

Small Developing Countries and Global Markets

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Competing in the Big League

Walter Kennes





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Preface and Acknowledgements

The current globalization process offers opportunities for developing countries, but it also poses important risks and challenges. Opening the economy is generally considered as the key to take advantage of globalization and become better integrated into the world economy. The economic success of a growing number of developing countries has demonstrated that integration into the world economy is indeed possible and beneficial. However, there are also countries that fear increased marginalization. There is no single best road towards openness. Developing countries can open up on their own while taking advantage of the framework provided by the multilateral trading system. They can also look for various kinds of partnership and open their economies to these partners. Partnerships can be established within a region and with similar countries, but they can also be with more distant and more diverse partners. Small developing countries face particular problems for their integration into the world economy, mainly because of their lack of diversification. Depending on the measure that is used, there are nearly one hundred countries that can be considered small in economic size. This is more than half the sovereign states in the world.

Integration into the world economy is not desirable for its own sake, but as a means towards achieving sustainable improvements in the welfare of the most vulnerable groups in a society. This book does not attempt to outline or recommend a unique best strategy. Rather, it attempts to describe and assess the ingredients of a number of strategies. The main purpose is to facilitate decision-makers and advisers exploring the strategy mix that seems most promising in the given circumstances.

The work on this text started in 1996 during a six-month fellowship at the Brookings Institution in Washington, DC, financed by the European Commission. I am very grateful to Bernard Petit for his generous support. Robert Litan of the Brookings Institution stimulated me to write about the integration of small developing countries into the world economy. The period necessary to finish this text was longer than anticipated. This was at least to some extent because so many things relevant to this subject were happening. I would like to mention only one: the start of the negotiations between the European Union and the group of ACP countries in 1998 and specifically the debates about a new trade regime between the EU and the ACP group.

I owe a great debt to the many writers and observers on the international trading system and regional integration. I would like to acknowledge the useful suggestions and help of Daniel Bach, Alice Landau,

Terrence Lyons, Claude Maerten, Gillian Nkhata, Guy Platton, Wolfgang Reinicke, John Roberts, Maurice Schiff, Graham Sims, Remco Vahl and Maryse Vanderstraeten. I am particularly grateful to Simon Horner for providing extensive editorial comments on the whole text. The drafting and redrafting took a large amount of free time and I would like to thank my family for their encouragement and patience. It goes without saying that none of the persons mentioned is responsible for the views expressed or for any inaccuracies. The views expressed in this book should not be ascribed to these persons or to the European Commission.

WALTER KENNES

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List of Abbreviations

ACP	African, Caribbean and Pacific countries
ADB	African Development Bank
AEC	African Economic Community
AERC	African Economic Research Consortium
APEC	Asia Pacific Economic Cooperation
ASEAN	Association of South East Asian Nations
BLNS	Botswana, Lesotho, Namibia, Swaziland
CACM	Central American Common Market
CAEMU	Central African Economic and Monetary Union (see CEMAC)
CARICOM	Caribbean Common Market
CBI	Caribbean Basin Initiative
CEAO	Communauté Economique de l'Afrique de l'Quest
CEMAC	Communauté Economique et Monétaire de l'Afrique Centrale
CEPR	Centre for Economic Policy Research
CET	Common External Tariff
CMA	Common Monetary Area
COI	Commission de l'Océan Indien
COMESA	Common Market for Eastern and Southern Africa
CU	Customs Union
EAC	East African Cooperation
EC	European Community
ECA	Economic Commission for Africa
ECCAS	Economic Community of Central African States
ECO	Economic Cooperation Organization
ECOWAS	Economic Community of West African States
ECLAC	Economic Commission for Latin America and the Caribbean
ECU	European Currency Unit
EFTA	European Free Trade Association
EPZ	Export Processing Zone
EU	European Union
EURO or €	European Single Currency as of 2000
FDI	Foreign Direct Investment
FTA	Free Trade Area
FTAA	Free Trade Area of the Americas
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GCA	Global Coalition for Africa

GCC	Gulf Cooperation Council
GSP	Generalized System of Preferences
HET	Harmonized External Tariff
IMF	International Monetary Fund
IOC	Indian Ocean Commission
ISO	International Organization for Standardization
LAFTA	Latin American Free Trade Association
LAIA	Latin American Integration Association
LDC	Least Developed Country
MERCOSUR	Mercado Común del Sur
MFA	Multifibre Arrangement
MFN	Most-Favoured-Nation
MIGA	Multilateral Investment Guarantee Agency
MSG	Melanesian Spearhead Group
NAFTA	North American Free Trade Agreement
NTB	Non-Tariff Barrier
OAS	Organization for American States
OAU	Organization of African Unity
OECD	Organization for Economic Cooperation and Development
OECS	Organization of Eastern Caribbean States
OR	Origin Rule
PTA	Preferential Trade Area for Eastern and Southern Africa
REPA	Regional Economic Partnership Agreement
RIA	Regional Integration Agreement
RTA	Regional Trading Agreement
ROW	Rest of the World
SAARC	South Asian Association for Regional Cooperation
SACU	Southern African Customs Union
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
SDE	Small Developing Economy
SIDS	Small Island Developing States
SPF	South Pacific Forum
SMP	Single Market Programme
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement
SSA	Sub-Saharan Africa
STE	Small Transition Economy
TPRM	Trade Policy Review Mechanism
TRIMs	Trade-Related Investment Measures
TRIPs	Trade-Related Intellectual Property Rights
UDEAC	Union Douanière et Economique de l'Afrique Centrale
UEMAO	Union Economique et Monétaire de l'Afrique de l'Ouest
UNDP	United Nations Development Programme

UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
VER	Voluntary Export Restraint
WAEMU	West African Economic and Monetary Union (see UEMOA)
WTO	World Trade Organization