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Agricultural Development and Regional Economic Integration

1. INTRODUCTION

During the last twenty years economic integration at the regional and sub-regional level has gained a vast audience and commanded increased attention in both developed and developing countries.[1] Several schemes encompassing a variety of approaches have been implemented with varying degrees of success and, with or without modifications of the original structure, are still in existence. Although the performance is, to say the least, highly uneven, it cannot be denied that a vast body of practical knowledge has become available to the international community through these efforts. The literature has been enriched not only by an increasing number of case studies illustrating the objectives, approaches and problems of the integration schemes but also by significant advances in the theory of economic integration. Attention has gradually shifted from integration ventures between developed economies to the specific environment, solutions, and conflicts of similar initiatives among developing economies. At the same time theoretical speculations have moved away from the rather simplified propositions, concerning customs unions, put forward by the pioneering work of Viner in the early fifties and have lead to more elaborate formulations covering a wider set of objectives and variables than those postulated by the comparative static analysis of welfare gains, based on the balance between trade creation and trade diversion effects (Robson, 1972). A new branch of economic theory has thus emerged alongside and interacting with development economics and international trade theory (Andic, *et al.*, 1971; Belassa, 1961). Similarly, political scientists have devoted great attention to regional organizations and to the conditions and circumstances under which regional economic integration can flourish and contribute to political union and the preservation of peace. (Bussey, *et al.*, 1971; Hansen, 1968; Nye, 1971). (See fig. 1 for summary of selected integration schemes).

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TABLE 1. *Summary Data of Selected Integration Schemes*

Scheme	Population (millions) (U.S. dollars)	GNP per capita	Member countries
EEC – European Economic Community	255	2,900	Belgium, France, Germany F.R., Italy, Luxemburg, Netherlands, Denmark, Ireland, Great Britain
CMEA – Council for Mutual Economic Assistance	360	1,500	Bulgaria, Czechoslovakia, German D.R., Hungary, Mongolia, Poland, Romania U.S.S.R., Cuba
LAFTA – Latin American Free Trade Association	250	670	Argentina, Bolivia, Brasil, Colombia, Chile, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela
Andean Group	70	600	Bolivia, Colombia, Chile, Ecuador, Peru, Venezuela
CACM – Central American Common Market	16	415	Costa Rica, El Salvador, Guatemal, Honduras, Nicaragua
CARICOM – Caribbean Community	5	740	Barbados, Guyana, Jamaica, Trinidad and Tobago*
EAC – East African Community	36	140	Kenya, Tanzania, Uganda
UDEAC – Custom and Economic Union of Central Africa	9	240	Cameroon, Central African, Republic, People's Republic of Congo, Gabon
CEAO – West African Economic Community	26	170	Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta
ECOWAS – Economic Community of West African States	120	155	Benin, Guinea, Guinea Bissau, Ivory Coast, Niger, Nigeria, Liberia, Mauritania, Senegal, Sierra Leone, Togo, Upper Volta, Gambia, Mali, Ghana

* The following countries have joined the Community in 1974: Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts–Nevis–Anguila, Santa Lucia and St. Vincent.
Source of data: World Bank Atlas, 1974 (data refer to 1972).

The existing integration schemes practically cover the entire spectrum of integration forms, from free trade areas to customs unions, common markets and communities (the latter involving a certain amount of common policies, policy harmonization or common services). Full economic union has not been achieved yet by any of the schemes. Beyond the official labels, which often embody a good deal of aspiration, one can observe considerable differences in the degree of involvement of participating countries, one with another, and at times a combination of ingredients which theoretically belong to separate levels of integration. For this reason it seems preferable to speak of forms rather than of levels of integration which imply the existence of a *continuum* from free trade areas to economic union, i.e., an increasing degree of reciprocal involvement (Belassa, 1961).

Important differences are also observable with regard to the degree of supra-national authority, namely the types of decisions which regional institutions can make and the procedures through which decisions are reached (whether by a judicial organ acting alone, or by representatives of states with or without veto power). In some instances there is practically no supranational authority; regional institutions advance proposals which then need the approval of the partners concerned.

There are, finally, other types of arrangements – which some would consider as belonging to regional economic integration and others to simple forms of regional cooperation – deliberately restricted to specific development projects (river basins, interstate roads, etc. . . .). These arrangements are considered to fall outside the scope of the present paper.[2]

Another point is worth stressing at the outset. The declared or implicit fundamental reasons of any treaty or agreement concerning regional economic integration is the stepping up and diversification of the economic base of the group as a whole and of each participating country. Whatever the stage of development, promotion of industrial development is the main goal. Increased agricultural output, modernization of the sector or improvement of the well-being of the rural population are never high on the priority list; at best they are placed on equal footing or even considered as by-products of economic growth stimulated by the other sectors. Not infrequently the agricultural sector is the source of strong embarassment at the time of deciding if, to what extent and how, integration arrangements should extend to agricultural commodities and should incorporate something more than loose goals of agricultural development. The result is that when examining reports on achievments in the agricultural field one inevitably discovers that progress has been slow, although several commissions have been at work, problems studied and endless negotiations carried out. If in one particular instance, the EEC agriculture has had for a considerable time a role far greater than its sheer economic weight, it is not because the founders had envisaged that it should be so. The reasons were of an entirely different nature and almost certainly not forseen at the time of drafting the Rome Treaty.[3]

Starting from these observations, in designing the structure of the paper, I have had to make some important choices. Rather than describing the differences of integration approaches and the role assigned to the agricultural sector, I have attempted to explain the reasons behind observable differences. Furthermore, and in so doing, rather than confining political factors into the background as intruding elements in what would otherwise be a beautiful field of activity and study where order and rationality dominate, I have given much space to political factors and to their linkages with economic interests and objectives. I am aware that this choice may have unduly sacrificed the treatment of agricultural development problems. However, given the introductiory nature of the paper, to be followed by others discussing specific cases, I hope that its content will serve the useful purpose of helping to place agricultural problems in a broader setting.

Consequently, the paper is divided into two parts. The first deals at some length with the background factors and motivations leading to regional integration arrangements, with specific reference to experiences in Europe, Latin America and Africa. The second part purports to review critically the problematic areas of regional integration in the light of the main propositions of the theory of international economic integration and then tries to appraise how agriculture can contribute to the integration process or derive benefits from it.

PART I

Background Factors and Motivations for Regional Integration

Steps towards regional economic integration can be looked upon as a response to the challenges (in terms of constraints and possibilities) inherent in the world economic order issued from the international political divisions and alignments produced by the last world conflict. The changing relations between the two super-powers (from cold-war to bipolar stability or peaceful coexistence), the long period of economic growth coupled with the great expansion of international trade, the acceleration of the decolonization process jointly with the perpetuation of economic dependence of the developing world, the emergence of a great number of new nation-states and the increasing political weight of the Third World, provide the overall setting for tracing the origin, shapes and vicissitudes of economic integration at the regional level. Obviously these world events and related trends have had a different impact in the various continents due to their pecularities in terms of history, geographic features and role played in international affairs. Since it is in Europe, Latin America and Africa that economic integration has advanced most, the following general remarks mainly reflect conditions, economic and political, of these three continents.

Even if political union is rarely an explicit aspiration of the contracting parties of an economic integration scheme and even if, where pursued, any attempt in this direction has been rather disappointing, the fact remains that economic integration treaties or agreements are politically inspired acts. As such they involve both internal actors (political, economic and bureaucratic forces or elites) and external actors whose degree of cogency is a function of several variables reflecting the extent of economic dependence, type of political alignments, development aspirations of each nation and of the regional groups as a whole. Consequently, the formation of regional economic groupings is often founded on a multiplicity of motivations which may differ not only among participating countries but also between groups within the countries themselves.

Europe

To exemplify this multiplicity of motivations it may be useful to recall that the Rome Treaty establishing the European Economic Community among the Six was the end product of a complex set of forces and the final outcome of previous various forms of cooperation in the economic, defence and political field.[4] Without any ambition to cover all of these forces or to list them in order of priority I shall simply mention those which, in my judgement, were the most significant. Starting from the external actors, one must recall the interest of the United States, during the cold-war climate, to reinforce the economic and political power of Europe both as a market for American exports and as a cushion against the pressure from the East. In this contest the need to settle the German question, (rearmament, French–German balance of power) certainly had a considerable weight. Furthermore, the establishment of the EEC owes much to the impact of a federalist movement which even before the end of the war was already active in pursuing the idea of a united Europe and was later able to convince the political leaders of the need for supra-national authorities and strong community institutions. On the economic front, the stronger industrial firms, national and multinational, were pressing for an enlarged market and for the freer movement of goods, labour and capital, while some nations, with a weaker industrial base and therefore reluctant to rapidly move towards liberalized trade of manufactures, were nonetheless interested in expanding their agricultural exports to the potential partners.

The need to find a compromise among divergent expectations by ensuring, in perspective, a balanced distribution of opportunities and benefits, made it therefore necessary to include agriculture within the scope of the common market, but at the same time its very inclusion called for a substantial departure from the general philosophy of the Treaty. Industries, banks, commercial services were looking forward to a more liberal climate, away from the restrictions imposed during the thirties and the war period, while the expectations could hardly apply to the agricultural sectors of most of the countries; clearly the strict application to the agricultural sector of the general competition rules would have been incompatible with existing national farm prices and income support policies and with the internal balance of political power, and would have caused, politically and socially, unacceptable adjustment pressures.

If the approaches and the processes of integration are influenced not only by the consensus they gain but also by the forces opposed to it, then it is appropriate to mention among the background conditions of the EEC the existence in two countries of large and voiceful leftist parties and trade unions strongly opposed at that time to the strengthening of the European economy along neo-capitalist lines. The formation of a large common market and the expected benefits in terms of increased welfare were probably envisaged by the common market proponents as a means to dilute the influence of these organizations and to undermine the causes of their strength.

The interplay of these forces contributes to explain not only some of the special features of the EEC, namely why only six countries joined in the initial effort, why a relative high degree of supra-nationality was introduced, but also why the basic propositions of the Treaty and its instruments are inspired by a *laissez-faire* philosophy with great reliance on the liberation of market forces under competitive conditions and their capability to bring about increased efficiency, faster economic growth and widespread distribution of benefits. It also explains the degree of protection accorded to agriculture and the adoption of a common agricultural policy, resulting in common market organizations and common prices.

It is worth stressing, in this connection, that the formulation and the implementation of a common agricultural policy, especially during the early sixties, accentuated the political role of the Commission, while the agreements reached by the Council of Ministers on agricultural issues, in the absence of other relevant common policies, were often regarded as strategic steps for asserting the identity and the liveliness of the Community as an institution.

As it is well known, the background conditions or structural factors of the initial period have changed through time and not only from the enlargement of the Community from six to nine countries. The European economies have become increasingly integrated, mainly because of the great expansion of intra-regional trade, and even if little progress has been achieved in the harmonization of economic and social policies. The integration process itself has given rise to a number of conflicts both within the Community and with the rest of the world. The increasing competitiveness of European manufactures and the effects of the agricultural policy have created a conflicting situation with the U.S., of which the monetary crisis is an important outcome. And with the monetary crisis the working of the CAP has become increasingly complex introducing further grievances over the distribution of costs and benefits. Also the compounding difficulties of the seventies have made it evident how much the EEC is a case of interdependence among unequal partners. The polarization effects of an integration process dominated by market forces (widening rather than reducing disparities between and within nations) and the different impact on the balance of payments of the energy crisis and of inflationary trends have accentuated the assymmetry between partners: an asymmetry which up to second half of the sixties had been masked by a situation of relative stable prices and fixed exchange rates, high rates of economic growth in all countries and the expectation of a continued flow of benefits.

In this connection the modest adaptive capacity of the Community must be noted. The Community has been substantially unable to recognize with concrete actions the great internal, economic, social and political changes which have taken place since the time of the Rome Treaty and the new challenges which have come from the world scenery. If in some instances (the Lomé Convention is the outstanding example) it has been able to speak with one voice and to act with illuminated self-interest, on the whole its action, under the impact of the world economic crisis, has been dominated more by the revival of nationalistic interests than by a redefinition of objectives and a renewed sense of identity. (Amoa, 1974; Dams, 1975; Awad, 1974).

Regional economic integration is not, as is well-known, a prerogative of Western Europe. The Council of Mutual Economic Assistance (CMEA) among socialist countries was established as early as 1949, and can be interpreted substantially as a move towards the consolidation of the socialist block in the face of the rapid recovery and development of the Western European economies. The declared scope was the intensification of economic cooperation among partners, on the basis of the socialist international division of labour, in order to speed up the rate of economic development of each individual country. Primary attention has been given to industrialization, through the coordination of national economic plans and with regard to the most important industrial branches. Several international institutions have been established in order to promote the desired level of cooperation as well as to facilitate inter-state trade, but it is interesting to note that none of these institutions enjoys supra-national decision power, even after the adoption of the Complex Programme of 1971. The mechanism for the coordination of the five year economic plans provides a framework for determining, normally on a bilateral basis, the structure and volume of goods entering intra-regional trade. Agriculture has so far received only minor attention, on account of the priority accorded to industrialization and of the considerable differences among countries, in the size and structure of the agricultural sector and in national policies. An overall tendency towards greater self-sufficiency in food is however detectable and the cooperation at the regional level is mainly directed to stimulate scientific and technical progress, as a means to foster growth in output and productivity. Measures to minimize the effects of imported inflation as well as to increase the value added in agricultural exports to third countries have lately been considered (Lavigne, 1973; USDA, 1974/1975).

Latin America and Africa

(a) *Common features.* The formation of the EEC, on account of its considerable share in world production and trade, has in many ways influenced the development of regional integration initiatives elsewhere, especially in Latin America and Africa. In these continents, however, integration attempts and their realization have been nurtured and conditioned by quite a different set of historic and structural factors. Let us first of all look at the features which are common to both continents.

The two continents have a similar position with respect to the international division of labour inasmuch as they are still to a large extent suppliers of oil, minerals and primary agricultural products to the industrialized countries and buyers of investment and consumption goods, including food.[5] Their share of world exports is on the whole a modest one (from 4 to 5%); this is due to the limited number of commodities traded and to the heavy dependence of some countries on one commodity only. As to the destination of exports and sources of imports, the markets of the U.S. and Western

Europe account for approximately two thirds (but for Africa the European markest are by far the most important). The extent of intra-regional trade is also very small compared to that of Western Europe or CMEA countries; in Africa only 10% of total exports go to other countries of the continent and only 5% of total imports are of continental origin, while in Latin America the relevant percentages are 18 and 13 respectively.

Expansion of inter-country trade is hindered by the lack of communication and transportation facilities, the restricted pattern of production, high cost of manufactured products and international payment difficulties. By and large, development efforts have been directed, with nuances from country to country, towards the twofold objective of increasing exports of traditional commodities and of expanding the production of manufactured goods for internal consumption, through a policy of import substitution involving a high degree of protection from external producers. In so doing countries have had to withstand great fluctuations in export revenues, and to suffer from the deterioration in the terms of trade of primary commodities (except for the very recent period and certain primary products); at the same time for their industrial development they have had to rely on foreign investors, external sources of financing and imported technology and to face the limitations derived from the meagerness of internal markets. The rapid growth of population and the urbanization processes have increased food demand and stimulated the adoption of imported consumption models by the higher income strata with the result that the scarce foreign exchange resources have often had to be diverted to importing consumption goods rather than investment goods.[6] These trends have tended to accentuate rather than lessen their economic dependence on the developed world. Therefore, long before the Third World was able to challenge the righteousness of this economic order, regional economic integration among developing countries came to be looked upon as a means to surmount the limitations of the individual country approach to economic development; more specifically as a suitable framework for fulfilling a number of deeply felt aspirations or needs such as: to improve terms of trade for their exports, to place import substitution on a sounder basis thanks to wider markets (with greater potentialities for specialization in production and for savings of hard currencies for import operations) and to adopt other policies (concerning foreign investments, infrastructure, cooperation in production of services) appropriate to foster economic growth.

But beyond these common features which can easily be generalized to the whole of the developing world, to understand development strategies and approaches to regional economic groupings one must also look at those factors which are specific to each continent or large groups of countries.

(b) *Latin America.* The most distinguishing feature of Latin America derives from its special relations with the United States. Since the time of the Monroe Doctrine, the U.S. has claimed a protective role over the Latin American continent and manifested its tight control over the strategic aspects of economic and political life of most of the countries. The main consequence of this situation has been the maintenance of the *status quo* in the internal power structure, which originated out of the colonial period, and was based on oligarchies, large concentration in land ownership and, later on, a diffused connivance between foreign investors and the ruling class. As a reaction to this dependency relation, in some countries as early as the beginning of this century, there developed nationalistic movements attempting to assert the right of each nation over the control and utilization of its own resources and to affect a certain redistribution of power in line with ongoing changes in the social structure. These and other later similar movements gained strength due to the relaxation of restrictions imposed by the cold war and the increasing involvement of the U.S. in other parts of the world. In an apparent paradox, since the early sixties, nationalism and regional integration efforts have interacted, giving rise to a number of conflicts and dilemmas which have at their heart the choice of development strategies and of the relevant approaches to integration. Should priority go to national integration or to regional integration or should the two be consciously pursued concomitantly? For those asserting the latter position the real choice is not whether to integrate or not but whether integration should proceed from "inside and from below" and with the support of development planning, at both national and regional level, or from "outside and above" which is substantially the result of market forces, aided by trade liberation measures (Garcia, 1969). Under the influence of external forces and the internal dominant groups it is the latter approach which has been priviliged so far, although significant departures have lately found some room (with the creation of CARICOM and the formation of the Andean Group). Political and economic elites are also accused of having resorted to integration arrangements (mainly involving freer trade) as a means of "exporting" their internal problems; horizontal expansion of markets through regional integration is considered as an alternative to increased internal demand through fuller employment and better income distribution between areas and between social groups (Lizano and Willmore, 1975). These remarks help to explain, I believe, why the regional economic groups in existence have placed very little emphasis on supra-national institutions or have deliberately avoided any supra-nationality, and why rather elaborate procedures based on multilateral negotiations characterize the decision-making process.

It is also in the light of the previous remarks that one must appraise the little attention accorded to the agricultural sector, compared to industry, in the design of integration schemes and during the integration process. The main feature of the agricultural sector in most of the countries is the sharp dualism between the modern export-oriented sub-sector (whose products go mainly outside the region) and the traditional sub-sector producing for the internal markets but also incorporating large subsistence components, hardly integrated with the rest of the economy. Great differences can be observed among countries in price levels (for products and for inputs), in price policies and in the role and weight of state marketing institutions charged with the procurement of major staple foods. Under the circumstances, without tackling the problem of policy harmonization, trade liberalization directly or indirectly affecting agricultural commodities soon run up against objective limitations, as no country is willing to accept or able to cope with the disarray in the price system and the probable negative employment effects, on the great masses of small producers, that would be caused by a widespread elimination of barriers to trade.

A greater concern for agricultural matters has been recently displayed. (ECLA/FAO, 1975). The Caribbean Community has shown awareness of the special needs of small or less developed countries and envisaged an important role for regionally planned economic development projects, among other goals, to raise agricultural production and to affect a better distribution, in time and space of available foodstuffs. Considerable attention has also been given to the creation of Community institutions and the joint production of services.[7] Similar developments can be observed with respect to the Andean Group where, notwithstanding the priority accorded to industrial programmes, some steps have been taken towards the coordination of national agricultural policies and the design of joint programmes in various agricultural fields (BID, 1974).

(c) *Africa.* In Africa, in spite of the fact that the delocalization process is a recent phenomenon and still an unfinished task, regional economic integration already has firm roots and involves a large number of countries. This is partly due to the durability of colonial influence after the proclamation of political independence. In fact, the formation of economic groups has a long standing tradition thanks to colonial ruling. The classical case is provided by the common market among the countries now forming the East African Community which was set up during the twenties under British rule. Similarly, the Custom and Economic Union of Central Africa is an outgrowth of the Federation of French Equatorial Africa. The existence of common currencies, discontinued, however, by EAC after 1967, was an indication of the degree of actual integration among the participating countries. The continuation of pre-existing economic, political and cultural relations, even if under modified forms, conditioned not only by the pecularities of the production and trade structures set up by the colonial ruler but also by the coming into power, with independence, of political and bureaucratic elites favouring the maintenance of special relations with the mother country (see *African Digest Guide,* No 8/9). However, the old aggregation forces gradually lost their impact and have been replaced by new aggregation of forces, of both internal and external origin. Population increase, advances in economic development and urbanization have caused the emergence of new classes and social strata, of which often the military regimes are the expression; also the formation of new nation-states and their political structuring more than elsewhere have been influenced by the climate of "peaceful coexistence" and competition between the super-powers and as well by the role played by other emerging powers. The search for new forms of regional cooperation, in economic and political matters, and the explosion of antagonisms have proceeded side by side, aggregations or divisions being centered as much on ideologies and concrete forms of political organizations, as on control of resources, attitudes towards former imperial powers (and their new forms of dominance), meaning and shape of African unity, acceleration and total completion of decolonization. The establishment of ECOWAS (Economic Community of Western African States) in 1974 is the most outstanding example of the new aggregation trends, in that for the first time it brings together a large number of former French and British colonies (see, Africa Research Bulletin). It is also an indication that if African unity is a long-term objective and nationalism a present necessity, economic integration at the regional level is a vital instrument for economic growth and social development objectives.

To appreciate progress along these lines it is worth remembering the importance of nationalism within present African context.[8] The nation-state may well be an obsolete form of political organization in the old world but it is far from having exhausted its role in the developing countries and particularly in Africa. In the latter, "nationalist leaders are in a position more analogous to seventeenth century than to nineteenth century Europe in that they still need the double-edged weapon of sovereignty to cut both internal tribal ties and external ties to consolidate the state they have captured" (Nye, 1971). The national state in the hands of modernizing elites can be an important tool for the needed internal changes of their societies. The existence of national states and of rivalries among them may of course play to the advantage of the multinational businesses which tend to exploit location advantages, fiscal benefits, low cost manpower and ease of profit repatriation. But rather than denying the validity of national sovereignty this danger simply stresses one of the many contradictions developing countries must face in their relations with the developed world and among themselves. A partial way out of this problem, according to proposals already being considered, could be the creation of multinational enterprises owned by the partners of an integration scheme.

The present stage of development of most African countries must also be borne in mind when considering the types of integration arrangements which African countries have privileged and the special obstacles which regional activities must overcome. The small weight of intra-regional trade is not, or not only, the outcome of trade barriers but rather a direct consequence of the weakness of the economic base: simply, there is not much to trade among partners (Penouil, 1974). Furthermore, in many instances, products cannot or are not allowed to move freely even within the same country, and taxes on imports are often an important source of state revenues. Free intraregional trade cannot therefore rank very high in the list of development tools. Expanded trade, if it is to flourish, will have to derive from a more complex and sophisticated pattern of production specialization between partner states; it cannot rely solely on complementarity, unless, discarding the developed country pattern of production, more rigid planned arrangements are followed. Consequently, priority must go to other fundamental objectives; the building up of a physical and a social infrastructure, the choice of types and location of industries (including agricultural processing), comprehensive programmes of rural development, acquisition and allocation of foreign financing; in essence to the direction of investments which will establish the production and trade patterns of many years hence. The objectives of simultaneously pursuing internal and external integration is probably even more important here than in the Latin American case. Perhaps, this explains why integration arrangements now operating in Africa have taken the form of economic communities with emphasis on the joint running of services and joint development programmes rather than on the freer movements of goods.[9]

PART II

Benefits from Integration and Agricultural Development

We must now deal more specifically than in the preceeding sections with the relationship between agricultural development and economic integration processes. In order to do so some references to the theory of economic integration are necessary with the understanding, however, as already underlined at the outset, that what matters here is not theory *per se* nor the analytical tools which have been developed but, on the contrary, the problematic areas to which attention has been directed and the conclusions reached through theoretical speculations as well as applied work. The relevance of these conclusions to the specific problems of the developing countries and to their agricultural development objectives will be the main concern of this second part.

The principal sources of economic gains from arrangements for international economic integration, providing an incentive for countries to participate, include:

(1) Increased production due to specialization according to static comparative advantage.
(2) Increased output due to better exploitation of scale economies.
(3) Gains from improvements in the terms of trade of the group as a whole with the rest of the world.
(4) Forced changes in efficiency arising from increased competition.
(5) Integration-induced structural changes affecting the quantity or quality of factor inputs such as labour, capital (including improvements in the rate of technological progress) and enterprise (Robson, 1972).

The basic pure theory of integration as developed by Viner and others has been primarily concerned with the first of the sources listed above, with specific reference to customs unions and trade in final goods. The basic argument is that if internal tariffs are eliminated and a common external tariff set up, there will occur shifts in trade: if sources shift from a high-cost domestic production to a lower-cost production in a partner country, trade creation is the result, whereas trade diversion occurs when the shift takes place from the lowest-cost external producer to a higher cost partner. If trade creation is predominant, then overall efficiency is increased since more can be produced from given resources. A custom union in this case benefits at least one member and the world at large; if trade diversion predominates the union is injurious to at least one member and the world at large. Although later extensions by also explicitly considering consumption effects (due to union-induced changes in relative prices) have pointed out that trade diversion does not necessarily produce negative welfare effects, the limitations of the theory and particularly of its heuristic value derive from it static nature and from the rather rigid assumptions on which it is based (balanced trade, capacity of prices to reflect true opportunity costs, constant returns to scale). Furthermore, the theory assumes that countries joining a custom union are essentially pursuing the objective of increasing allocative efficiency within the existing economic structure and that the alterations in trade patterns are the unique source of benefits.

Further extensions of the theory have had therefore to recognize the existence of a multiplicity of objectives and of sources of benefits and the need to incorporate structural changes and to account for dynamic effects. It is interesting to note that this broader approach has become necessary not only to reflect more accurately the conditions and potential effects of integration arrangements among developing countries but, first of all, to provide a more appropriate framework for evaluating the effects of European integration. Obviously, if considerations of such factors as internal and external economies of production, changes in the supply of factors, efficiency in their application and rate of technological progress are important for advanced economies they are even more so for developing countries for which, on the one hand, the impact on intra-regional trade due to reduction of tariff and non tariff barriers is bound to be limited in the initial period and, on the other hand, economic growth consideration in the face of great internal distortions and balance of payments disequilibria are paramount.[10]

What is at stake here is a fundamental change in the structure of production and trade requiring considerable investments and time; to bring about this change an appropriate trade mechanism at the regional level is no doubt of some help but would hardly suffice without more direct approaches such as commonly agreed upon development policies and other mechanisms to ensure an acceptable distribution of benefits and costs, both between and within countries. The alternative path to regional integration, for most of the countries is trying to produce as much as possible of a greater number of products and the most likely consequence of unused capacity (due to limitation of internal demand), high costs, waste of foreign exchange and possible diversion of resources from production of export commodities to production of goods for internal consumption.

One question which has received increased attention by theorists and students of integration is that of harmonization of economic policies, a problem which is of particular relevance for integration arrangements which go beyond trade in products and extend to factor mobility. Policy harmonization may be necessary with regard to structural differences among partner countries in jurisdictional principles, taxation systems, social security, transports, marketing regulations, attitude towards foreign investors, and it applies also to macro-economic policy measures such as monetary and fiscal policy, exchange rate policy and balance of payments. Short of total harmonization which is equivalent to full economic union, an objective under present circumstances, as unrealistic as generalized free trade, the most important problem in this field is the identification of those areas in which the failure to harmonize policies may create the greatest difficulties for the process of integration.[11]

But the difficulties to harmonize must also be appraised at the light of possible and legitime differences in development objectives among participating countries since any progress in policy harmonization necessarily involves a certain surrender of national sovereignty. Especially in developing countries the problem of harmonization is further complicated by the growing importance of multinational corporations whose decisions may considerably affect the pattern of trade within an integrated area. Although they are in themselves a form of international integration, it does not necessarily follow that through their decisions concerning location of plants, allocation of markets, transfer of finance and technology, they will also bring about optimal specialization in the region concerned. Apart from the well-known initiatives in higher circles for partial control in the mode of operation of these corporations) it is obvious that also within integration arrangements some forms of legislative harmonization in various fields affecting their businesses may demand high priority.

But perhaps the most interesting area in which both analysts and policy makers (national, regional or international) have exercised intelligence is the one concerned with distributional aspects between the integrated group as a whole with respect to the rest of the world and among the individual countries of an economic group (UNCTAD, 1975). The importance of this problem is well exemplified by the fact that the greater part of the crisis occurred within the most advanced integration arrangements having arisen because of conflicts over the distribution of costs and benefits of integration. Considering that countries within an integration scheme are often characterized by different degrees of economic development and of efficiency in internal organization, when product and factor liberalization measures are enacted there will be a tendency for economic activities to concentrate on those countries and regions which are best equipped to take advantage of the new opportunities. Experience shows that these "backwash" effects are detrimental to the process of integration unless partners are able to persuade each other that integration brings, over time, each one of them more gains than losses; thus continued participation in the integration scheme may require compensatory measures to be adopted. Attempts to define the concept of "equitable distribution" and to analyse the factors promoting the unequal distribution of benefits have brought forth a number of proposals for alternative compensatory measures, such as payment of lump sum fiscal compensations, regional policies affecting the allocation of investment and other indirect means to prevent the polarization effects of economic development and to possibly correct for any such distortions already existing.

With reference to the list of principal sources of benefits (see Part II above, second paragraph) which may be derived from integration, it is necessary to discuss in a more detailed fashion, if and to what extent they may apply to the agricultural sector and to point out the specific problems which may arise through attempting to fully incorporate the agricultural sector into various integration arrangements. The subject can be approached from two different but interrelated viewpoints. The first is to see if and under what conditions the agricultural sector within an integration scheme affecting the entire economy can directly contribute to the production of those static and dynamic effects which lead to greater economic efficiency and growth. The second is to see if and under what conditions the agricultural sector can benefit from the integration-induced effects taking place in other sectors of the economy, especially in the industrial sector.

With respect to the first viewpoint, it may behove us to stress the conditions, both internal and external, in which the affected countries must function. As already pointed out, the conditions required in a comparative static analysis of welfare gains through increases in allocative efficiency of production barely exist. Most countries, on the contrary, have neither full employment, balanced trade, nor an efficient price mechanism in operation.[12]

In many instances the dualistic structure of agriculture displays not only a profound difference between the modern export-oriented sub-sector and the domestic market-oriented sub-sector but also the cleavage between a restricted number of large modern farms, supposedly competitive by international standards and the great number of small, traditional, peasant farms, providing only meager incomes for the largest part of the rural population. Any move to freer trade by reducing trade-barriers will stimulate the competitive sub-sector towards greater specialization and increased efficiency and will, however, also simultaneously and negatively affect the traditional sub-sector by displacing a great number of farmers. The phenomenon of disguised unemployment may be greatly transformed into productive employment, contributing to the growth of production, but most likely the largest part will be transformed into open unemployment.[13] The outcome is uncertain, but considering the relatively small contribution of the industrialized modern sector to generate employment, it is probable that the negative effects will outweigh the positive ones. Furthermore, since each country's balance of payments, even in the most advanced integration schemes, remains a national responsibility, it is also possible that freer movements of goods will lead, at least for some countries, to further structural disequilibria. Thus, the emphasis on bilateral negotiations and reciprocity in trade which has prevailed so far, particularly in Latin America, and especially within LAFTA, has a certain amount of justification.

Another aspect of integration which is becoming a permanent feature of many developing countries is the increasing role of the State in the organization and operation of agricultural markets and in the handling of foreign trade of agricultural commodities to ensure adequate supplies of major staple foods. Under these circumstances a simple alteration of the level and structure of tariffs is not a sufficient condition for expansion of trade, since the decision to trade ultimately rests on a centralized public organization and not on profit seeking operators. As a consequence, systematic patterns of trade are slow to develop and trade is most likely to occur only occasionally between countries with shortages and those with surpluses.

In appraising the potential of integration in the agricultural field, it must be realized that in the absence of integration the most likely solution is not a move towards freer trade, inside and outside regions, and increased specialization led by market forces, but rather a move towards a two-fold attempt on the part of each country to improve its standing in foreign exports and to increase its internal self-sufficiency. The limited impact of present integration arrangements on the intra-regional trade of agricultural commodities, as contrasted to expansion of trade in manufactured goods, is a clear sign that any expectation of production integration through market forces is ill-founded as far as agriculture is concerned. Regional cooperation in agricultural matters must necessarily involve a deep concern for common development objectives and jointly planned initiatives.

In conclusion, the probability of increased agricultural production due to regional specialization according to static comparative advantages is rather small. Nor can the agricultural sector, as traditionally defined, hope to exploit as well as industry the benefits associated with the economies of scale. As a result of the integration improved opportunities for economies of scale exist for certain agricultural processing industries which, to produce competitively, may require large dimensions and specific locations. This applies to an even greater extent in the agro-allied industries sector which are the suppliers of agricultural inputs.

Much more favorable to the agricultural sector are the prospects of gains from improvements in the terms of trade with the rest of the world by regional groups and in particular by those countries which rely heavily upon the production of only one or a few agricultural products. Several steps in this direction have already been taken, for example some producers of coffee, meat, bananas and sugar, heavily dependent upon the export revenues of these commodities have been stimulated to defend or improve their position against excessive fluctuations of export-revenues and the growing prices of imported goods through the forming of associations. No one expects, however, that this cartel-like operation in the agricultural commodities market will achieve the same degree of success as that of the oil-producing nations, OPEC. It must be added that actions aiming at the improvements of the terms of trade do not necessarily presuppose the existence of regional integration arrangements although integration-minded solidarity may add additional strength to initiatives of this type.

Changes in efficiency arising from increased competition among agricultural producers of partner countries is again not an immediate prospect for the reasons already outlined. Such changes will materialize over time only insofar as countries are able to diversify their commodity production for export purposes, both inside and outside the region, and to acquire or develop improved information, transportation and marketing systems.

The structural changes affecting the quantity and quality of factor inputs, as resulting from the integration process, will vary in extent and direction depending upon the type of integration arrangements, the structural peculiarities of the country before integration and the impact, positive or negative, of national policies directly or indirectly affecting agriculture. In this field more than in others, the potential benefits of integration must be regarded as opportunities which can only be translated into development if effective use is made of them through appropriate internal economic policies. The ensuing structural effects may well be perverse and in this respect there are undoubtedly many lessons to be derived from the EEC experience.

As pointed out by Yudelman with respect to Latin America, the major problems that affect agricultural development involve the relationship between industry and agriculture or arise from the fact that within the agricultural sector many national economies are not integrated in themselves (Yudelman and Howard, 1970).

The effect of an integration scheme on agricultural development must consider the impact of industrial efficiency on the internal terms of trade between agriculture and the rest of the economy. National policies creating import substitution industries which produce for insufficient markets, have often led to high-cost inputs for agriculture (machinery, fertilizers in particular). High prices for purchased inputs and relatively low prices for products sold (a policy dictated by other internal reasons) is still a widespread situation in many countries, a siutation which obviously penalizes the earning power of the agricultural sector and is contradictory with respect to agricultural development aspirations.

To fully appreciate the possible contribution of industry to the production of agricultural inputs it must be remembered however that most of the developing countries are confronted with a set of realities quite different from those which the European nations had to face in their earlier stages of economic development. The main difference may be found in the fact that the developing economies must find productive employment in agriculture for a growing labour force which can not be fully absorbed by the other sectors whatever may be their rate of economic growth. The experience of the developed world no matter how valuable cannot be exported as a package. In order to obtain increased farm output, greater agricultural employment, higher productivity and rising farm income (possibly with greater distributive equity), they must search for original policies, especially with regard to the development of technology and institutions.

Consequently, among other things, they must pay great attention to the promotion of agricultural research, tailored to their specific needs, to the dissemination of scientific information and to the translation of this information into new and more efficient techniques. Regional economic integration certainly offers a better framework for attempting a solution to these enormous problems than could be provided by each nation alone. To think however that integration through the functioning of market forces can provide an easy answer is probably the surest way to greater disappointments.

NOTES

[1]The term "regional" is used here as defined by Nye (1971) and others; it applies to selective organizations which restrict their membership, in principle and in practice, on the basis of geographical contiguity. The distinction between political and economic organizations should also be borne in mind. Whereas the former tend to be "macro-regions", at times extending across continents, the latter tend to be "micro-regions" because of the important role of physical contiguity and identity.

[2]Considering the difficulties encountered by more ambitions integration schemes and the opportunity for cooperative arrangements which are less demanding in terms of political will, longer-term commitments and surrender of national sovereignty, integration projects may in the future gain wider attention. In fact, proposals in this direction have been recently advanced (Belassa and Stoutjesdijk, 1975). Integration schemes and projects, however, are not necessarily alternative paths, since the two can well coexist.

[3]Elsewhere I have dealt at some length with the place of agriculture in the history of the European Economic Community (Barbero, 1974).

[4]An outstanding precedent was the establishment of the European Steel and Coal Community marked by a high degree of supra-nationality; on the contrary, the projects for an European Defence Community and for political union did not gain enough consensus and were eventually abandoned.

[5]In Latin America this pattern displays greater variations as some of the countries have been able to enlarge their industrial base and to become exporters of manufactured goods.

[6]The extent of external dependence is often aggravated by the burden of indebtedness for even countries which enjoy a positive trade balance (coming from exports of agricultural commodities, minerals or oils) find themselves with negative balance of payments because of debt servicing, payments of royalties, dividends on foreign capital, rising shipping costs, etc. . . . (Onitiri, H.M.A.).

[7]Furthermore, there is a scope for a country to be member of the Community and not of the Common Market.

[8]The preservation of national sovereignty is an explicit objective of the Organization of African Unity.

[9]The two, of course, are not incompatible. If in EAC interstate trade is relatively more developed than elsewhere it is probably for the long history of common services (railways, harbours, post and telecommunications, collections of custom duties). But even in this case special devices had to be introduced in 1967 to avoid the polarization of benefits to the advantage of the country having a more diversified economic base. (Hazelwood, 1975).

[10]The list of internal distortions is a long one; it suffices to mention: high rates of unemployment and underemployment, made more acute in perspective by the rapid population growth rates of the past; dualism among regions, sectors and within sectors, great personal inequalities in control of income distribution and of resources; deficiencies in physical integration; foreign exchange gap and growing import requirements; lack of qualified manpower and entrepreneurial experience.

[11]For instance the failure to arrive at a common monetary policy by the EEC among other effects has introduced great disturbances in the operation of the common market for agricultural products, a market which had been conceived and organized in time of stable exchange rates.

[12]An efficient price mechanism requires that prices reflect the true opportunity costs.

[13]The limited employment potential of the modern export sub-sector has been repeatedly emphasized.

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DISCUSSION OPENING – H. F. Breimyer, *U.S.A.*

Dr. Sen opened this conference by declaring that we are concerned for the political economy of agriculture. Dr. Schultz repeated the theme. In this bicentennial anniversary of the publication of *Wealth of Nations* it is worth remembering that economics as a field of knowledge was an offshoot of political economy. For my part I regret that a separation later took place.

Dr. Barbero's paper is clearly in the tradition of political economy. Few economic models are available to help in describing principles of regional integration. There is not even a good definition. Dr. Barbero says integration is more than co-operation and less than full economic union. Within that zone there is only diversity.

I make these points. First, although his style is subtle Dr. Barbero rejects several rather conventional economic propositions, primarily on grounds of welfare. I find myself in sympathy, as we should be wary of economics by epigram. As one example – expanded trade does not necessarily benefit all trading partners and definitely will seldom benefit all proportionately. In the same vein, removing restrictions on trade between countries that exercise substantial control over their internal economies does not constitute achieving free trade.

Second, Dr. Barbero warns, correctly, against understating the problems or overstating the potential in regional integration. Here the doctrine of the second best comes into play. Those of us who work in policy are keenly aware of that doctrine. Perhaps we can conceive of a best-of-all-worlds where neo-classical economic thought applies widely rather than selectively. We do not live in that kind of world. On the contrary, I fear we live in a world of fair weather liberal trade and foul weather protectionism. Nations co-operate when times are good but scurry towards nationalism and autarky when times turn bad. If we cannot have the "first-best" of a whole world of relatively liberal trade policies, regional integration may be a realistic possibility for a second-best.

My final comment relates to the relinquishing of national authority. Mere multilateral trade "understandings" under revocable terms are virtually worthless. Integration implicitly involves some transfer of sovereignty. Furthermore, in my opinion, some kind of supra-national authority is required. Perhaps this view of integration does not appeal; perhaps it is not even second best. It may be third best. But, if so, it is better than third worst, which is how I would classify a rampant worldwide trend towards national autarky. Regional integration is better than that!

DISCUSSION OPENING – A. Nussbaumer, *Austria*

Problems of integration are manyfold and may be very different from area to area, depending on historical circumstances, stages of economic development, cultural trends, and political values; thus only a multi-disciplinary study can do full justice to all the phenomena concerned. We should be very grateful therefore to Dr. Barbero for the wide perspective and the broad approach he has chosen in dealing with his topic. However useful the scientific method of isolation and abstraction may be, and hence the concentration on just one specific aspect, e.g. the economic one, it might also frequently prevent us from taking full account of the wide spectrum of social and economic problems of agricultural development and regional integration. Let me direct your special attention to a few economic points only nonetheless.

First, for all the broadness of his approach, Dr. Barbero obviously has had to confine himself by selecting some specific problems. Having decided to give much space to political factors and to their linkages with economic interests and objectives, he certainly could not have dealt in detail also with abstract models of economic integration. Economists having devoted much effort to designing ever more advanced models since J. Viner and J. E. Meade made their original contributions in the early 1950's. Such a report about the development of pure theory might even have absorbed all of the time and space available here.[1] Dr. Barbero being mainly concerned with the agricultural problems of developing countries, also chose to put only limited emphasis on Western European experience.[2] Yet we should not be disappointed because of this. He has made it quite clear already in the introduction to his paper that economic integration being a very complex phenomenon, and economic as well as political issues having to be considered, different conditions make for different challenges and hence for different policy aims and solutions. He had to deal, therefore, in his own paper with a special case viz. that of the prospects for agriculture in developing countries under conditions of economic integration. The many examples quoted from different parts of the globe might even raise the question of whether a single study could possible suffice to tell the story of all developing economies.

Secondly, speaking of economic integration in general, it might also be worth while to remember that already in 1958, the EEC treaty having just become effective, T. Scitovsky made a special study of the prospects for Western European economic integration[3] in which he examined the set of conditions which had to be fulfilled if economic integration was to be successful. Just to mention a few of them: a high share of the region in total world trade, countries integrating being each others natural trading partners, low transportation costs, a high level of technical development and similar political objectives. Scitovsky found that these conditions prevailed in Western Europe, and therefore concluded that economic integration there stood a good chance of success: history has proved him right. One might even say that the occasional failures of the EEC to reach declared goals can be explained, consistent with Scitovsky's review, by a lack of political agreement.

Applying this analysis to integration between developing countries, and following Dr. Barbero's presentation of conditions frequently prevailing there, one should not be surprised to find that integration in other parts of the world frequently has not been nearly as successful as in Western Europe.

Thirdly, Dr. Barbero is very doubtful as to whether free international trade and even worldwide economic integration really are beneficial to all participating countries, and if I understand him correctly, he is also very sceptical as to the validity of the standard theories of international trade. But should we not be less doubtful as to the validity of pure theory, yet the more sceptical as to its correct application? It may suffice to keep in mind the nine conditions established by Samuelson and Stolper[4] to be satisfied if international free trade and factor movements were to lead to complete factor price equalization and hence to optimum conditions for factor productivity. If one is to understand that in the real world these conditions not being met, there is ample room for theoretical arguments in favour of interventions to help the disprivileged.

These conditions are: full employment, perfect competition, neutrality of money, all countries produce all goods, identical production functions, their linearity to scale, absence of transportation costs, complete factor mobility, and the other usual conditions for Pareto-optimality. Whenever any of these conditions are not satisfied, free trade and compensating government interventions may be superior in their effects upon welfare to free international trade alone. There are many special theories proving this, e.g. the theory of optimal tariff protection, the theory of infant industry development, anti-dumping theory, terms of trade theory, etc . . . Therefore, a general and dynamic theory of international trade and integration applied under realistic conditions might lead us to conclusions substantially different from those following from the traditional model case. We may continue to believe in the core of the economic theories of international trade and integration and yet reach solutions on the basis of these theories which satisfy the needs of development policy.

Last, but not least, we should not forget about the importance of a good infrastructural base for every kind of economic activity. We may account for it in theory by accepting infrastructure as an additional factor of production available only in some locations. Or we may regard it as an immobile public good helping to save on private costs of production. It may also be viewed as a fact which makes for external economies available only in some locations, and thus attracting all mobile factors of production; it makes little difference whether advantages of location are due to natural resources, favourable climatic conditions, or man-made infrastructure.[5] We may conclude from this that, under conditions of free trade and integration, there are no equal chances for development as long as such differences exist; while natural advantages of location should be allowed to influence the distribution of economic activity according to spatial equilibrium theory, advantages due only to better man-made infrastructure certainly call for development policies. As far as infrastructural development in general is concerned, we should however be in favour of economic integration, since it may help to save costs for all participating governments. Regarding the future of agriculture, the necessity to provide for a good infrastructure in all developed economies if they are to be competitive, may place agriculture at a disadvantage to urban development because it is not concentrated in space and the creation of the infrastructure needed is therefore very expensive.

My fourth comment concerns the goals and aims of integration. Dr. Barbero certainly is right in preferring to speak of different forms rather than of levels of integration because speaking of levels always implies that some are higher and some lower, and that we should always strive for the higher ones. Yet depending on their general economic situation and on their political and economic goals it may not be desirable for some countries to go beyond a certain stage of integration. Or complete integration might only be considered if special disadvantages to a country's economy, or to some sectors of it can be compensated for by offsetting transfer payments.

Different goals and aims of integration also call for different methods and institutions. When deciding upon methods of integration, value judgements therefore can never be avoided.[6] This even applies to the fundamental decision of whether market methods of integration are to be used as in Western Europe today; these are certainly in agreement with the economic and political systems there, but they do not necessarily meet all of the needs of developing countries. The same applies to agriculture. Since agricultural production and the distribution of income with regard to the agricultural sector to a great extent do not follow from the rule of free competition alone in all national economies, we should not be surprised that the free market method of economic integration meets with special difficulties if applied to agriculture.

I fully agree therefore with Dr. Barbero that there must be a balanced distribution of opportunities and benefits if integration is to be achieved in agriculture. Such a distribution may even call for international transfer payments short of which no agreement about integration can be reached.[7] Yet even the experience of the European Common Market shows that there are limits to the willingness of national taxpayers to agree to international transfer payments for the benefit of farmers in other countries. If common prices are introduced in an international agricultural market, this problem will be still more important since the new and international prices have to be made compatible with at least some of the old income policies. This is not solely for the sake of avoiding immediate disturbing consequences for production because when accepting common international pricing, price subsidies paid by consumers have to be replaced by income subsidies paid by governments. National governments frequently are not willing to carry the burden alone.

My fifth comment is on economic theory again. We should face the fact that a dynamic theory of economy integration is needed today. Dr. Barbero has said that it was one of the aims of integration to step up and to diversify the economic base of a country, and he has listed some of the dynamic elements of integration in the introduction to part II of his paper. Yet he did not discuss the consequences for international trade theory. The classical *Viner–Meade* model of integration used operates under the limiting assumptions of resources not being mobile, and technical standards and all of the other conditions of production remaining unchanged. It also deals nearly exclusively with factor allocation, assuming perfect competition. Economies of scale are disregarded, and so are changes in income and consumption. It may be difficult to build and to solve a dynamic model of integration considering all of these influences; but it would certainly have been most interesting to hear more about it.[8]

Also increasing government intervention in national economic affairs should be accounted for by theoretical analysis. The classical theories of international trade and integration are founded upon the assumption of *laissez faire* on the national level. Should the international market alone be sufficient to provide for optimal results of economic integration there must therefore be no national intervention even on the home market, an assumption which is entirely unrealistic.[9] This is why economic union today calls for harmonization of national economic policies sufficient to exclude at least major disturbances.

Certainly many government interventions are not directly concerned with foreign trade but primarily with economic development, personal and regional distribution of income, and monetary and exchange stability. But indirectly all of these interventions have a considerable influence on national and international economic equilibrium. Optimum international allocation of factors of production need not even be the principal aim of economic policy, including trade and integration policies; it may be full employment or a specified rate of growth. The quality of the international allocation of factors may be considered as of only secondary importance, a second best solution in this respect therefore being preferred. Yet governments may try to reach such aims not necessarily by interfering directly with the working of the market, they may just change the "external" conditions under which markets operate.

This is the reason for my sixth point, that Pareto-optimality alone no longer serves as a sufficient guideline and measure of economic welfare. As soon as we cease to start from the assumptions of full employment, perfect competition, a "normal" rate of growth, a pre-determined distribution of income, and an established set of other, frequently institutional and legal, conditions surrounding the market, there is not simple Pareto-optimal solution. Instead there are as many Pareto-optimal solutions as there are sets of external conditions under which the markets operate.[10] Many of these conditions are controlled by the state and subject to government influence. For the neo-classical model of a self-adjusting economy these are external variables, but applied Political Economy has to internalize them. In a world where the best of many possible market optima has to be chosen, we cannot do so without a set of assumptions about external conditions, including economic policy aims.

Let me finally conclude with a statement on economic policy. Barbero in his paper juxtaposes the systems of the free market and of economic planning. In doing so he shows a certain preference for planning, at least as far as developing countries are concerned. Should we not consider yet another alternative, at least as far as economic systems in Western Europe are concerned? Governments identify problems, they set targets, they try to realize them at least by indirect action, changing market conditions. If this is done systematically, we may call it planification. In theoretical terms, governments have decided on the kind of Pareto-optimum they want to see realized.

If international economic integration is to be successful under conditions of government intervention, there has therefore to be agreement about common objectives of economic policy. Policy instruments have to be harmonized and applied considering the needs of partner countries. There has to be common understanding about the distribution of benefits as well as of disadvantages following from economic integration, if necessary about compensatory international transfer payments. Short of such agreements no durable union can be built. It is here that the most difficult problems of economic integration still remain to be solved, especially as far as agricultural development is concerned.

NOTES

[1] For a summary of recent developments in integration theory see e.g.: M. Kraus ed.: *The Economics of Integration*, London 1973.

[2] For the institutional and political aspects of Western European Economic Integration see: M. Meerhaeghe: *International Economic Institutions*, London 1966; C. J. Friedrich: *Europa-Nation im Werden*, Bonn 1972; G. Mally: *The European Community in Perspective*, Lexington, Mass. 1973.

[3] T. Scitovsky: *Economic Theory and Western European Economic Integration*, London 1958.

[4] P. A. Samuelson: International Trade and Equalization of Factor Prizes. *Economic Journal*, vol. 58 (1948); *idem*: International Factor Price Equalization once again. *Economic Journal*, vol. 59 (1949); J. Bhagwati: *The Pure Theory of International Trade: a Survey. Surveys of Economic Theory, voll. II*, London, New York 1969, pp. 156, p. 174.

[5] R. Jochimson: *Theorie der Infrastruktur. Grundlagen der marktwirtschaftlichen Entwicklung*, Tübingen 1966; H. W. Richardson: *Regional Growth Theory*, London 1973.

[6] M. Weber: *Die "Objektivität" sozialwissenschaftlicher und sozialpolitischer Erkenntnis. Gesammelte Werke zur Wissenschaftslehre*, 3rd. ed., Tübingen 1968; *idem*: *Der Sinn der "Wertfreiheit" der soziologischen und ökonomischen Wissenschaften*, op. cit.; F. Kaufmann: *Methodology of the Social Sciences*, London 1958.

[7] Inside the EC there are presently four major transfer mechanisms at work by which funds are being made available on a non-commercial basis for employment in other member countries: European Investment Bank, European Social Fund, European Development Fund, and European Agricultural Guidance and Guarantee Fund.

[8] See: B. Balassa: Trade Creation and Trade Diversion in the European Common Market: an Appraisal of the Evidence. *Manchester School Economic and Social Studies*, vol. 42 (1974), pp. 93; S. K. Ghosh: Towards a Theory of Multiple Customs Unions. *American Economic Review*, vol. 64 (1974), pp. 91; W. E. Prewo: Integration Effects in the EEC: An Attempt at Quantification in a General Equilibrium Framework. *European Economic Review*, vol. 5 (1974), pp. 379.

[9] See: A. Nussbaumer: Western Market Economies. *The Year Book of World Affairs*, vol. 30 (1976), pp. 223; *idem*: *Die Stellung des Staates in der Wirtschaft. Verhandlungen des Fünften Österreichischen Juristentags*, Wien 1973.

[10] E. J. Mishan: *A Survey of Welfare Economics, 1939–1959*. Surveys of Economic Theory, vol. I, London, New York 1968, pp. 154; J. H. Henderson, R. E. Quandt: *Microeconomic Theory, A Mathematical Approach*, 2nd. int. stud. ed., New York 1971, chapter 7, pp. 254.

Report of the general discussion

The general tone of the discussion lacked wholehearted enthusiasm for the EEC as it has been operated so far. The question was posed as to where regional economic integration fell along the scale from liberal to protected trade policy, since external barriers might be raised while those inside were removed. A speaker held that in the EEC effective policy-making was hampered when price policy became paramount. Structural policy would have led to positive moves in harmonisation of monetary, regional and other policies. Such success as the EEC had attained had been at the expense of Southern Hemisphere meat producers and of price stability for LDC procucers – effects which were firmly in line with price theory.

The nature of any cause/effect interrelationship between CAP and the monetary crisis was clearly debatable. Participants saw that research was potentially useful in this subject area but would have been more impressed had there been some indication of what changes in operational techniques might arise from research results.

The diversity of types of integration attracted some attention. The EEC was unusual since there was hope of political integration – that is, of a supra national organisation, whereas others were international in scope. Security considerations were mentioned in connection with the creation of both the EEC and the CMEA and the role of ideological orientation of the partners' efforts towards economic integration in LDC's was questioned. The influence of large differences in wage rates between possible partners in discouraging union and the view that the status of CAP stems from the political status of those who have headed the Commission, rather suggests that the reply to a discussant who sought for a statement of principles governing the process of economic integration was that any such model would be highly complex.

Participants in the discussion included: P. C. Baillet, *France*; P. C. Bansil, *Zambia*; L. Folkesson, *Sweden*; F. S. Masinde, *Kenya*; D. Paarlberg, *U.S.A.*; J. F. Rimsdijk, *Netherlands*; G. Schmitt, *Fed. Rep. of Germany*; T. W. Schultz, *U.S.A.*; A. Weber, *Kenya/Fed. Rep. of Germany*.

G. Barbero (in reply)

I am grateful to Dr. Nussbaumer for his contribution outlining the conditions which must be fulfilled for integration to be successful. I particularly agree with him that integration schemes require previous agreement on the distribution of benefits and costs and that this distribution is not static. Most of the conflict met in studying actual integration schemes arises from the fact the there are structural changes, induced by the integration process, which tend to cause deviation from an acceptable distribution of benefits. International transfers have been used, not only in the EEC, but in the East African Community as well as in other African communities.

Regarding the relations between the working of the market and planning, I am not saying that the market is not doing any good – it does not seem to be doing a good job in the west – but I am sure that the combination of planning and direction from government in determining the sphere in which the market is to work is important. Even the experience of the Comecon countries where some form of market is working is, I think, proof that there must be a combination of the two.

I confess that I gave little space to the relations between blocks in relation to integration schemes and this is the reason why I did not refer to the hardships which certain countries, especially the meat-producing countries, have had to face in recent years. In relation to the Common Agricultural Policy and the world monetary crisis, I was trying to say that the policies followed by the European Community may have created problems in relations with the United States, first in the industrial sector and also in trade in agricultural commodities. The changed attitude of the United States to the Economic

Community is to some extent explainable on the relations which have developed between the two blocks, which account for a very large share of total world trade. It is useless to evade the fact that what the EEC did had an impact on the rest of the world. I think that the policies of the EEC have had that effect on the rest of the world and that some of the developments of world trade and world relations have their roots precisely in the fact that the EEC block is an important one in respect of its share in production and in total trade.

This raises the problem of the relations between regional groups. Will the outcome be a more liberal climate in trade relations or more protection? I am not well qualified to answer but it seems to me that the development of the regional groups – the size of which is very important, and I overlooked this point – would probably lead ultimately not to a more liberal climate but to planned arrangements between groups. This seems to me to be the tendency.

My paper has been criticised for Western bias, and, being from the Western world, this may well be the case, but I have gone to great effort to isolate the differences, the background factors and motivations which exist in the various continents and I have tried to understand why regional integration in Africa has taken a certain shape in full cognizance of the changes which are taking place. I have mentioned the influence of the colonial period and neocolonialism as a starting point in explaining why regional integration is already so developed in Africa although national states are of recent origin. I think I have mentioned, too, that there are new aggregation forces operating and political structuring in the various countries is quite different. It is a subject which would require a great more elaboration than is possible here but Africa is a very important source of experience in this field.

I said that one of the motivations for the formation of the European Community was precisely the building up of a block as a reaction to the consolidation of the Socialist block. I think this was one of the reasons why the two interacted. It took place in the period of Cold War and this is an important point to remember.

I mentioned the different rate of expansion in industrial and agricultural products as an indirect measure of the ease with which the expansion of trade within the two sectors can take place but it is certainly not the only measure. If I mentioned that in order to expand trade there is a need for common development objectives it is because, in my opinion, in order to have greater trade in agricultural products we have to have a broader pattern of production of agricultural products and a greater quantity and this cannot be achieved in the short-term without co-operation among countries. It has been said that common development objectives in the EEC have not been so successful, and I fully agree, but I think the experience of the EEC is important not only for the positive aspects but also for the negative ones. One of the aims of regional groups may well be improvement of the terms of trade, especially for the developing countries relying on few commodities exported mainly to the developed world. This is the meaning I had in mind in this context. In my view the existing regional groups may enhance the solidarity among the members and hence make the association more effective in improving the terms of trade.