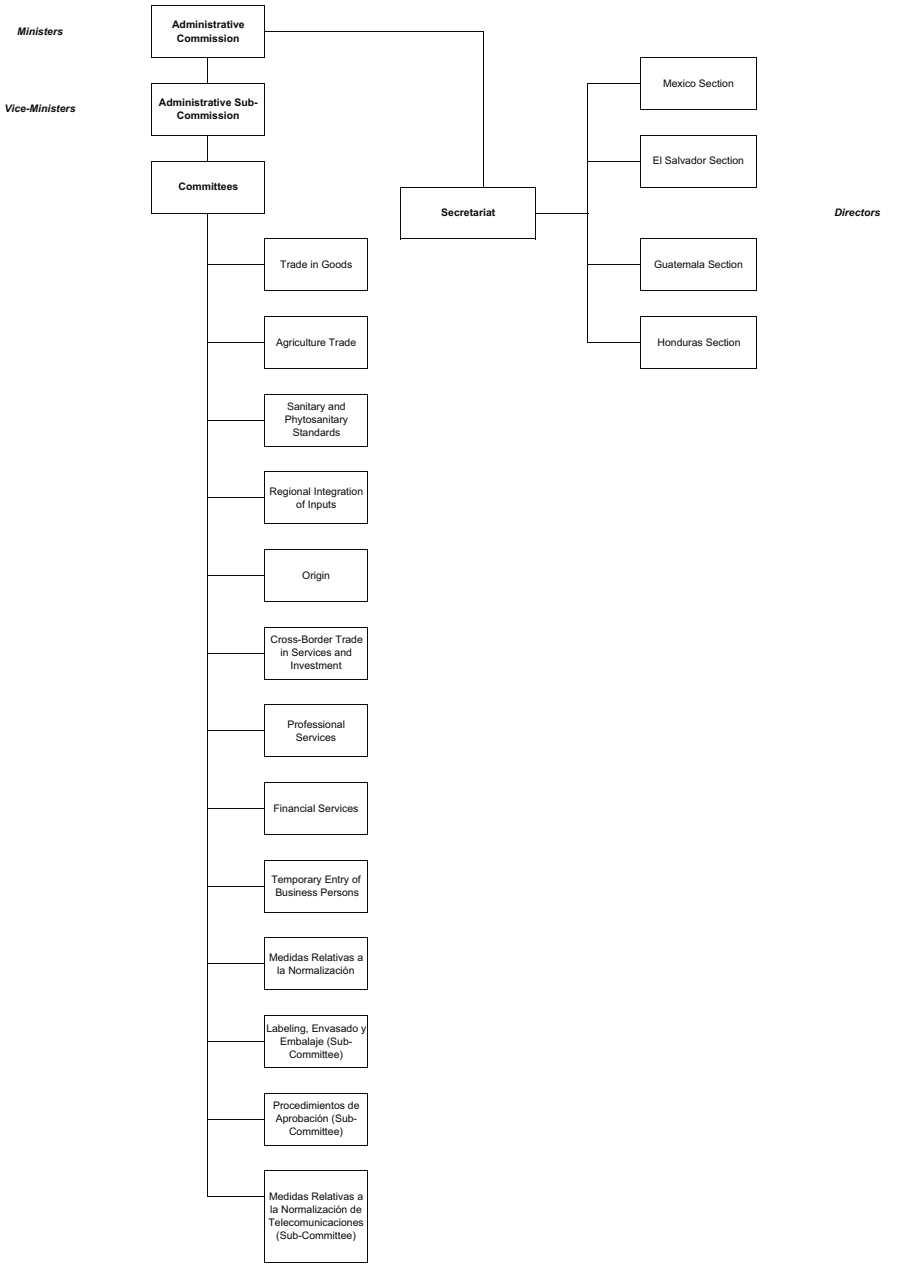


Figure 13.2 Monitoring System in Mexico-Northern Triangle, Central America-Panama, and Central America-Chile FTAs

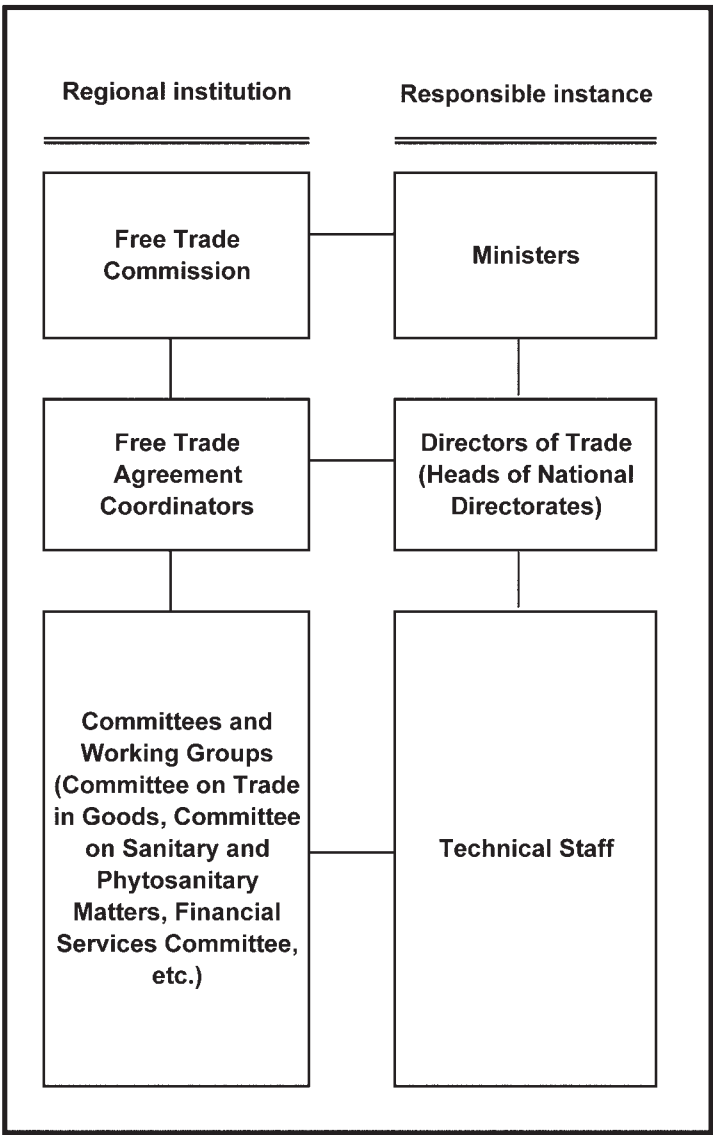


Figure 13.3 Monitoring System in DR-CAFTA

and, indeed, NAFTA – in obliging the member states to create national directorates for administration of agreements. The coordinators are tasked with seeing the Commission's decisions through, and with jointly developing agendas and making other preparations for the commission's meetings. Coordinators meet as often as required. The agreements also establish various committees and sub-committees throughout the agreement,[2] including a Committee on Trade Capacity Building aimed at assisting each of the Latin American parties to implement the agreement and adjust to free trade liberalized trade.[3]

Monitoring in Mexico

Mexico became accustomed to rigorous monitoring early on with NAFTA, its first FTA. Having since honed its monitoring skills in numerous subsequent FTAs, Mexico is today arguably the most seasoned monitorer of free trade agreements in the Americas, if not in the world.

Structure and Functions of Monitoring in Mexico: 'Who Negotiates, Monitors'

Monitoring in Mexico is carried out by the Ministry of the Economy (*Secretaría de Economía*). The Ministry has four Vice-Ministries (or sub-secretariats): International Trade Negotiations (*Subsecretaría de Negociaciones Comerciales Internacionales*, SNCI); Small- and Medium-Sized Enterprises (*Subsecretaría para la Pequeña y Mediana Empresa*); Industry and Trade (*Subsecretaria de Industria y Comercio*); and Rules, Foreign Investment, and Foreign Trade Practices (*Subsecretaría de Normatividad, Inversión Extranjera y Practicas Comerciales Internacionales*) (Figure 13.4). SNCI is the instance charged with negotiating and implementing Mexico's preferential and multilateral trade agreements. It is the ministry's foremost 'international face' – deals with issues having causes in or implications from external sources.

(f) in the case of Nicaragua, the *Director General de Comercio Exterior del Ministerio de Fomento, Industria y Comercio*; and

(g) in the case of the US, the Assistant United States Trade Representative for the Americas, or their successors.'

2 In some FTAs, these are referred to as working groups rather than committees.

3 (a) seek the prioritization of trade capacity building projects at the national or regional level, or both;

(b) invite appropriate international donor institutions, private sector entities, and nongovernmental organizations to assist in the development and implementation of trade capacity building projects in accordance with the priorities set out in each national trade capacity building strategy;

(c) work with other committees or working groups established under this Agreement, including through joint meetings, in support of the development and implementation of trade capacity building projects in accordance with the priorities set out in each national trade capacity building strategy;

(d) monitor and assess progress in implementing trade capacity building projects; and

(e) provide a report annually to the Commission describing the Committee's activities.

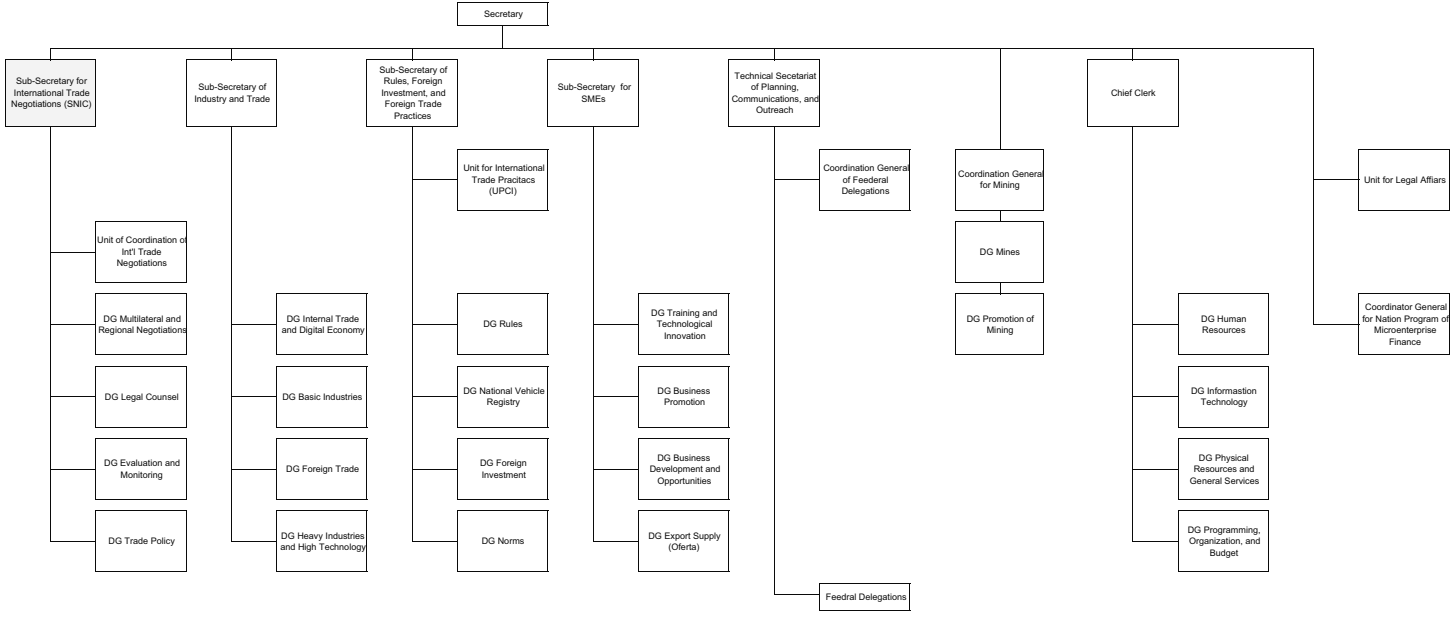


Figure 13.4 Monitoring System in Mexico

SNCI's overarching and highest instance is the Unit for the Coordination of International Negotiations (Unidad de Coordinación de Negociaciones Internacionales), which contains a number of directorates dealing with trade disciplines (such as services) or with geographic regions. In addition, SNCI has four directorates general (DGs). Two are thematic: legal counsel directorate that provides legal advice and assistance throughout SNCI; and trade policy directorate that deals with a number of market access issues such as customs and other day-to-day trade issues. The multilateral and regional trade negotiations DG negotiates multilateral agreements and new FTAs, while the DG for the evaluation and monitoring DG performs monitoring functions and also negotiates functional, cross-cutting thematic issues in agreements, such as standards, labor issues, and safeguards. It is divided along geographic lines into three main areas: North America; EU and Latin America; and WTO, multilateral affairs and countries with which Mexico does not have FTAs. The geographic division was initiated in 1994: prior to NAFTA, Mexico essentially had one directorate in charge of all trade administration issues. Each of the three regional divisions in the DG for evaluation and monitoring is also responsible for a set of cross-cutting thematic issues. For example, the North America division is in charge of standards, safeguards, and environmental matters.

SNCI (and any one of its officials) performs four main functions:

- Negotiating trade agreements.
- Coordinating the implementation of the FTAs both at the domestic level by other government agencies at all levels (federal, state, and local), and at the international level with the FTA parties.
- Training of traders through 50 delegations distributed throughout Mexico. The delegations are tasked with helping Mexican businesses understand and implement the basic FTA obligations, such as filling origin certificates. They design their activities around the FTA texts, leaving export promotion to the Economy Ministry's SME Sub-Secretariat and to Bancomex.[4]
- Lobbying and outreach. A growing share of SNCI officials' monitoring work goes into communicating on Mexican trade policies and the effects of the country's FTAs with the Congress and the public at large. The outreach function has expanded particularly notably over the past five years in the face of the strengthening of the congressional oversight of trade issues and Mexico's overall political opening. SNCI officials are often involved in the 'Link' (Enlace) recently established by the ministry as a window that allows any interested parties (such as NGOs, trade unions, or companies) to request information and solicit presentations on the topics addressed by the ministry. When lobbying the Congress or Congressional Committees to pass new agreements or informing them about the implementation of the existing ones, Enlace joins forces with and the Ministry of the Interior (Gobernación).

4 According to analysts, export promotion is the Achilles heel of Mexico's trade policy: opportunities are being missed, and particularly so in the European and Latin American FTA partner markets, due to inadequate assistance for particularly smaller companies to export and/or export to new markets.

In total, SNCI has a relatively small staff of some 100 high- or mid-level technical experts. However, its structure is nimble both horizontally and vertically. Horizontally, each staff member is in charge both of a geographic region and a thematic area, and any staff member is both a monitorer and negotiator. For instance, any issue concerning the US is handled by the staff with expertise in North America; however, a staff person from the North America division with an expertise in standardization could be borrowed over for the negotiations of the standardization chapter in the Mexico-Japan FTA. As such, Mexico follows the creed 'who negotiates, monitors'. Vertically, while the four directors general are hierarchically equivalent, they may work for each other should their thematic area fall under a regional area headed by another director general. Moreover, a more junior, lower-level staff member can cover for a more senior member in the face of time constraints and overlapping agendas. SNCI has recently set out to provide in-house training for recent entrants to the staff in order to ensure the systems retains its flexibility and depth.

Role of the Private Sector

Unlike in many other countries, the Mexican private sector did not play a central role in defining and shaping the monitoring processes. Rather, NAFTA was the key catalyst for establishing the monitoring institutions, while the specific structures and processes of the monitoring system were designed by and large by government officials. However, today, the private sector is a more intricate actor of the monitoring work, and in general facilitates monitoring.

The main private sector instance directly involved in monitoring is the Mexican Foreign Trade Council (*Consejo Mexicano de Comercio Exterior*, COMCE). COMCE was created in 1999 through a fusion of Mexican Business Council for International Affairs (*Consejo Empresarial Mexicano para Asuntos Internacionales*, CEMAI), and the National Foreign Trader Council (*Consejo Nacional de Comercio Exterior*, CONACEX) as well as representatives of private sector groups and associations. COMCE is also one of the members of the Council of Foreign Trade Business Organizations (*Coordinadora de Organismos Empresariales de Comercio Exterior*, COECE), the association representing the Mexican private sector in the negotiation of new FTAs, revision of existing ones, and implementation of issues that affect the entire private sector.[5]

Among COMCE's main tasks is to represent its members both at the national level and overseas on all issues related to foreign trade, and to link the members with foreign businesses through Mexican embassies and COMCE's foreign counterparts (organizations with which COMCE has cooperation agreements). In the area of monitoring, COMCE has three main functions. First, it provides information and training on the new FTAs and their provisions to private sector groups around the country. COMCE has actively encouraged SNCI to expand the

5 Rather than an organization with in-house staff, COESCE is by and large a virtual network. COMCE is charged with providing its members a space in COESCE upon FTA negotiations.

government's training functions, and today, many of COMCE's sessions are held jointly with the SNCI. Second, COMCE lobbies the Mexican Congress to pass FTAs and other legislation that benefits its trading members. Third, COMCE employs its business committees to help propel the implementation of FTAs both abroad and in Mexico. For instance, should a problem arise in the context of NAFTA in the US, COMCE can contact the Council of the Americas, its counterpart in the US, to ask the Council to request the US government to address the matter. Conversely, COMCE's counterparts abroad can request COMCE to raise an issue with the Mexican government.[6]

While COMCE provides for organized representation, it is not the only channel available to the private sector. As in the other countries examined here, private sector associations and individual businesses, whether members of COMCE or not, can and do contact SNCI or any pertinent government agency independently with any requests on the monitoring of the trade agreements. Overall, however, according to SNCI officials, direct involvement of COMCE or COESCE in the monitoring process is rather limited: in Mexico, the day-to-day monitoring continues to be the purview of the federal government.

Outcomes and Evaluation

The large number of trade agreements, on-going trade negotiations, and the federal structure of government could be expected to represent an overwhelming agenda for the Mexican monitoring system. However, both the monitorers and the private sector have a positive assessment of the effectiveness of the monitoring system.

With most partner countries, the monitoring processes are seen as institutionalized and uncomplicated. The bulk of issues have been solved in the meetings of the technical sub-groups or through *ad-hoc* contacts at the level of directors. SNCI's flexible structure as well as the continuity in staff allows for operating effectively on many fronts with limited numbers. That Mexico's FTAs put in place a clear mandate for monitoring supports this work: the staff's priorities flow directly from the FTA implementation agendas, ministerial declarations, and from the agendas of the upcoming vice-ministerials. Monitoring is facilitated further due to the fact that each FTA has a built-in dispute settlement mechanism, which serves as an enforcement mechanism for agreement implementation. However, some officials note that since FTAs do not have enforcement mechanisms for areas related to monitoring *per se*, some FTA partner countries have failed to meet their monitoring responsibilities, such as responding to Mexican officials in a timely fashion or attending working group meetings. To rectify such problems, some officials have advocated a clause of 'expulsion for omission' of the monitoring duties established by the FTA.

6 COMCE is also the key channel between the private sector and the government on issues affecting its membership in the context of Mexico's trade agreements and/or bilateral relations with the country's trading partners in general, such as changes to US border security policies post-September 11, 2001.

SNCI's relationship with the private sector is viewed as uncomplicated, flexible, and mutually beneficial. Private sector actors have grown confident in SNCI's work, become skilled at navigating the government ministries, and tend to approach the government ministries dealing with the implementation of the issue at hand (such as agriculture), and simply to inform SNCI about the request – which helps decrease SNCI's workload and facilitates the monitoring work. As such, SNCI does not in practice act as a channel that would distribute each and every complaint and issue by the private sector to the other government agencies. Rather, its role is to keep abreast of the problems and issues in FTAs, and to act when the matter at hand directly affects Mexico's 'international face' – i.e. implementation of the commitments made with the various trade partners. Through COMCE, the private sector also facilitates the monitoring functions of lobbying and disseminating information on FTAs and training exporters to use them. SNCI's work is also facilitated and de-politicized through the separation of the trade remedy functions into UPCI that operates under the Sub-Secretariat of Rules.[7]

The federal system of government could be expected to increase the time and expense of monitoring when contrasted with a unitary form of government. However, according to SNCI officials, coordination of sub-national governments' activities related to FTAs is uncomplicated, mostly given that state and local governments command very limited authority over, and have scant capacities to obstruct, the implementation of the FTAs. As such, a negligible amount of SNCI's time is allocated to coordinating the sub-national levels of government.

The various positive outcomes notwithstanding, the Mexican monitoring system faces a number of challenges.

- The first and main challenge is inter-agency coordination at the federal level. The administration of the many FTAs hinges on several other government agencies, all of which have to be brought to carry out their share of the FTA. This is a difficult task not only given that the other agencies often have different constituencies and thus different priorities and interests than the SNCI, but also because a growing number of governmental agencies is becoming involved in foreign trade issues, and because SNCI has recently experienced budget and personnel cuts.[8] Paradoxically, while fixing minds and working agendas in the member governments, the elaborate institutional monitoring framework in Mexican FTAs places a premium on effective coordination and prioritization of government activities. A reflection of the burden imposed by the inter-agency process is that the bulk of director generals' work involves

7 UPCI is in charge of administering all trade remedies, whether imposed on Mexico's FTA partners or other countries. It is viewed as the technical and political counterweight to SNCI: while SNCI advances the interests of domestic interests benefiting from trade, UPCI is a window for domestic interests hurt by FTAs to claim for protection permitted under the FTAs.

8 For instance, the Finance Ministry has to go through five different instances – none of which have trade as their priority – when publishing the tariff schedules. It takes a month to get paperwork through the National Regulatory Commission (COMIFER) designed to ensure transparency in government.

coordinating their own *staff's work in coordinating* the inter-agency process. On the positive side, as noted above, SNCI itself is agile and has clear priorities, and also benefits from continuity in staff. Indeed, even the first change in the ruling party in 70 years in the year 2000 did not affect SNCI's technical staff. As such, many staff members who negotiated the very first FTAs today continue administering them.

- A further challenge is the absence of adequate tools for breaking bureaucratic logjams if and when they arise. The current administration (2000-2006) is seen as not having as forceful central decision-making mechanisms as was the case under the prior governments – which implies that in cases where an implementing government ministry has incentives and priorities that are not aligned with those of the SNCI, the issue can remain unresolved for extended periods of time.
- The sequence in which the disciplines in some agreements are negotiated poses further challenges. According to some Mexican monitorers, the fact that some trade disciplines, such as services, were left out of the FTA negotiations in Mexico's FTAs with Latin American countries and negotiated only ex-post, disintegrates the monitoring process. The main point here is that negotiation of the various trade disciplines governing trade between the FTA partners as a single package in the context of the FTA will facilitate the monitoring process: the more comprehensive the FTA right from the start, the better the odds of successful monitoring.
- SNCI is also faced with the longer-term challenge of the evolution of the more mature integration agendas, such as NAFTA. On the one hand, the basic monitoring work for NAFTA is getting lighter given that tariffs and non-tariff barriers have been markedly cut over the past 11 years of implementation and that the interactions among the three member countries' directorates are routinized. But on the other hand, SNCI is in charge of implementing the several new, relatively ambitious objectives on the trilateral agenda stemming from SPP that span well beyond the original NAFTA text – as well as of ensuring that the further deepening and broadening of regional integration does not contradict the terms of the original NAFTA framework. As of now, the main trade-related work agenda of the SPP has centered on trade facilitation and standards harmonization – two areas requiring extensive amounts of time and staff resources. The proposed solutions to SNCI's challenges include a budget hike for the SNCI to hire more staff, and establishment of a strong decision-making nucleus within the government – potentially in the executive offices.
- A growing challenge for SNCI is to deal with the burgeoning workload. The burden of drumming political support for the trade agenda in the legislature and across the civil society is absorbing growing amounts of monitorers' time. According to one official, it would be useful to establish more institutionalized mechanisms not only for dissemination of information to the civil society, but incorporating the ideas and views of civil society and academic into the negotiation and monitoring processes. One Mexican official mentioned that an innovative instance that could be drawn upon is the Civil Society Committee established in the context of the Free Trade Area

of the Americas (FTAA) negotiations, which provided serious and informed inputs in the FTAA talks.

Monitoring in the United States

The US monitoring agenda has grown increasingly demanding over the past few years for three reasons.

First, much like in Mexico, the number and complexity of trade agreements has increased with the conclusion of a number of comprehensive regional and bilateral free trade agreements. Each agreement requires the establishment of committees and periodic meetings with the counterpart to monitor implementation. The complexity of agreements has also brought a larger number of US government agencies to the monitoring fray, which, in turn, has accentuated the demands for inter-agency coordination.

Second, monitoring free trade agreements overlaps with the monitoring of other types of trade agreements, work that is also increasingly challenging. Given that the US is the main global trading power with trade relations with most countries of the world, the growth in the WTO membership over the past decade has generated new demands on monitoring various MFN partners' multilateral trade commitments. This is particularly the case given the WTO accession of such major trade partners as China (in December 2001). The workload of enforcing commitments on various fronts is also accentuated by the fact that there is more to enforce: governments are increasingly using safeguard instruments and technical barriers to trade against imports in global commerce. Moreover, the US has nearly 400 trade agreements beyond formal FTAs, such as framework agreements, general market access agreements, and industry- and issue-specific agreements, which will also need to be monitored.[9]

Third, monitoring of agreements coincides with the active US negotiation agenda of new bilateral agreements, the multilateral Doha Round, as well as the negotiation of the terms of WTO accession with membership aspirants, such as Russia. This entails competing priorities: staff that perform monitoring functions in the various government agencies are generally also involved in the negotiation of agreements, which means that time and resources are in short supply precisely when the needs for monitoring are growing.

The following sections detail the structure of the US monitoring system, and elaborate on the respective roles of – and interactions between – the various agencies in the US executive branch, Congress, and private sector actors in the monitoring process.

Structure and Process of Monitoring

The US system of monitoring free trade agreements is best understood by considering it part of a broader, highly institutionalized process of trade policymaking and

9 GAO (2005).

enforcement that involves numerous executive branch agencies, Congress, and the private sector.

Executive Branch

Key Agencies The Office of the US Trade Representative (USTR) is the US government's lead agency for monitoring and enforcement of trade agreements, as well as for coordinating the pertinent inter-agency work. The USTR's monitoring agenda goes well beyond FTAs to such areas as periodic, high-level reviews of trade relations with various important trade partners, such as Japan and China. It furthermore has manifold responsibilities other than monitoring and enforcement, such as trade policy development, trade negotiations, and communication and management of the American trade agenda. As in Mexico, the management of trade remedies is in the US government handled by another instance, the Commerce Department's Import Administration.

A cabinet-level office within the Executive Office of the President (EOP) with some 225 employees, the USTR has offices in Washington and Geneva. The Washington office is divided along five organizational lines: (1) bilateral negotiations consisting of the Americas, Europe and the Mediterranean, North Asia, South Asia, Southeast Asia and the Pacific, and Africa; (2) multilateral negotiations composed of WTO and Multilateral Affairs, and General System of Preferences and the United Nations Conference on Trade and Development; (3) sectoral activities in agriculture, services, investment, intellectual property, manufacturing and industrial affairs, government procurement, environment, and labor; (4) analysis, legal affairs and policy coordination, general counsel, economic affairs, policy development and coordination; and (5) public outreach consisting of congressional affairs, public and media affairs, and intergovernmental affairs and public liaison.[10] In total, an estimated one-fifth of USTR staff is dedicated to monitoring trade agreements.

While the USTR acts as the lead agency in monitoring trade agreements, no fewer than 19 other federal agencies and hundreds of their Washington-based and overseas staff are involved in monitoring activities. One indication of the prominence of other agencies in process is that they have comprised some three-quarters of the US delegation in some recent trade negotiations.[11] The main monitoring functions that cut across each agency (yet at distinct levels of emphasis) are troubleshooting, setting priorities, collecting and analyzing information, developing responses, and taking enforcement actions. Much like the USTR, the other agencies interface

10 The Geneva Office is organized to cover general WTO affairs, Non-Tariff Agreements, Agricultural Policy, Commodity Policy and the Harmonized Code System. Special attention is given to textiles with one member of the staff designated as the US representative to the Textiles Surveillance Body.

11 The other main federal agencies involved in monitoring and enforcement activities include the Departments of Defense, Energy, Health and Human Services, Homeland Security, Interior, Justice, Labor, Transportation, Treasury, the Council of Economic Advisers, the Council on Environmental Quality, the Environmental Protection Agency, the Office of Management and Budget, and the US Agency for International Development.

not only with each other in the monitoring process, but do so also with foreign governments, Congress, and the private sector.

Besides USTR, the three core agencies in the monitoring process are Commerce, Agriculture, and State Departments (Table 13.3). According to a recent estimate, there are about 100 domestic staff in the monitoring and enforcement units in the Department of Agriculture, nearly 200 in Commerce, and 200 some in State.[12] No fewer than 1,600-1,700 State, Commerce, and Agriculture department staff perform monitoring and enforcement duties overseas.[13]

Table 13.3 Main US Federal Agencies Involved in Monitoring

Agency	Monitoring & Enforcement Unit	Overseas Monitoring & Enforcement Units	Examples of Other Involved Units
USTR	Monitoring and Enforcement Unit	US Mission to the WTO, Trade Policy Officer, US Mission to the EU	Genera Counsel; WTO and Multilateral Affairs; regional offices
Commerce	Market Access and Compliance Office	Trade Pormotion/ US and Foreign Commercial Service, Market Access and Compliance overseas officers	Manufacturing and Services; Import Administration; Patent and Trademark Office
State	Trade and Policy Programs	Economic section of embassy	Country desk staff; issue-specific task forces
Agriculture	Foreign Agriculture Service	Foreign Agriculture Service	Animal and Plant Health Inspection Service; Food Safety and Inspection Service

Commerce plays a particularly extensive role in the day-to-day monitoring of agreement implementation. Monitoring in the department falls primarily on Market Access and Compliance (MAC), which is part of the International Trade Administration (ITA) headed by an Under Secretary of Commerce. MAC has some 200 employees divided into five regional units, a multilateral unit, and a trade compliance unit. With 15 officers, the NAFTA office is the largest of MAC offices dealing with FTA partners. While most MAC offices have only a country desk officer, the NAFTA office has both country desk officers (for Mexico and Canada) and functional experts on such trade disciplines as services and rules of origin. Only the office dealing with China has similar structure.

The main monitoring tasks of the Commerce Department (and ITA, in particular) are to ensure that US FTA partners implement the agreements, attend to the concerns

12 GAO (2005).

13 See GAO (2006).

of US private sector actors operating in FTA markets, and to do outreach throughout the US in order to inform American companies and private sector associations about trade agreement provisions and mechanisms for them to bring problems in agreement implementation to Commerce's attention. One component of the outreach efforts is the Compliance Liaison Program, which provides a forum for US traders to request the initiation of new compliance cases, and for the Commerce Department to bring private sector layers to date on efforts to overcome foreign trade barriers. The program participants include government agencies, some 250 congressional offices, trade associations, and other private sector entities. Commerce also engages Commercial Service staff in US Export Assistance Centers throughout the US to provide local export assistance particularly to small and medium-sized enterprises. The program has proven to be another important troubleshooting mechanisms for the Commerce Department to learn about potential market access problems affecting US firms.[14]

A further and potentially growing aspect of Commerce's monitoring work precedes FTAs – training of FTA partner countries to set up monitoring systems. In a recent example, ITA has worked with the Central American countries in standing monitoring agencies in the Ministries of Trade and Economy in preparation for CAFTA implementation (see the chapter on Central America in this volume for further details), as well as with Peru and Colombia in preparation for their FTAs with the US.

The Department of Agriculture's monitoring work is carried out by the Foreign Agricultural Service (FAS). FAS plays a similar role as ITA in the agricultural sector – serving as a contact point for firms in sector on problems related to foreign trade. It is also responsible for USDA's various other international activities – trade negotiations, market development, and collection of data on, and analysis of, global supply and demand, trade trends, and market opportunities. In addition, FAS administers USDA's export credit guarantee and food aid programs, and strives to mobilize expertise on agriculture-led growth in developing countries.

The lead monitoring entity at State is the Bureau for Economic and Business Affairs. The Bureau is tasked with formulating and executing US foreign economic policy in light of broader US foreign policy goals.

The US monitoring process depends crucially on the fluid functioning of both the horizontal (inter-agency processes) and the vertical dimensions (processes and communications between agencies in Washington and their overseas staff).

Inter-Agency Work The plethora of players in the US monitoring system renders inter-agency coordination the bedrock of US monitoring process. Led by the USTR, the inter-agency processes involved in monitoring form a part of a long-standing, institutionalized inter-agency apparatus engendered by Section 242 of the Trade

14 Much like the USTR and other government trade agencies, Commerce performs various functions that are not necessarily immediately part of monitoring of FTAs per se, including providing technical expertise in support of trade negotiations; participating in international trade events and missions to assess trade barriers; and providing technical support to senior level contacts with foreign government officials.

Expansion Act of 1962.[15] The Act establishes the Trade Policy Committee and two subordinate bodies – the Trade Policy Review Group, a management-level committee, and the Trade Policy Staff Committee, a senior-staff level committee subordinate to the Trade Policy Review Group that consists of nearly 100 entities, including 20 executive branch agencies. The agencies have recently stepped up efforts to discuss compliance issues in the Trade Policy Staff Committee. Two entities of the Committee – the Monitoring and Enforcement Subcommittee and the Compliance Task Force – meet regularly to review trade compliance issues, providing a valuable forum for agencies to share information, set priorities, allocate responsibilities, and develop strategies. Various subcommittees divide along geographic and sectoral lines are also involved in monitoring and enforcement efforts.

The Commerce Department is a central facilitator in the inter-agency process. The department houses one of the key inputs in the monitoring work – a database that maps out trade barriers in foreign markets, and identifies and address those barriers that fall under the provisions of a given trade agreement regulating the economic exchange between the US and the partner country.[16] It has also recently developed a matrix-based checklist on the measures that each of the government agencies are to carry out under each US trade agreement.

The Role of Overseas Staff Overseas embassies and staff play a major role in US monitoring activities. US foreign service officers are key in maintaining contacts with the foreign government officials and in monitoring the foreign government's trade policy activities, and the first US officials to interact with the foreign government in the face of concerns about the implementation of trade agreement commitments. Indeed, most concerns and problems are solved at overseas posts; the pertinent US government agency in Washington in general becomes involved – such a prepare a formal letter on behalf of the US government – only in the more difficult cases that cannot be solved overseas. Besides US foreign service officers, foreign service nationals – the resident staff in US embassies who are citizens of the host government rather than of the US – help facilitate the monitoring process, particularly in cases where the US officials cover several countries simultaneously.

Besides the substantial presence of State, Commerce, and Agriculture department staff in the overseas posts, some other trade agencies have also recently posted policy experts in such areas as market access and standards overseas in order to alleviate the workload of the more generalist trade officials, who have to deal with multiple competing priorities.[17] For instance, Commerce has reportedly posted four officers and three standards attachés overseas, while the US Patent and Trademark Office has stationed a patent attorney in China to provide expertise on intellectual property rights issues to the rest of the embassy staff. Working on a near-full time basis on the experts help. Some US overseas posts have adopted the horizontal dimension of monitoring by instituting formal and informal inter-agency compliance teams to coordinate monitoring processes. The teams generally stage periodic meetings with

15 This paragraph draws on GAO (2005).

16 In general, information of such barriers is attained from US traders and investors.

17 See GAO (2006).

the host country counterparts – which, in turn, can improve the incentives for inter-agency coordination in the host country government.

Congress US Congress is a powerful player in US trade policymaking. Under statute, five members from each House are formally appointed as official Congressional advisors on trade policy, and further members may be appointed as advisors on particular issues or negotiations. All trade agencies interact with Congress, and the USTR has a particularly extensive liaison program on Capitol Hill. It provides detailed briefings on a regular basis for the Congressional Oversight Group composed of members from numerous congressional committees. USTR staff also participate annually in hundreds of meetings, hearings, and conversations on trade policy issues on congressional staff and members. The Commerce Department interacts regularly with Congress on monitoring of trade agreements and other trade policy issues through ITA's Office of Legislative and Intergovernmental Affairs.

Congress is also closely involved in the monitoring of FTAs. This often this involves *ad hoc* contacts between a member of Congress and the trade agencies aimed at calling attention to a problem that a constituent is encountering when trading with the FTA partner. However, Congress has recently sought to step up and systematize its role in monitoring FTA implementation, and has also long had in place several formal mechanisms for 'monitoring the monitorers'. The Government Accountability Office prepares periodic rigorous assessments of the government's performance at monitoring trade agreements.[18] The USTR is required by domestic law to prepare a variety of trade-related reports to facilitate – and report about – its work to monitor and enforce trade agreements. The reports cover both broad trade policy objectives such as *The Annual Report on the Trade Agreements Program* and *The National Trade Estimate Report on Foreign Trade Barriers*, and specific issues or sectors, such as *The Annual Review of Telecommunications Trade Agreements* and the *Special 301 Report* that identifies countries that fail to protect intellectual property rights or market access for US nationals relying on intellectual property protection. A range of Washington think tanks and multilateral organizations also produce rigorous studies on FTAs and their implementation.

Private Sector The American private sector has a long-standing, institutionalized role in monitoring of trade agreements. In 1974, Congress established the private sector advisory committee system composed of 26 advisory committees with a total membership of up approximately 700 advisors. The system is aimed at represent key economic sectors affected by trade, and divided into three tiers: the President's Advisory Committee for Trade Policy and Negotiations (ACTPN) administered by the USTR; four policy advisory committees; and 22 technical and sectoral advisory committees divided into two areas – industry and agriculture.[19] The committees are

18 See, for instance, GAO (2005) and GAO (2006).

19 The President appoints up to 45 ACTPN members for two-year terms. The 1974 Trade Act requires that membership. Of the four policy advisory committees, the Intergovernmental Policy Advisory Committee (IGPAC) is managed by the USTR. Policy advisory committees managed jointly with the Departments of Agriculture, Labor, and the Environmental Protection Agency are, respectively, the Agricultural Policy Advisory Committee (APAC),

to inform and provide advice to US trade negotiation and bargaining positions, the operation of trade agreements in force, and other matters related to the development and implementation of US trade policy. The system has been strengthened in subsequent trade acts. The Trade Act of 2002 requires each advisory committee to prepare a report on proposed trade agreements for the administration and Congress.

The trade agencies have recently sought to fuel contacts with the US private sector. The USTR has stepped up efforts to consult various formal private sector advisory committees on trade issues, and USTR officials now hold monthly teleconferences with all advisory committee chairs, and e-mail updates to advisors on important US trade initiatives. As discussed above, the Commerce Department, the government's a lynchpin in interfacing with the private sector on monitoring issues, has increased its efforts to liaise with private sector players throughout the country.

Monitoring Process

The core of any monitoring process is attending to problems faced by private sector that arise during (as well as after) FTA implementation. There are various ways in which the US government can and does respond after identifying a problem in agreement implementation either at home or abroad. Commerce (and MAC) is often the first agency both to learn about and to address an issue. In most cases, MAC hears about problems directly from a US firm or via Congress in cases where a concerned private sector actor appealed to his/her Congressional representative. Complaints generally involve rules of origin, intellectual property rights, standards, sanitary and phytosanitary standards, or government procurement; in the case of NAFTA, many current issues involve regulatory concerns arising from often small differences in standards among the partner countries.

The first step of the process generally involves a MAC desk officer contacting Commerce officials at the embassy in the country in question or the foreign government counterparts for further information. If an issue is not resolved at this stage, more formal and broader processes are initiated. This in general involves some inter-agency work, such as informing or engaging other US trade agencies, and contacts at high levels in Commerce and officials in the counterpart government. Depending on the issue, rather than approaching the ministry of trade in the foreign country, ITA may approach the most pertinent ministry in the other country directly, such as the ministry of health or labor; or, in the case of Canada where the implementation of trade policy is relatively decentralized, the most pertinent provincial government.

Most issues are resolved at the technical or director level; however, some may gradually rise to the attention of an Under Secretary of Commerce, the Secretary, or even the President. There have also been instances where an issue is raised more immediately to a senior level in order to accelerate resolution. Dispute settlement mechanism is generally the ultimate instance; again, most issues are resolved prior

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Labor Advisory Committee (LAC), and Trade and Environment Policy Advisory Committee (TEPAC). Representatives to the technical and sectoral advisory committees are appointed jointly by the USTR and the Secretaries of Commerce and Agriculture, respectively.

to reaching the dispute settlement stage, and even then, other considerations, such as diplomatic ones raised by the State Department, may pre-empt opening a case.

At the domestic level, in the case of a deadlock between agencies on an appropriate response, USTR would convoke an inter-agency meeting; should a satisfactory resolution not be found, the issue would be raised to the level of the undersecretary, and, if needed, to the level of secretaries. The president would become involved only in rare occasions as the ultimate tie-breaker.

As in most countries, there are important differences between the processes followed by SMEs and large companies when seeking to rectify a problem. Large companies and multinationals in particular can often bypass the US government and formal monitoring processes altogether and contact the foreign government directly. In contrast, smaller companies generally resort to alerting Congress or contacting Commerce.

Outcomes and Evaluation

As in the case of Mexico, US officials in general see the monitoring processes with the FTA partner countries as fluid and uncomplicated. While most US FTAs are too nascent for making a comprehensive assessment of the monitoring work, experience in the implementation of the more mature FTAs, NAFTA and the US-Chile FTA, shows that most of the concerns arising with the partner countries have generally been resolved at technical levels and often through *ad-hoc*, informal channels. As a result, only a few cases have been brought to the dispute settlement mechanism.

The main challenges facing the US monitoring system lie not in communications with the partner countries or even in executive-legislative relations, but, rather, within the executive branch. The first challenge to the US monitorers is to improve the operation of both the vertical and horizontal dimensions of US monitoring process – inter-agency processes both in Washington and overseas, and communications between the overseas staff and agencies in Washington. The second and related challenge is to foster the trade agencies' human resources in both in Washington and overseas.

Not unlike in Mexico or other countries considered in this volume, inter-agency work in monitoring US trade agreement is often constrained by competing agendas and priorities render trade of secondary importance to many government agencies. Yet, inherently a 'networked organization', USTR's performance hinges critically on the quality and continuity in staff resources in other government agencies. Recent efforts to improve inter-agency processes in Washington and, in particular, at overseas posts have been helpful; however, the growing negotiation and monitoring demands are accentuating the need for human resources and, in particular, a more effective human capital strategy both within the USTR and across the agencies that it coordinates.[20] For instance, there is as yet no centralized mechanism for all trade agencies to collectively assess and plan for resource needs or a clear strategy to ensure that they can effectively handle the growing workload for negotiating, monitoring, and enforcing agreements.

20 GAO (2006).

Other links in the inter-agency process also require honing. For instance, Commerce's monitoring work has reportedly been hampered by the State Department's classifying communications and websites on trade issues even when the information contained in them is not classified.[21]

Capacity constraints pose a further challenge: the growing trade agenda and the increased involvement of multiple government agencies in monitoring have accentuated the need for a larger pool of officials trained in trade issues throughout the trade agencies, both in Washington and, in particular, overseas. Recent efforts to station functional experts overseas have been useful, as have trade agreement monitoring and implementation courses offered by State and Commerce departments.[22] However, further training is viewed as particularly important to the overseas staff that serve as the first and focal points of contact for officials in Washington and for communications with foreign embassies around the world. There are some concerns that to the extent that the heightened security concerns in many overseas posts increase the costs of maintaining an overseas presence, some trade agencies may scale back their overseas staff involved in monitoring and enforcement.

A further challenge for the US monitoring system is ensuring adequate outreach on FTAs particularly among the private sector actors around the country, and on the ways in which businesses can resort to ITA for raising any concerns when trading and investing – or plan to trade and invest in – with the FTA partner countries. The Commerce Department has only limited resources for outreach, and thus far its outreach efforts have been carried out in an unsystematic fashion. New FTAs could be expected to accentuate the need for outreach, not only among the business community but, given the intense polarization on and politicization of trade *per se*, also to the American public.

Conclusion: Lessons of the North American Experience

Although most developing countries considered in this volume trail far behind the US and Mexico in terms of resources available to monitoring, the North American monitoring experiences provide a range of valuable, generalizable insights for countries that are building up their monitoring systems and setting out to monitor multiple agreements.

The first lesson is that a solid national monitoring system is not a luxury, but a necessity. It lends credibility to a country in global trading arena, and plays a crucial role in facilitating trade and investment flows with the partners. At the bilateral level, the foremost benefit of monitoring is its provision of an institutionalized channel of regular communications between the trading partners. Problems and disputes can arise in any trade relationship; however, routinized institutional channels allow the partner countries to quickly put out the fires, avoid politicization of the agreement, and bring predictability to the economic exchange. More generally, engendering interactions and trust among the partners, monitoring can help pave the way for

21 GAO (2005).

22 See GAO (2005).

further cooperation between them. Indeed, it could well be argued that the prospects for deepening and widening the integration process among the partners hinges on the success of the monitoring of their initial agreements.

The second lesson is that monitoring does not escape politics. When involving politically sensitive issues and sectors, monitoring is subject to political pressures and log-rolling both within countries and between them. In the domestic sphere, the implementation of trade agreements falls on several different agencies, whose respective interests and priorities may diverge and outright conflict. The outcome of the bureaucratic processes and battles may at times be at odds with the agreement's implementation schedule. Similarly, at the international level, a trade agreement is necessarily a part of a broader bilateral relationship between the partner countries. As such, particularly the more sensitive and problematic areas requiring monitoring work may remain unaddressed for considerations of the overall bilateral relationship and foreign policy interests – or for fear of reprisals from the counterpart government in other areas of the bilateral interactions. Alternatively, obtaining a favorable resolution of one key sensitive issue in the agreement may require giving in on another issue in it or in the overall bilateral relationship.

Third, at the operational level, a number of factors that stand out as particularly propitious for effective monitoring:

- Comprehensive FTAs. The better the various trade disciplines governing commerce between the FTA partners can be 'bunched' together under the FTA umbrella, rather than negotiated separately or *ex-post*, the clearer the monitoring mandate and the better the monitoring process can be centralized and coordinated.
- Rigorous and clear monitoring agenda. A clear pre-defined agenda for implementation sets the agenda for work and, as such, serves as a commitment device for the member state monitorers in their interactions with the partner country, and helps them to break bureaucratic inertia and logjams at the domestic level. The most powerful guarantee of compliance with such an agenda is by building it in the very FTA: an agreement that (1) carries a clear agenda for the implementation of the commitments, and (2) defines the institutions and channels that the partner countries employ in monitoring the implementation provides legitimacy to monitoring (and to executive branch's requests for resources for monitoring), as well as helps 'fix minds' and organize the domestic and bilateral work agendas. Trade agreements with clear enforcement mechanisms, such as a dispute settlement mechanism and rules on permitted reprisals in the face of incompliance by a partner, add credibility to the monitoring process.
- High-quality, motivated monitorers. High-quality monitoring staff – staff that is well-trained, seasoned, and flexible – is a key prerequisite for an effective monitoring system. The US case shows that while courses on trade disciplines are useful, the best training ground for monitorers is first-hand experience in negotiating trade agreements. Moreover, the system of 'who negotiates, monitors' provides further incentives to the monitorers: having participated in the FTA negotiations, monitorers in general have a strong interest in

seeing the agreement's successful implementation through. Conversely, monitorers involved in further negotiations bring invaluable lessons from the feasibility for implementing provisions that are under negotiation. Funding to monitoring work is important both for improving staff quality and retaining experienced staff. However, the case of Mexico in particular also shows that limited financial and staff resources for monitoring is not an impediment to solid performance as long as staff is experienced and agile – able to rapidly 'switch gears' and work across trade disciplines, across agreements, and across functions.

- Quality of implementers. The odds of monitoring are all the more improved when the staff in the government ministries and agencies charged with implementing the agreement – the actors that the monitorers coordinate – have the training and time to implement trade agreements.
- Inter-agency coordination. Inter-agency work has proven crucial to agreement implementation in both Mexico and the US. It is particularly important in the US case given the that the very monitoring tasks of the vast trade agenda are dispersed across a number of trade agencies: while USTR has the lead on coordinating monitoring, particularly the Commerce Department has a major role in the monitoring process. The Mexican experience shows that the monitoring unit has to have a clear mandate for being the sole coordination center of the implementation of trade agreements, and should solidify the mandate through periodic inter-agency coordination meetings that keep all the players 'on the same page'. A clear mandate and a central coordination role grow all the more important if and when the monitoring system (and information flows therein) becomes more decentralized – when the private sector and the partner governments learn to navigate the government for the key agencies in charge of implementing the issue at hand, so that the monitorers are not the sole official channel that takes in requests. In short, decentralization adds speed and agility to the monitoring process, but also requires the monitorers to step up the coordination work.

  The US case speaks to the benefits of frequent interactions between monitoring agencies to help build trust and contacts among their staff, as well as of simple, practical solutions for coordination across agencies, such as spreadsheets on implementation timelines, centralized databases on trade barriers, and shared communications that an agency may have with the partner countries.
- Tie-Breaker. A strong decision-making nucleus within the executive branch – such as a designated official in the executive office – is key for breaking political logjams over the implementation of agreements between government agencies. Even if decisions were not always favorable to the monitorers, backlogs will be avoided and inter-agency coordination becomes more fluid.
- Credibility of the partner country. Monitoring is generally uncomplicated and effective with partners that (1) have solid domestic technical and political capacities to implement agreements – in general, partners with a transparent, capable government bureaucracies; and (2) constitute an important share of the trade flows of their partners. Such members are credible: they stick to the

administrative regimes established in the agreement, enforce the contractual obligations through dispute settlement mechanisms in the face of non-compliance, and are able to make the enforcement felt.

- Flexibility of the monitoring system. High-quality monitoring does not necessarily require an elaborate institutional apparatus particularly at the technical level. Rather than *ex-ante* creating numerous committees with a heavy meeting agenda, the partner governments are often better off opting for ad-hoc working groups that can be convoked when the need arises. A lighter institutional structure can be particularly useful for governments with limited staff resources for monitoring.

The fourth lesson from the North American experience is that monitoring work is not over even when an agreement's provisions are fully implemented. For one, private sector players operating in the rough-and-tumble day-to-day trading in the FTA zone will unavoidably encounter problems that were not contemplated in the agreement and/or require attending to well after the agreement is fully operational. But more importantly, trade agreements tend to evolve. Interactions engendered by an FTA often give rise to demands for cooperation in trade-related areas, such as labor mobility and trade facilitation. The SPP process in the context of NAFTA is instructive for having created entire new areas of often detailed trilateral technical work and, eventually, areas subject to monitoring.

Overall, Mexican and US cases are encouraging to countries that are only starting to grapple with the challenge of monitoring multiple bilateral FTAs. They show that monitoring is subject to learning by doing and economies of scale: although the initial learning curve can be steep, over time monitoring tends to become routinized and entail relatively similar tasks across agreements and trading partners. The keys to facilitating such routinization are clear, built-in agendas in the FTAs for implementation and administration; an experienced monitoring staff with the ability to quickly adjust to changing circumstances both within the government's coordinator agency and in inter-agency work; build-up of institutional memory; and transparent and effective trading partners.

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Chapter 14

Governing Regional Integration for Development: Summary and Conclusions

Philippe De Lombaerde, Antoni Estevadeordal and Kati Suominen

The review of monitoring experiences in different world regions, which has been presented in detail in the previous chapters shows – not quite unexpectedly – a great variety of forms, actors, and depth of the monitoring processes. It shows also that whereas it might be true that the importance of the regional level of governance is gaining importance in most regions of the world, the regional governance reality is quite different from one region to another. Let us first briefly go through the different chapters and present a synthetic overview of their relevant contents. In the next section we will then proceed to extract the lessons that they carry and that are generalizable and applicable, or at least useful, to improving monitoring practices and the governance of regional integration schemes in the world, always acknowledging of course that each region and each regionalization experience is unique and develops in a particular context.

Findings on Regional Monitoring around the World

In Chapter 2 on the Andean Community, Fernando Prada and Alvaro Espinoza identify two distinct approaches to monitoring – 'management approach', which concentrates on problem-solving strategies for compliance, rule interpretation and transparency; and 'enforcement approach', which centers on such concepts such as sanctions costs, transaction costs, and other incentives to comply. The Andean experience shows that the enforcement approach appears to work better with agreements with well-defined goals – something that is easy to do in such 'quantifiable' areas as tariffs – and thus allowing for linking sanctions to the evolution and accomplishment of agreed targets. However, it is harder to develop well-defined targets, and, consequently, enforce compliance in areas with less tangible commitments, such as democracy or rights of investors.

Integration in the Caribbean makes sense. The small size of the regional economies makes pooling resources among them a compelling policy for all. In effect, the Caribbean Community (Caricom) members have recently made important advances to establish a single market and establishing a host of subsidiary regional institutions in such areas as harmonization of standards and vocational training. However, as Norman Girvan in Chapter 3 points out, while monitoring of regional integration processes is a key element in 'learning to integrate', Caricom has no

formal monitoring organs, procedures, or indicators. Girvan puts forth guidelines for designing indicators of integration pertinent not only to the Caribbean but all integration schemes – and applies them in a detailed survey of progress of Caribbean integration. Such indicators should measure the progress made in achieving the goals of the integration scheme in question, rather than some 'ideal' scheme: they are useful only to the extent that they are derived from the actual objectives and content of the particular RTA. This is instructive for the many developing country integrators who are eagerly striving to follow the EU model of integration. Girvan also notes that while both quantitative and qualitative indicators can and likely need to be employed in monitoring, indicators based on numerically expressed targets and target dates are inherently more powerful and consequential than vague and open-ended ones.

Chapter 4 by Kati Suominen on the Central American Common Market (CACM) illustrates the forceful role that national monitoring mechanisms play in arbitrating the success of regional monitoring mechanisms. At the regional level, the Secretariat of Central American Economic Integration (SIECA) and the Central American Integration System (SICA) are widely viewed as indispensable for the continuity and deepening of the regional integration process: they transcend periods of political turmoil between the members, and serve as depositaries of the institutional memory of the integration process. However, their capacities have long been wanting in good part due to the feeble technical capacities of and lack of continuity in the monitoring staffs of the member governments, which accentuates the need for the regional bodies to train member country officials and to bear a heavy burden of the overall monitoring process. The problem of lack of staff is multiplied at the regional level: with the member governments facing similar capacity constrains, there are repeated delays in issues requiring consultations at the regional level.

Importantly, however, as a consequence of negotiating the US-Central America-Dominican Republic FTA (DR-CAFTA) that places a strong emphasis on institutionalized monitoring mechanisms, each Central American country has made significant strides in fostering their domestic monitoring mechanisms and institutions. Perhaps paradoxically, then, rather than clogging the member states' monitoring processes further, a major extra-regional agreement can actually facilitate regional monitoring: the learning process in monitoring DR-CAFTA implementation will likely spawn positive externalities to further trade agreements and other fronts of trade policy monitoring.

The chapter also points to the important role that private sector players have had in shaping monitoring mechanisms and even acting as 'parallel' monitorers in the Isthmus. It perhaps comes as no surprise that some regional organization executives in the region are calling for the establishment of an adjunct regional organization of Central American private sector actors to propel monitoring forward.

Chapter 5 on the Southern Common Market (Mercosur) by Ricardo Rozemberg and Carlos Bozzalla goes to the heart of the two main problems vexing many other integration schemes around the world: inter-governmentalism and institutional fragmentation. The former implies that effective monitoring is largely dependent on the monitoring performance of the various member governments and, moreover, of the collective capacities of the members – which coordination costs may render less

than the sum of the parts. The latter means that members have an increasingly full plate of monitoring duties to conduct across a range of technical issue areas.

As a single solution to both problems, the authors propose a model of monitoring by delegation: creation of a permanent regional instance operating in the various areas of integration, composed of technical representatives from each member government, and vested with decision-making powers – yet subject to the political decisions of the member governments. Such an entity, the authors contend, would also help harmonize the currently disparate national norms and standard operating procedures in monitoring integration, and foster the regional technical capacities in monitoring.

Regional integration is a more novel phenomenon in Asia than in the Americas. Of the regional groupings, it is the Association of South-East Asian Nation (ASEAN) that has been at the forefront of seeking to develop monitoring mechanisms and indicators. In Chapter 6, Cuong Nguyen and Clay Wescott point to the ASEAN 'report card' introduced in 2000 as the first effort in this direction. The report card is intended as an annual catalogue of the status of implementation of major initiatives and decisions taken at the prior year's ASEAN summit. However, based on an input-output process monitoring that gained credence in the 1990s and centers on progress reporting, the report card was silent on the actual *impact* of initiatives. To address this gap, ASEAN members adopted the newer, results-based management approach to be implemented in 2004-2010.

The result-based approach centers on dientifying specific measures corresponding to each objective and desired outcomes. This methodology is more amenable to tracking different stages of regional cooperation, including confidence-building, policy harmonization, and integration, as well as capturing outcomes at both micro (project) level and the macro (program and policy) level. However, it faces financial and technical problems. One of the thorniest issues – and one that will be increasingly relevant in RTAs with multiple spheres of cooperation – is attribution, or quantifying the contribution of a particular program in cases where there are overlapping programs focused on similar geographical region and sectors.

In Chapter 7, William Sutherland characterizes monitoring in the Pacific Islands region as 'recent, limited and soft'. Monitoring started with the launching of the Regional Reform Agenda in 1994 as a simple system of annual reporting. Sutherland shows that a combination of internal and external driving forces act as pull factors for the further development of the monitoring system. In 2002, the monitoring system evolved into a more formal mechanism with a longer time horizon. In the framework of the Pacific Plan, the Task Force started to design a 'harder' and more comprehensive Monitoring and Evaluation Plan.

The development of the Pacific Islands' monitoring system can be seen as a reflection of the move from voluntary forms of shallow regional cooperation to more serious regional commitments. Here, the role of external donors (Australia, New Zealand, Asian Development Bank, and the EU) in the development of monitoring has been critical. The gradual consolidation of the monitoring system reveals the two-way relationship between monitoring and social participation: while improved monitoring can contribute to a more participatory regional integration process, effective monitoring crucially depends on firm participation by the stakeholders.

In Chapter 8, Rodrigo Tavares looks at the relatively loosely integrated South Asian region and, more specifically, three integration initiatives: the South Asian Association for Regional Cooperation (SAARC), the Indian Ocean Rim Association for Regional Cooperation (IOR-ARC), and the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation (BIMSTEC). The study reveals how closely the 'regional integration deficit' is linked to the 'monitoring deficit' as well as to feeble participation of regional civil society in the integration process. The author advocates the development of formal and informal monitoring instruments in order to better evaluate the achievements – and the lack thereof – in SAARC, to better allow comparisons with other regional integration processes, and, above all, to pressure national states to improve their performances in the regional context.

Integration schemes in the Middle East have long eluded extensive analysis. In Chapter 9, Bernard Savage investigates the governance of regional integration in the Gulf Co-operation Council (GCC). The GCC States have adopted a comprehensive framework for economic cooperation and an ambitious timetable for regional economic integration including a customs union, a common market, and a single currency. The GCC is essentially an inter-governmental process within a context of shared culture, religion, language and political systems. Furthermore the economic similarities between GCC states and in particular the economic dominance of hydrocarbon production and exports (with the exception of Bahrain and Oman) also provide, according to the author, a favorable integration environment. Spurred by political commitment the GCC has achieved considerable progress toward achieving its objectives with a relatively light institutional framework. The monitoring process as a result is also characterized as simple, with the central actor being the Ministerial Council supported by the Secretariat General and reporting to the Supreme Council (composed of heads of state). With the approach of the deadlines for the creation of a common market (2007) and a single currency (2010), the GCC intends to significantly reinforce its statistical infrastructure and create a new common institution, the Joint Monetary Authority, to manage the single currency. The Authority could provide economic analysis and research to strengthen GCC's current monitoring framework. This advance notwithstanding, the GCC may face a challenge stemming from the relatively low levels of social participation in the regional integration process.

In looking at the Arab Maghreb Union (AMU) in Chapter 10, Thouka Al-Khalidi shows that the AMU's Monitoring Committee has succeeded in performing routine assignments, but also that its impact on the integration process has been very modest, if not inexistent. Al-Khalidi recommends a two-track strategy for boosting the Committee's profile: on the one hand, to strengthen its compulsory character, seek more political support, increase the resources at its disposal and optimize its work program, and on the other hand, to broaden the monitoring process and open it to a more active participation of private sector and civil society.

In Chapter 11 on Eastern and Southern Africa, Hansohm and Adongo illustrate well that monitoring of regional integration in a developing country context is gradually developing and attracting different stakeholders: both intra-regional and extra-regional actors, both state and non-state actors. However, a number of obstacles remain, including the lack of consistent and comparable data, and potential gaps in the continuity in the monitoring effort. There is also an apparent need for

clearer distinctions between regional integration policies, their implementation, and their effects.

Structural, region-specific issues are important for understanding the dynamics and challenges of regional governance and monitoring. One constraint on the potential for effective monitoring is related to the existence of overlapping regional schemes and memberships, which is of particular relevance in Africa. This phenomenon makes it difficult to attribute certain effects to corresponding (regional) policies and to establish administrative and political responsibilities at the regional level. A second structural issue is the existence of member states with very different scales and preferences, such as is the case of Southern Africa. From the perspective of small member countries, priorities may lie in retaining minimal levels of policy autonomy in rulemaking, addressing adjustment costs of trade liberalization, and ensuring adherence by the larger countries. A third structural issue is the dependence of the regional processes and organizations on external donor funding. Although these funds may be of critical importance for the provision of certain regional public goods (like a working monitoring system), the danger exists that the mechanisms put in place lack the sufficient levels of local stakeholder participation to make them effective and sustainable.

In their discussion of the role and modalities of monitoring in the EU in Chapter 12, Costea, De Lombaerde, De Vriendt and Fühne show a very developed system of monitoring actors and processes, mirroring the complexity of the integration process itself. The European case is characterized by different types of actors (state and non-state), acting on different governance levels (supra-national, national, sub-national, local), combining formal and informal types of monitoring. From a political and governance point of view, the wide array of internal monitoring instruments that has been put in place in the EU is the result of a dynamic interaction between the supply and demand for monitoring at the European level. On the supply side, we find bureaucrats in the European institutions, European politicians, technical monitoring capacities, etc. On the demand side, there are national and sub-national authorities exposed to their own electorates, organized citizens at different governance levels seeking accountability from the European institutions, etc. The resulting monitoring system generates important amounts of policy-relevant information, provides possibilities for checks and balances, and helps to (politically) equilibrate the whole integration scheme. This is further strengthened by a considerable amount of external monitoring, both by state and non-state actors on different governance levels.

The authors further show that monitoring in the EU is gradually becoming a two-way process where (sub-)national states give mandates to regional institutions and therefore monitor what happens at the (supra-national) regional level, but where the regional level – at the same time – monitors the national level, because the implementation of several regional policies is de-centralized and depends on the national implementation of community rules. From a more technical point of view, in addition to classical reporting methods, statistical data gathering and financial auditing, innovative monitoring instruments have been developed by the European Commission that can certainly be inspiring for other regions in the world. These include: the Internal Market Scoreboard, the Eurobarometer, and EUROSTAT's policy indicators. Further, of particular significance is the development of the so-

called 'subsidiarity tests', which might well find replication in other parts of the world in similar or different multi-level governance contexts.

Many developing countries that are members to a regional integration scheme are today negotiating bilateral free trade agreements (FTAs) with external partners. Some of these agreements, such as the DR-CAFTA and the Association of Southeast Asian Nations plus Three (ASEAN+3 involving China, Japan, and Korea) process, are formed between an entire integration grouping and a third country; others are signed between individual members of a regional grouping and a third country, such as between Colombia and Peru, members of the Andean Community, each of which recently concluded bilateral trade negotiations with the United States. Monitoring of these schemes and, in particular, monitoring of multiple *and* differently sequenced FTAs *simultaneously*, presents challenges distinct from those of monitoring a regional integration process. In Chapter 13 on monitoring in North America, Suominen puts forth a number of key factors for taking on the particular complexities of monitoring manifold simultaneous FTAs. The main best practices include a clear agenda for implementation that is readily built into each agreement; light, flexible, and malleable bilateral monitoring apparatuses; domestic monitoring staff that is able to rapidly 'switch gears' and work across trade disciplines, across agreements, and across functions; an inter-agency process where the monitorers have a clear mandate to play the role of central coordinators; and a strong decision-making nucleus within the executive branch – such as a designated official in the executive office – able to break political logjams arising in the course of monitoring between government agencies.

Making Monitoring Work: Main Patterns and Lessons

The chapters of this book yield at least eight lessons. First, *monitoring has grown more challenging with the increased complexity of RTAs.* RTAs today incorporate numerous trade- and non-trade disciplines, which not only means that monitorers have to deal with a broad, diverse, and often highly technical agenda,, but also implies that a larger number of regional and national bureaucratic players in such agencies as customs and ministries of finance, agriculture, health, and labor have become involved in the monitoring process and are often key to seeing the implementation of various parts of an RTA through. What is more, there is also a larger number of actors with a economic and/or political stake in RTA implementation. The broadening of the monitoring agenda accentuates the need for strong monitoring nucleus that can effectively coordinate the implementers of the different parts of the RTA. Indeed, much of monitoring is like quarterbacking – coordination of specialized actors and calling the shots for getting the job done.

The second major lesson arising from the chapters is that *the scope of monitoring has expanded well beyond coordinating the implementation of the RTA commitments*. Monitorers are inherently multi-taskers, performing a wide range of duties to accomplish their goals. In virtually each region examined in this volume, monitorers' work starts before the to-be monitored agreement is signed and ratified, including such activities as conducting public outreach campaigns and lobbying for

the agreement. In many regions, public relations on trade policy issues make up a growing and even the largest component of monitorers' work. This in part evinces the growing politicization of the trade agenda, likely an outcome of the growing salience of trade in national economies around the world, and the increasing visibility of trade agreements in governments' economic agendas.

Furthermore, as the chapter on North America illustrates, monitorers' work does not end after the provisions of an agreement have been practically fully implemented: monitorers will still need to attend to the concerns of private sector actors trading and investing under the RTA's terms – and monitor any further commitments that the partner countries may have assumed during the implementation process. One emblematic case is that of the Security and Prosperity Partnership of North America created in 2005 under the auspices of the 1994 North American Free Trade Agreement (NAFTA), which contains a number of commitments for the partners to advance in such areas as border security and trade facilitation. While necessary for building legitimacy for the regional integration process and for helping the private sector stakeholders to apply and use the regional commitments, these functions diversify monitorers' tasks and add to their workload. An open question is whether it is monitorers who should carry out these tasks in the first place.

Third, the chapters concur that *the odds of successful monitoring are vastly improved when the RTA carries a clear, built-in agenda and processes for its administration and implementation*. The odds of monitoring are all the better when the RTA mandates the establishment of monitoring units in each of the member states to interface with each other: this will simply guarantee that each member state knows whom to call when seeking to reach the partner governments' implementers. The creation of national monitoring units also serves as a commitment device for the member state monitorers in their interactions with the partner country, and at the domestic level facilitates coordination between the many national ministries and agencies responsible for implementing the agreement, and helps break bureaucratic inertia and logjams in the event that various agencies differ in the goals and priorities in RTA implementation.

Fourth, *monitoring of RTAs – and particularly of unconsolidated and/or new regional schemes – starts at the national level*. Especially in the less institutionalized RTAs, regional organizations can play only a limited role in guaranteeing high-quality monitoring. What is more, weak monitoring capacities at the national level can torpedo the best of regional monitoring efforts in any RTA. The case studies explored here yield various factors that are particularly propitious for effective monitoring at the national level, including, as mentioned above, the adoption of realistic, reachable commitments and goals and clear monitoring mandates, well-trained and seasoned monitoring staff, and staff versed in international trade disciplines in the various government ministries and agencies charged with implementing the agreement.

The fifth lesson is that *effective monitoring carried by a regional organization reduces coordination and communications costs among RTA members, and alleviates the workloads of the individual RTA member governments*. However, from the perspective of a regional organization, coordination costs and informational demands are high: facilitating interactions between the various governments, collecting and disseminating region-wide information on the implementation process, and

addressing potentially multiple simultaneous and often highly technical problems between the different pairs of member states require clear methodologies, solid systems for information management, and a capable, permanent technical staff.

Sixth, as the case of the European Union shows, when the regional integration process is deepened and accompanied by the building of relatively autonomous supranational institutions, *new regional monitoring mechanisms are put in place that not only perform technically sophisticated monitoring tasks but that also start playing a more independent and political role*. To the extent that more budgetary resources are channeled through the (supra-national) regional level, new monitoring activities become necessary to ensure sufficient levels of transparency, accountability and political balance to make the multi-level governance architecture sustainable. The monitoring system is more effective and credible when different and relatively independent actors participate in it.

Consequently and seventh, in cases like the EU where the regional level acquires substantial amounts of power, not only are regional monitoring mechanisms put in place, but *the regional institutions themselves tend to develop and take new monitoring initiatives, start to monitor member states' compliance with the regional rules, and can start to take overall control over the monitoring process*. The result is a vertical two-way interaction where the national level monitors the regional level, but also vice versa. These patterns rise to the surface in the European Union, but, interestingly, echo in many developing country RTAs.

Yet, most often regional organizations face two dilemmas that have to be resolved for effective monitoring to take place. For one, governments often saddle regional organizations with various monitoring duties, yet are seldom willing to devolve power to the organization to enforce – to effectively rectify the problems detected in the monitoring process. Regional organizations, in other words, facilitate and advice governments as to how to comply with their regional commitments, but not enforce compliance. Two, regional organizations benefit from continuity in the technical staff, yet must be process- rather than personalities-driven. Monitoring of regional integration benefits from experienced staff with an intricate knowledge of the regional processes and constraints. However, the sustainability of the regional monitoring process ultimately hinges on the extent to which the monitoring processes are routinized in the regional organization and the region *per se* – so that the organization carries the monitoring functions through without relying on a few key personalities with contacts to the regional governments.

Finally, *in developing country RTAs, the role of external donors – third countries or international organizations – in monitoring can be crucial*. At the regional level, this has to do with the public good characteristics of monitoring where donors can help to solve the free rider problem for the goods' provision. While external players can enhance monitoring due to the fact that effective monitoring requires a critical quantity of resources, they do not foster monitoring simply by throwing money at monitorers. Rather, donors can improve monitoring through their capacity to raise the more poorly performing member states to a par, pressure reluctant states not to oppose the development of monitoring instruments, and reinforce the impartiality of monitoring agencies. However, when monitoring instruments are financed, designed

and/or put in place by external actors, the participation of local stakeholders is crucial for perpetuating monitoring.

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Index

activity-based monitoring 104, 114, 116
ADB (Asian Development Bank) 129
AERC (African Economic Research Consortium) 196
Africa 188–89, 192–94, 200, 201, 278–79
African Economic Communities 179–80
African Economic Research Consortium (AERC) 196
AFTA (ASEAN Free Trade Area) 105–6, 120
Andean Community Court of Justice 23, 24
Andean Community of Nations (CAN) 20–24
  Mercosur Agreements 17–18
Andean region 11–12, 24–27, 275
  bilateral Agreements 18–20
  Community of Nations (CAN) 20–24
  Court of Justice 23, 24
  Group of Three (G-3) Agreement 15–17
  Mercosur Agreements 17–18
  Regional Integration and Cooperation (RI/C) Agreements 12–15
Andean Trade Promotion (ATP) 25, 27
Arab Maghreb Monitoring Committee 184, 185, 186, 187–88, 189, 278
Arab Maghreb Union Agreement 180–82, 183–85, 186
Arab Maghreb Union (AMU) 179–80, 185–88
  Agreement 180–82, 183–85, 186
  Monitoring Committee 184, 185, 186, 187–88, 189, 278
  New Partnership for Development in Africa (NEPAD) 186–87
ASEAN (Association of Southeast Asian Nations) 103–4, 105–6, 111, 112, 121–22, 277
  Hanoi Plan of Action (HPA) 105, 107, 108–10, 113
  Vientiane Action Plan (VAP) 107–8, 114–15, 116, 117–19
ASEAN Free Trade Area (AFTA) 105–6, 120
ASEAN peer review 121
ASEAN Regional Forum (ARF) 106, 158
ASEAN Secretariat 109–10, 112, 118
ASEAN Standing Committee 109, 118
ASEAN Vision 2020 105
Asian Development Bank (ADB) 129
Association of Southeast Asian Nations *see* ASEAN

Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation *see* BIMSTEC
bilateral Free Trade Agreements 18–20, 106, 156–57, 166–67, 247, 280
Bilateral Trade Monitoring Commission 94
BIMSTEC (Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation) 144, 278

CACM (Central American Common Market) 58–59, 61, 276
Caribbean Community and Common Market *see* Caricom
Caribbean Free Trade Association (Carifta) 32, 34
Caricom (Caribbean Community and Common Market) 31, 33, 36–37, 50–51, 275–76
  Carifta 32, 34
  CSME 32, 34–35, 40–41, 43–47
  Grand Anse Declaration 38, 39
  monitoring instruments 40–41, 43–47, 52
  National Focal Points (NFPs) 46, 47, 48, 49–50, 53
  Secretariat (CCS) 37, 43–44
  SIRI 53–55
Caricom Single Market and Economy (CSME) 32, 34–35, 44–46
  CCS Unit 46, 47, 48–49
  Grand Anse Declaration 39
  National Focal Points (NFPs) 46, 47, 48, 49–50, 53
  Treaty of Chaguaramas 34, 39, 40–41, 51, 52

Carifta (Caribbean Free Trade Association) 32, 34
CCS (Caricom Secretariat) 37, 43–44
  CSME Unit 46, 47, 48–49
Central America 58–59
  Common Market (CACM) 58–59, 61, 276
  Costa Rica 76–80
  El Salvador 72–76, 81
  Guatemala 66, 68–72
  SICA 59–60, 61, 83, 276
  SIECA 60–65, 83, 276
  trade agreements 67
Central American Common Market (CACM) 58–59, 61, 276
Central American Integration System (SICA) 59–60, 61, 83, 276
CFSP (Common Foreign and Security Policy) 221–22
China 105–6
COMESA (Common Market for Eastern and Southern Africa) 192, 194, 198–99
Commerce Department (US) 265–66, 267
Common Market Council (CMC) 88, 95, 96
Common Market for Eastern and Southern Africa (COMESA) 192, 194, 198–99
Common Market Group (CMG) 88–89, 95–96
Common Monetary Area (CMA) 199
CONAPEX (National Export Council) 70, 71
CONATCO (National Administration Commission of Trade Agreements) 75–76
conflict management 16, 89, 97, 151–52, 157–58
convergence indicators 194, 203–4
cooperation programs 115–16, 119, 120
Costa Rica 76–80
Council for Trade and Economic Development (COTED) 37, 51
Council of Regional Organizations in the Pacific (CROP) 126

DAACI (Directorate for the Application of International Trade Agreements) 76, 78, 79–80
DACE (Directorate of Administration of Foreign Trade) 66, 71–72
DATCO (Directorate of Administration of Trade Agreements) 72–74, 75, 76
Department of Agriculture (US) 266
dispute settlement 25–26, 63, 93, 168, 260

East African Community (EAC) 205
ECLAC (Economic Commission for Latin America and the Caribbean) 58, 94–95
Economic and Social Consultative Forum (ESCF) 91
economic integration 191
  Arab Maghreb Union 188–89
  GCC 164–67, 171–72, 278
  SADC Integration Index (SII) 194–95, 199
  South Asia 151–52, 156–57
economic partnership agreements (EPAs) 200
El Salvador 72–76, 81
enforcement approach 12, 19, 25–26, 28, 275
ESCF (Economic and Social Consultative Forum) 91
Euro-indicators 226
Eurobarometer 226, 228–29
European Central Bank (ECB) 220
European Coal and Steel Community (ECSC) 211–12
European Commission 216, 218–19, 222, 239
European Community Agencies 221
European Community Pillar 216–21
European Constitution 213–14
European Council of Ministers 219, 220, 221
European Court of Auditors (ECA) 220, 234–37
European Court of Justice 220
European Investment Bank (EIB) 220
European Monetary Union (EMU) 213
European national parliaments 238–39
European Parliament (EP) 219, 222, 233–34
European sub-national parliaments 239–42
European Union (EU) 31
  Commission 216, 218–19, 222, 239
  Community Pillar 216–21
  Council of Ministers 219, 220, 221
  Eurobarometer 226, 228–29
  European Court of Auditors (ECA) 220, 234–37

EUROSTAT 223–26
external monitoring 237–38, 243
institutions 215–16
inter-governmental pillars 221–22
intergration process 211–14
Internal Market Scoreboard (IMS) 229–32
internal monitoring systems 279–80
national parliaments 238–39
Parliament (EP) 219, 222, 233–34
SAARC 153–54
sub-national parliaments 239–42
White Paper on European Governance 232
EUROSTAT 223–26
external monitoring 93–95, 215, 237–38, 243, 279
extra-regional initiatives 197–98

FEMM (Forum Economic Ministers Meeting) 128, 129, 130
Flemish Parliament 240–42
formal monitoring 148–50, 154, 156

GCC (Gulf Co-operation Council)
Charter 163, 169
Commission for the Settlement of Disputes 168
Consultative Commission 167, 169
economic integration 164–67, 171–72, 278
Ministerial Council 168, 169, 278
Secretariat General 168, 169
single currency 169, 278
Single Market 165, 174–76
Supreme Council 167
Unified Economic Agreement 164, 165, 166
governance 3–5
Grand Anse Declaration 34, 38, 39
Greater Mekong Subregion (GMS) 116
Group of Three (G-3) Agreement 15–17
Guatemala 66, 68–72
Gulf Co-operation Council *see* GCC

Handbook on Monitoring and Evaluating for *Results* 113–14
Hanoi Plan of Action (HPA) 105, 107, 108–10, 113
human development index (HDI) 198

India 143, 145–46, 149, 151, 155–56, 157
Indian Ocean Community (IOC) 203
Indian Ocean Rim Association for Regional Cooperation (IOR-ARC) 143–44, 278
informal monitoring 148, 150–51, 154, 156
Institute for Security Studies (ISS) 195, 200
Institute for the Integration of Latin America and the Caribbean (INTAL) 93, 94
integration indicators 276
Inter-American Development Bank (IDB) 93–94
inter-governmentalism 97–98, 165, 167, 172–73, 276, 278
Intergovernmental Authority on Development (IGAD) 204–5
Internal Market Scoreboard (IMS) 229–32
internal monitoring 215, 217, 223–25, 227–32, 279–80
IOR-ARC (Indian Ocean Rim Association for Regional Cooperation) 143–44, 278
ISS (Institute for Security Studies) 195, 200

JHA (Justice and Home Affairs) pillar 222
Joint Parliamentary Commission (JPC) 90–91, 96

Key Framework Elements 130–31

Lisbon Strategy 214, 224, 225

management approach 11, 28, 275
Mercosur Arbitration Panels 92
Mercosur Auditing Agencies 92
Mercosur Commission of Permanent Representatives (MCPR) 93
Mercosur Economic Research Network 94
Mercosur Joint Parliamentary Commission (JPC) 90–91, 96
Mercosur Parliament (MP) 91
Mercosur Secretariat (MS) 90, 96
Mercosur (Southern Common Market) 86–87
Andean Community of Nations (CAN) agreements 17–18
external monitoring 93–95
institutions 87, 88–93, 97–98
Olivos Protocol 92, 93
Mercosur Trade Commission (MTC) 89–90, 96
Mexican Foreign Trade Council (COMCE) 259–60, 261

Mexican International Trade Negotiations (SNCI) 256, 258–59, 260, 261–63
Mexico 66, 248, 256–63
monitoring 2–3, 11, 31, 85, 154, 182, 184
monitoring instruments 14, 35, 36–37, 39–41, 43–44, 46, 53–55
monitoring mechanisms
  Andean region 11–12, 15–16, 17–18, 21–23, 24–27
  Arab Maghreb Union 183–85
  ASEAN 109–10, 117–18, 119–21, 277
  Central America 80–84, 276
  enforcement approach 12, 19, 25–26, 28, 275
  European Union (EU) 214–15, 216–22
  external 93–95, 215, 237–38, 243, 279
  Gulf Co-operation Council (GCC) 170–71, 173–76, 278
  internal 215, 217, 223–25, 227–32, 279–80
  management approach 11, 28, 275
  Mercosur 85, 87–91, 92, 93, 95–96, 276–77
  output-based 104, 113, 182, 183
  Pacific Islands Forum 128–29, 133, 135–36
  result-based 113–14, 116–17, 118–19, 122, 182–83, 277
  SAARC 148–49, 150–51, 278
  self-monitoring 16, 17–18, 19, 25, 26
  South Asia 142, 148–50
  third-party 19, 22–23, 25, 26, 27
monitoring models 252–56
monitoring processes 169–70, 215, 250, 269–71, 275–80
Monitoring Regional Integration in Southern Africa Yearbook 196–97
monitoring systems 250, 280–83
  ASEAN 108–9, 113, 117–18, 121–22
  Central America 66, 68–70, 71, 72–75, 76–79, 80–83
  European Union (EU) 279–80
  Pacific Islands Forum 127, 277
  United States 252, 253, 263–69, 271–74

NAFTA (North American Free Trade Agreement) 250–52
Namibian Economic Policy Research Unit (NEPRU) 196–97, 199
National Administration Commission of Trade Agreements (CONATCO) 75–76
National Export Council (CONAPEX) 70, 71
National Focal Points (NFPs) 46, 47, 48, 49–50, 53
NEPRU (Namibian Economic Policy Research Unit) 196–97, 199
New Partnership for Development in Africa (NEPAD) 186–87
North American Free Trade Agreement (NAFTA) 250–52

ODASP (Organization of Support of the Productive Sector for International Trade Negotiations) 74–75
Olivos Protocol 92, 93
open-ended indicators 43–44, 46
Organization of Support of the Productive Sector for International Trade Negotiations (ODASP) 74–75
Ouro Preto Protocol 86, 87, 90
Output-Based Management (OBM) 104, 113, 182, 183

Pacific Agreement on Closer Economic Relations (PACER) 134–35
Pacific Island Countries Trade Agreement (PICTA) 134, 135–36
Pacific Islands Forum 125, 126–29, 131–32, 136, 277
Pacific Islands Forum Secretariat (PIFS) 126, 128, 130–31, 136
Pacific Plan 136–39
Pacific Regional Organizations 126
Pakistan 143, 145–46, 149
performance indicators 192–94, 205–6, 276
  convergence 194, 203–4
  Euro-indicators 226
  open-ended 43–44, 46
  Pacific Plan 136–37
  poverty 196
  SADC Integration Index (SII) 194–95, 199
  SIRI 53–55
  Structural 224
  Sustainable Development 224–26, 227
  time-bound 39, 40–41, 43–46, 52
  World Development 3, 198, 203

PICTA (Pacific Island Countries Trade Agreement) 134, 135–36
PIFS (Pacific Islands Forum Secretariat) 126, 128, 130–31, 136
policy harmonization 25, 27
political commitments 24–25, 26, 27
Post-Forum Dialogue (PFD) 126–27
poverty indicators 196
Protocol of Guatemala 58–59, 61
Protocol of Tegucigalpa 58, 61

Regional Integration and Cooperation (RI/C) Agreements 12–15
  Andean Community of Nations (CAN) 17–18
  Andean Community of Nations (CAN) – Mercosur Agreements 18–20
  bilateral Free Trade Agreements 20–24
  Group of Three (G-3) 15–17
Regional Integration (RI) 191, 198–200, 202
  indicators 192–94, 205–7
  monitoring 12–15, 24–27, 125, 130–34, 192–98
Regional Reform Agenda 125, 128, 130–34, 136, 277
Regional Trade Agreements (RTAs) 1–3, 6, 72–74, 141, 144, 166, 280–83
regionalism 11, 133–34, 136, 138–39, 141, 142
Result-Based Management (RBM) 113–14, 116–17, 118–19, 122, 182–83, 277

SAARC Council of Ministers 148
SAARC Protocols 149, 150
SAARC Regional Forum (SRF) 158
SAARC Secretariat 150–51
SAARC (South Asian Association for Regional Cooperation) 142–43, 155–56
  conflict management 157–58
  European Union (EU) 153–54
  intra-regional trade 146
  monitoring mechanisms 148–49, 150–51, 278
SAARC Standing Committee 148–49
SADC Barometer 199–200
SADC Integration Index (SII) 194–95, 199
SADC (Southern African Development Community) 194–95, 199
SARPN (Southern African Regional Poverty Network) 195–96, 199
Saudi Arabia 171, 174
Secretariat of Central American Economic Integration (SIECA) 60–65, 83, 276
sector cooperation 25, 27
self-monitoring 16, 17–18, 19, 25, 26
SICA (Central American Integration System) 59–60, 61, 83, 276
SIECA (Secretariat of Central American Economic Integration) 60–65, 83, 276
SIRI (system of indicators of regional integration) 53–55
SNCI (Mexican International Trade Negotiations) 256, 258–59, 260, 261–63
South Asia 141–42, 143–44, 146–48
  economic integration 151–52, 156–57
  European Union (EU) 153–54
  monitoring mechanisms 148–51, 278
  regional integration 154–55
  SAARC 142–43, 150–51, 155–56, 157–58
  state-centric 144–46
South Asian Association for Regional Cooperation (SAARC) 142–43
South Asian Free Trade Area (SAFTA) 156–57
South Asian Preferential Trade Agreement (SAPTA) 156
Southern African Customs Union (SACU) 171, 204
Southern African Development Community (SADC) 194–95, 199
Southern African Regional Poverty Network (SARPN) 195–96, 199
Southern Common Market *see* Mercosur
Specialized Meeting of Governmental Internal Control Agencies 92
Structural Indicators 224
subsidiarity 220, 239, 240, 243
Sustainable Development Indicators (SDI) 224–26, 227
system of indicators of regional integration (SIRI) 53–55

third-party monitoring 19, 22–23, 25, 26, 27
time-bound indicators 39, 40–41, 43–46, 52
TPAs (Trade Promotion Agreements) 18–19, 26
Trade Agreements (FTAs) 26

bilateral (FTAs) 18–20, 106, 156–57, 166–67, 247, 280
regional (RTAs) 1–3, 6, 72–74, 141, 144, 166, 280–83
Trade Promotion (TPAs) 18–19
Trade Commission (MTC) 89–90, 96
Trade Promotion Agreements (TPAs) 18–19, 26
Treaty of Amsterdam 222, 238, 239
Treaty of Asunción 86
Treaty of Chaguaramas 34, 39, 40–41, 51, 52
Treaty of Maastricht 216, 220, 221, 239

Unified Economic Agreement (GCC) 164, 165, 166
United Nations Development Program (UNDP) 113–14, 198
United Nations Economic and Social Commission for Western Asia (UN-ESCWA) 170, 185
United Nations Economic Commission of Africa (UNECA) 185, 197
United States
conflict management 269–70
Trade Agreements 18–19, 249, 252, 253, 263–69, 280
US Congress 268
US Trade Agreements 18–19, 249, 252, 253, 256, 263–64, 280
US Trade Representative (USTR) 264–65, 268

Vientiane Action Plan (VAP) 107–8, 114–15, 116, 117–19, 122

White Paper on European Governance 232
World Bank 3, 114, 198, 203
World Development Indicators (WDI) 3, 198, 203
World Trade Organisation (WTO) 204

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