

# **Systems of Indicators for Monitoring Regional Integration Processes: Where Do We Stand?**

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**Philippe De Lombaerde, Giulia Pietrangeli and Chatrini Weeratunge**

United Nations University – Comparative Regional Integration Studies (UNU-CRIS)

Potterierei 72 – B-8000 Bruges, BELGIUM

Tel.: ++32 50 47 11 00

[pdelombaerde@cris.unu.edu](mailto:pdelombaerde@cris.unu.edu)

<http://www.cris.unu.edu/>

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## **Abstract**

Systematically monitoring regional integration processes is a relatively recent activity, but its potential is quite important. From an academic perspective, it allows us to get a more precise idea of the depth and speed of certain regional integration 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*. From a policy-making perspective, a 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.

In this paper the authors presents a critical review of recent proposals and experiences with setting up indicator systems for monitoring regional integration processes. The review will cover both conceptual (academic) proposals as well as proposed and/or implemented indicator systems developed at the level of regional organizations such as the European Commission, ECB, UN Economic Commission for Africa, ASEAN, COMESA, etc.

A systematic comparison of the different indicator systems (covering both technical and political-economy aspects) should make it possible to evaluate their relative qualities and to identify best practices.

## 1. Introduction and aims of this paper

In the emerging multi-level governance architecture, the regional level (here understood as: supra-national) has become more important over the last decades and is likely to continue to gain importance in the foreseeable future.

In line with the evolution at other governance levels, at the same time, the variety of institutional arrangements and the types of actors involved are significantly increasing. Institutionalised regional integration and cooperation includes: ad hoc projects and policy coordination, networking, functional integration, free trade areas, regional economic organizations, etc.

Hettne and Söderbaum (2004), for example, presented a typology of regional cooperation mechanisms, where economic integration appears as a special case, based on two criteria: whether cooperation is delivered by an organization or network, on the one hand, and whether cooperation is unidimensional or multidimensional, on the other. According to these authors, there is a tendency observable from mainly unilateral forms of cooperation (often at the level of organizations) towards multidimensional and hybrid forms of cooperation (table 1).

This institutional complexity, in combination with the discourses developed around it, lead to a renewed need for adequate tools for monitoring, assessment and comparison of regional integration processes.

**Table 1: Typology of regional cooperation mechanisms**

	Organization	Network
Unidimensional	Sectoral organizations Security organizations Economic integration arrangements Regional development banks	Research networks Public-private partnerships Civil society networks
Multidimensional	Comprehensive organizations River basin organizations UN Economic Commissions	Growth triangles Cross-border micro-regional organizations Development corridors

Source: Hettne and Söderbaum (2004:5-6).

Systematically monitoring regional integration processes is a relatively recent activity, though, but its potential is quite important. Different actors have appeared on this emerging scene and have shown that there is a growing interest from the side of policy-makers in such systems. The European Commission, ECB, BID, ALADI, UNECA, for example, have expressed their intentions to get involved in active

monitoring or have developed and/or applied monitoring systems (De Lombaerde and Van Langenhove, 2006).

From an academic perspective, it allows us to get a more precise idea of the depth and speed of certain regional integration 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.<sup>1</sup> It allows us 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 (Fratanni and Pattison, 2001; Hettne, 2005).

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.

In this paper we present a critical review of recent proposals and experiences with setting up indicator systems for monitoring regional integration processes. The review will cover both conceptual (academic) proposals as well as proposed and/or implemented indicator systems developed at the level of regional organizations.

A systematic comparison of the different indicator systems (covering both technical and political-economy aspects) should make it possible to evaluate their relative qualities and to identify best practices. The exercise presented here aims at contributing to the design of better indicator systems in the near future.

Section 2 presents the aims and methodology of the paper. Sections 3 and 4 look at the political economy aspects of the indicator systems (by whom?, for whom?, why?). Section 5 evaluates the underlying conceptual frameworks and section 6 identifies and compares the variables included in the systems. Section 7 deals with aggregation and weighting issues. Section 8 concludes.

## **2. Method of this paper**

### **2.1. Choice of cases to be evaluated**

For this study we are interested in indicator systems designed (or, at least intended) to monitoring regional integration processes in a systematic way, involving the use of a ‘significant’ number of indicators and variables.

The criteria that are used to select the cases (indicator systems) are rather broad. We considered:

- both academic and institutional initiatives;
- both conceptual and applied systems;

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<sup>1</sup> On the concept of new regionalism, see e.g. Hettne et al., 1999-2002; Breslin et al, 2002; De Lombaerde, 2003; Gavin and De Lombaerde, 2005; Farrell et al., 2005

- both broad and narrow (specific) systems;
- both qualitative, quantitative and mixed systems;
- both prototype and finalized systems.

We have tried to be as inclusive and complete as possible in the identification of relevant cases, but cannot –of course- guarantee exhaustiveness.

On the side of the academic proposals, we included:

- Hufbauer and Schott's proposal to assess regional integration in the Americas (Hufbauer and Schott, 1994) (further referred to as 'H&S');
- its modified version by Feng and Genna (2004) ('F&G');
- and Ruiz' GDRI model (2004a) ('GDRI').

On the side of the institutional proposals, we included:

- the ECB proposal to examine regional institutional and economic integration in MERCOSUR (as compared to the EU) (Dorrucchi et al., 2002) (further referred to as: 'ECB-MERCOSUR');
- the various schemes proposed and/or implemented by the European Commission and its regional partners, in the framework of interregional relations:
  - o the EU-MERCOSUR Joint Photography ('EU-MERCOSUR') (European Commission, 1998);
  - o the EU-CAN Joint Evaluation ('EU-CAN') (Grupo de Trabajo UE-CAN, 2005a,b; EU-CAN Working Group, 2005a,b; MINCOMEX, 2005);
  - o the EU-Central America Joint Evaluation ('EU-CENTRAL') Grupo de Trabajo Conjunto CA-UE, 2005a,b,c);
  - o the EU-ACP Reviews ('EU-ACP') (European Commission, 2002; European Commission, 2005b; World Bank, 2002; COMESA, 2002);
- the COMESA proposal as a response to DG DEV's proposal (COMESA, 2002) ('COMESA');
- UNECA's proposal to monitor regional integration in Africa ('UNECA') (UNECA, 2001, 2002, 2004);
- the indicator system proposed for ASEAN (Dennis and Yusof, 2003), both in its full ('ASEAN') and short ('ASEAN-KEY') versions;

Twelve indicator systems have thus been selected for the evaluation exercise. A number of other proposals and initiatives have been left out of our analysis, these included:

- the Prakash and Hart (2000) contribution on indicators of economic integration, because they focus on indicators of openness (globalization) at the national level, although they assert that their work could be applied at the regional level;
- Ruiz Estrada's Trade Liberalization Evaluation Methodology (Ruiz Estrada, 2004b), because, although the methodology is said to be oriented towards the monitoring of free trade agreements (FTAs) and the ex ante assessment of the conditions for regional trade liberalization, it boils down to the calculation of

- average protection levels at the national level and suffers from some methodological weaknesses (De Lombaerde, 2006);
- BUESPA's proposal on Indicators of Maturity for Integration (Bato and Dorner, 2004), because the proposal still needs further 'maturation', although –conceptually- it is interesting to compare with Hufbauer and Schott's 'readiness indicators';
  - DG Internal Market's Internal Market Scoreboard, launched in 1997 and published since then, because of its high level of specificity, although interesting in terms of design and communication strategy built around the indicators (European Commission, 1997, 2005);
  - The Eurobarometer , for similar reasons.<sup>2</sup>

## 2.2. Political economy aspects: By whom? For whom? Why?

Before tackling and evaluating the technical aspects of indicator systems it is necessary first to have a look at their political economy aspects. The evaluation of the technical quality of a system cannot be seen independently from the actors involved or concerned (users and producers of the monitoring system), their goals and the goals of the indicator system itself.

Actors possibly interested in the design of indicator systems for regional integration include: regional organisations, individual countries, academia, civil society, and external governmental and non-governmental actors. In line with the shifts suggested by Hettne and Söderbaum (2004) in the direction of networked and multi-dimensional forms of regional cooperation, as mentioned above, it might be expected that more (and different) actors will be involved in monitoring in the future.

An important distinction that should be made is between uni-regional and pluri-regional (comparative) monitoring and indicator systems. Uni-regional systems refer to the regional integration process in one region. They can be designed by/for regional actors (e.g. regional organisations, regional civil society organisations, ...), by extra-regional actors (e.g. donor governments, international organisations, ...), or by a combination of both. Pluri-regional systems refer to two or more processes and feature a comparative aspect. Again they can be designed by different kinds of actors. Obviously, the comparative aspect implies a number of specific technical issues.

For the, politically more sensitive, comparative systems, a choice is possible between traditional comparative indicators (allowing for a direct comparison of the scores of particular regions for a particular variable) and 'relative' ('reflexive') indicators (comparing first the performance of each region with its own objectives) (De Lombaerde and Van Langenhove, 2006). The World Bank (2002), for example, favours relative comparisons. A combination of comparative and relative indicators is also possible. A concrete example of a case where both types of indicators are combined is the system of Indices of Economic Integration Effort in Africa (UNECA, 2001:2). In that system two yardsticks are used: (i) the self-defined pre-determined targets for target-driven indicators (if they exist for particular integration groupings), or (ii) an average of the  $n$  best performers.

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<sup>2</sup> See, [http://europa.eu.int/comm/public\\_opinion/standard\\_en.htm](http://europa.eu.int/comm/public_opinion/standard_en.htm).

When designing an indicator system for the monitoring of regional integration processes, a number of ‘political choices’ should further be made. Following De Lombaerde and Van Langenhove (2006), these include:

- the *degree of specificity* of the system: referring to the number of aspects of integration (or sectors) that are covered;
- the *level of assessment*: referring to the fact that systems can be designed to monitor the dynamics of a group of (integrating) countries or regions, or it can be designed to monitor the participation of individual countries/regions in the integration schemes;<sup>3</sup>
- the *treatment of overlapping membership*<sup>4</sup>, relating to the choice of countries to be included in the monitoring exercise and leading to technical problems concerning the disentanglement of effects of regional integration; when, as also observed by the World Bank (2002), the evaluation of a regional arrangement involves ‘rewards’ or ‘sanctions’ from the international (donor) community, should be able to handle asymmetries within the groupings, such as passive or obstructive behaviour by one or a minority of members, caused by e.g. occurrence of a conflict, diverging policy preferences, etc;
- the *distinction between policy discourse, effort, implementation and effect*.<sup>5</sup>

### 2.3. Conceptual framework

Between the political economy aspects and the technical aspects of indicator systems stands the conceptual framework used to build the indicator system, whether it is explicitly presented or implicitly present.

Reflecting the fact that there is no unique definition of regional integration, and that it is a phenomenon with evolving characteristics, again a number of options lay open:

- regional integration conceived as a process or a state (Balassa, 1961),
- adoption of a uni-dimensional or a pluri-dimensional approach,
- focus on institutionalised or ‘real’ integration,
- focus on ‘positive’ or ‘negative’ integration (Tinbergen, 1954; Pinder, 1968)<sup>6</sup>,

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<sup>3</sup> One should be aware that focussing on one level of analysis, say the regional level, might bias the results. Simultaneous policies (be it in different policy areas) in opposite directions might yield a net effect in either direction. A bias might occur if integration policies tend to be common policies, whereas disintegration policies (protectionist reactions) tend to be national, which might well be the case. Theoretically, ideal indicators would be net indicators, showing whether a given set of policies and measures taken during a period of time contribute or not to integration. Such indicators are however difficult to construct.

<sup>4</sup> On the issue of overlapping memberships, see for example, Devlin and Ffrench-Davis (1998), and UNECA (2004). It is particularly problematic in Africa, and is likely to become more problematic in South America.

<sup>5</sup> In this context, the distinction between ‘positive’ and ‘negative’ integration is relevant. The former might suggest more ‘policy effort’ and be captured as such by many indicators, although nothing assures ex ante that ‘positive’ measures have more important effects than ‘negative’ integration (De Lombaerde and Van Langenhove, 2006).

<sup>6</sup> Low levels of integrative ambition are associated with negative integration, whereas high levels of integrative ambition are associated with positive integration, although it is difficult to conceive negative integration without a minimum amount of positive measures (Best, 1997:56). Integration should be seen as a varying mixture of both types of measures.

- focus on one actor or more actors,
- adoption (or not) of a typological approach, like Balassa's well-known stages approach (Balassa, 1961) or a new regionalism typology like Hettne and Söderbaum's based on the regionness concept (Hettne and Söderbaum, 2000).

The definition of regional integration will usually imply that related concepts like coordination or cooperation are also to be defined.<sup>7</sup>

Concepts refer to theoretical models of regional integration. These theoretical constructs suppose causal or systemic relationships between variables and suggest ways of interpreting the results of monitoring exercises. Especially relevant within this context is the strong normative tradition in integration studies (Bekemans, Fiorentino and Van Langenhove, 2000:55-7). This, in turn is explained by the fact that research on regional integration is very much steered by its context and, historically, by the development of European integration. One should be careful not to reduce the evaluation of the facts (actions, decisions, effects), taking place in particular regions, to a mechanical application of a model labelling them as positive or negative, progress or decline, functional or dysfunctional, etc. (De Lombaerde and Van Langenhove, 2006).

The Balassa model of economic integration (Balassa, 1961), for example, has been extremely influential in academia and lends itself very well for measuring 'progress' of a particular integration scheme. However, the model is too often confused with a set of general laws governing integration processes. In the real world, simultaneity, inversion and endogeneity are rather the rule than the exception (De Lombaerde and Van Langenhove, 2006).

#### **2.4. Variables and categories**

The choice of variable categories is, on the one hand, linked to the chosen level of specificity of the indicator system and, on the other, to the theoretical framework employed.

Alternative ways of classifying variables include (De Lombaerde and Van Langenhove, 2006):

- sectoral approach I (classification by policy areas);
- sectoral approach II (classification by disciplinary fields);
- input-output approach.

The first two approaches are straightforward, although border cases will occur. The input-output approach is theoretically the most attractive because of its analytical focus; however, it is not necessarily the most practical for setting up a monitoring system. In the input-output approach, as 'inputs' can be considered: structural

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<sup>7</sup> Recently, for example, the problem of conceptualisation has been illustrated very well in the context of the discussions about the RCRP proposal of the European Commission. The World Bank (2002), proposed to distinguish between 'integration' and 'cooperation' on the basis of the degree of sovereignty that countries agree to transfer to supranational institutions, but recognised that the borderline is not clear-cut. The Commission itself proposed a category of inter-state interaction called 'functional regional cooperation' (see below).

characteristics of the integrating area (number of countries, shared borders, etc.), asymmetries, capacities to integrate, commitments, governance structure, overlapping memberships, etc. As 'outputs' could be considered: policy implementation (as intermediary output), effects on flows, effects on growth, etc.

A special category of inputs could be called pre-conditions for integration. Although originally intended to assess (ex ante) the possibilities and potential of (future) integration agreements, the variables involved can also be used in a dynamic manner to evaluate the compatibility of the formal integration process with the pre-conditions. In addition, these pre-conditions are not static, they are often endogenous because of feed-back effects of the integration process.<sup>8</sup> H&S, F&G and BUESP are examples of indicator systems focussing on these pre-conditions. Ex ante studies have not been limited to trade and economic issues. Best (1997), for example, analysed the public-management capacities for regional integration and identified a set of variables that shape the complexity of the implementation of the integration objectives ('levels of integrative ambition'). The author identified nine key variables, various of these consisting of sets of variables themselves, that shape the complexity of the implementation of the integration objectives. The variables are: (i) number of member states, (ii) relative sizes of the participating countries, (iii) different levels of development, (iv) scope of coverage, (v) type of impact, (vi) time perspectives, (vii) degree of real interdependence, (viii) political framework, (ix) perceptions, values and norms.

In order to have a benchmark against which the indicator systems can be compared and evaluated, we propose to use the conceptual framework as developed in De Lombaerde and van Langenhove (2006). The different systems that will be evaluated use different terminology, ways of presenting, and ways of classifying which make it difficult to compare their contents. Our purpose is to screen the systems and to consider each individual variable and re-classify them in our pre-established categories. The conceptual framework which will be used here, combines features of the three generic ways of classifying variables, as explained before.

In this conceptual framework, the distinction between real and formal integration is considered as not really appropriate; parallel (but interconnected) processes of regional integration are considered: institutional (more or less capturing what is usually called 'formal'), political, economic, cultural, etc. The effects of integration policies and the evolution of regional interdependence will obviously have feed-back effects for the institutionalisation process, thus conceptually restoring its endogenous character.

In principle, variables and indicators are included in the framework on the condition that they inform us on the regional integration process. This seems straightforward, however, one should be aware of the fact that a (large) grey zone exists, consisting of variables that are, as such, purely national indicators but that can easily be transformed into indicators of convergence/divergence.<sup>9</sup> Growth rates and inflation rates for member states illustrate this point very well. Another group of variables that are in a grey zone, are the variables that belong to political economy approaches to

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<sup>8</sup> See e.g. the discussion on the endogeneity of OCA criteria (Frankel and Rose, 1998).

<sup>9</sup> As in the case of the COMESA proposal (COMESA, 2002), this can well be only a matter of presentation (i.e. not involving calculations of convergence indicators).

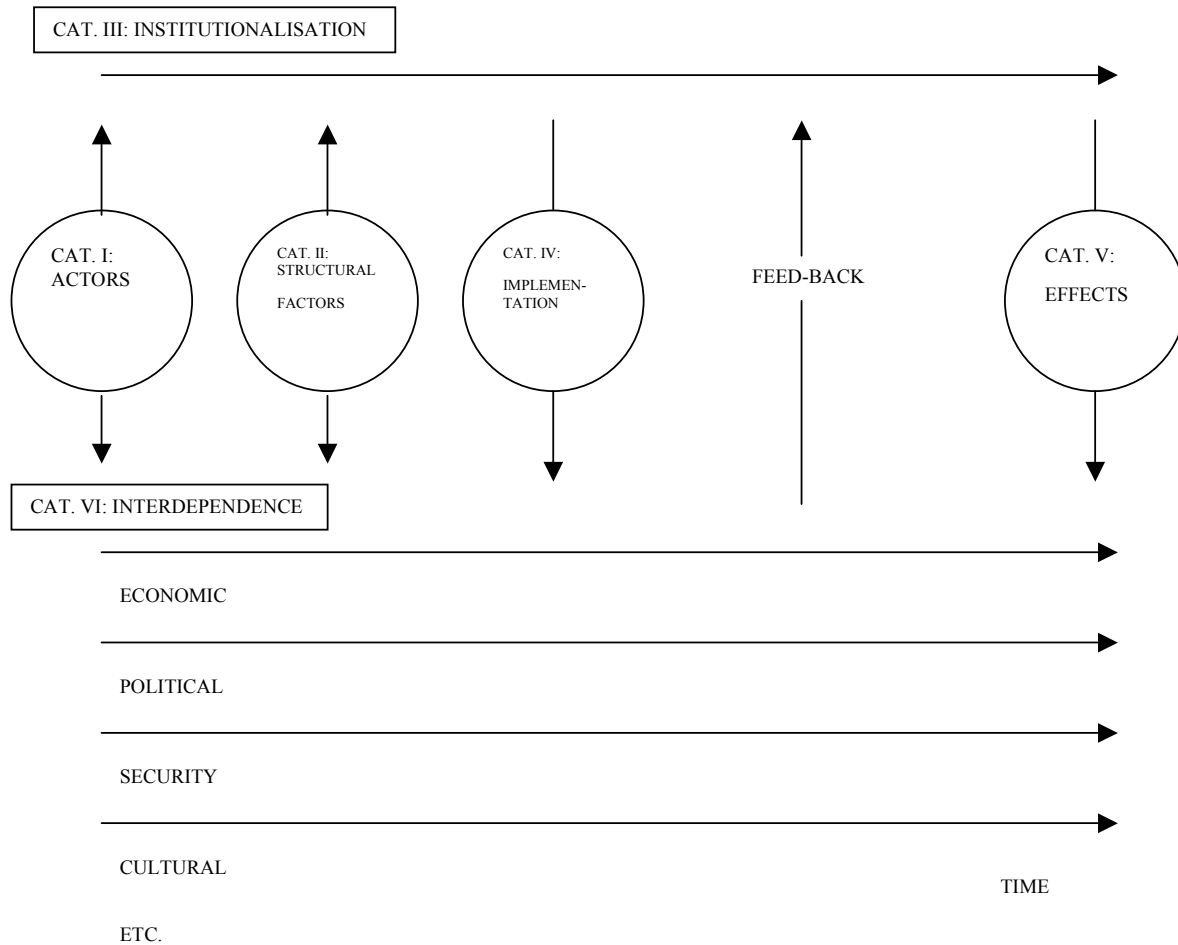
integration, such as: underlying motivations of integration processes, role of interest groups, and permeability of regional institutions, etc. Without understanding the underlying motivations of a regional integration effort, it is difficult to evaluate.

The conceptual model is shown in figure 1. Six categories of variables are considered:

- actors;
- structural factors,
- institutionalisation,
- implementation,
- effects,
- interdependence.

Their contents are explained in box 1.

**Figure 1.4: Conceptual framework**



Source: De Lombaerde and Van Langenhove (2006).

**Box 1: Categories of Variables (De Lombaerde and Van Langenhove, 2006)**

*Actors and structural factors*

The categories of ‘Actors’ and their structural characteristics (‘Structural Factors’), contain information about the basic building blocks of the integration effort.

The category of ‘Actors’ refers to the number and type of actors involved and their behaviour. The number of countries or regions involved has a direct influence on the dynamics of the decision-making process, although that relationship is not straightforward and should be seen in combination with the issue of asymmetries (see above). From an administrative and political point-of-view, the number and character of the policy-making and implementing levels is also important.

In addition to their numbers, within each category of actors a list of attributes could be established to reflect their character and importance. The intensity of their involvement and their importance in the decision-making process could be evaluated through quantitative methods (number of meetings attended, financial contribution, etc.) or qualitative assessments (expert opinion).

The category of 'Structural Characteristics', includes all those variables that refer to structural characteristics of the integration grouping and of its members. They should logically be restricted to variables that are directly or indirectly related to the integration process. These variables might relate to the scale of the arrangement, the structure of the grouping and of each component, the nature of the components, etc.

Proximity of the actors is obviously a relevant variable to evaluate the potential and sustainability of an integration grouping. Gravity type models of economic interaction have shown significant (negative) relationships between the intensity of economic relations between countries and their distance. It has been shown also that proximity/distance is a typical multi-dimensional variable; physical, economic, political, cultural, linguistic, and historical proximity are all relevant variables.

[...] structural asymmetries play an important role in integration processes although the direction of causalities is not clear. Its measurement can be based on variables of population, the economy, external relations, and so on.

#### *Indicators of institutionalisation and policy implementation*

The actors involved in integration processes take steps (measures) that are supposed to contribute towards regional integration and the 'Institutionalisation' of the region and its integration effort. These political decisions are implemented to some extent ('Implementation') and have or have not certain impact ('Effects') in different areas (social, economic, cultural, etc.). Also relevant is the institutional basis on which the whole integration process rests (for example, constitution-based versus treaty-based integration processes); institutionalisation should thus be analysed on different levels.

Obviously, institutional activity has quantitative (for example, number of treaties or ministerial meetings) and qualitative aspects (content of the treaties or decisions). Productivity measures might be applied to the institutional activity, thus linking policy outputs to their resource cost.

#### *Effects*

Seen from the perspective of citizens and policy makers, this should be the most important category of variables. It is also the most problematic category to include in the system. This is related to the fact that it is difficult to isolate effects of integration from those of other phenomena. Integration is a complex and dynamic process not necessarily adequate for causal explanation. On top of that, for many aspects of integration, there are no comparable data sets nor standardised research methodologies available.

This is certainly true for the analysis of static effects of integration (directly linked to the reallocation of resources among sectors and countries), but even more so for the analysis of the dynamic effects of integration. Although researchers often concentrate on the short term (static) effects of integration measures rather than on the dynamic ones, it should be stressed that the sign (direction) of the effects does not necessarily coincide, so that the former cannot necessarily be used as a proxy for the latter. In practise, it is often explicitly understood and accepted that short term costs (transition costs) are the price to pay for reaping long term benefits.

#### *Indicators of interdependence*

'Effects' of integration, together with structural conditions and exogenous influences, can explain the degree and evolution of 'Interdependence' between the regional actors. Effects are thus attributable to specific integration policies, whereas the degree of interdependence is autonomously measured and reflects the evolution of interdependence in different dimensions. Interdependence is used here as a substitute for what is often called 'real' or 'de facto' integration.

Interdependence tries to capture the degree of 'regionness' of the region, or at least some aspects of it.

Regionness is also a central concept in the new regionalism approach (Hettne, 1999; Hettne and Söderbaum, 2000).

Interdependence can be assessed on different dimensions, such as economical, political, cultural, security and infrastructural. These dimensions coincide broadly with those considered in the proposal for a system of indicators of interconnectedness, made by Held and others in the framework of the Global Transformations project (Held et al. 1999). The following dimensions are being considered in that project: (i) political-legal indicators, (ii) military indicators, (iii) economic indicators, (iv) migration indicators, (v) culture indicators, (vi) environment indicators, (vii) global stratification. Many of the indicators proposed could be transformed into indicators of regional interconnectedness.

The measurement of the degree of interdependence can be approximated via the measurement of the flows (of people, goods, capital, information, etc.) that are interconnecting the actors or via direct measurements of correlations of variables (for example, symmetries in business cycles, interest rate spreads, etc.). For the forms of interdependence that are more difficult to measure, like political interdependence, indirect measurements should be considered. The patterns of voting behaviour in multilateral organisations might, for example, be a possible indicator of regional policy convergence/divergence.

Interdependence through trade flows is probably the most studied kind of interdependence. Its study is usually based on simple indicators as the relative importance of intra-regional trade and its growth, which can easily be calculated. More sophisticated indicators are available, which correct the former for size effects in order to allow for methodologically sound inter-regional comparisons (Iapadre, 2006). The indicators of the degree of integration can be complemented with indicators of the direction and nature of commercial integration. This is particularly relevant from an analytical point of view. The composition of the flows induced by the integration process are good indicators of the underlying socio-economic changes that take place in the member countries. In the case of trade flows, for example, indicators of intra-industry trade and of the technological content of intra-regional trade can easily be calculated.

The ex post analysis of the flows of (public) funds between national governments and the supranational institutions within a group of countries (a region) also permits an evaluation of the degree of their integration, provided that these flows reflect the actual level of organised solidarity, the importance of the supranational institutions, etc.

## 2.5. Aggregation and weighting

Indicator systems can be designed as *tableaux de bord*, consisting of an ordered presentation of the values of the selected relevant variables, permitting - for each variable - cross-country or cross-region comparisons and time series analysis, but without establishing explicit weights for the variables and their categories. The designers can go a step further though and add calculations of aggregate indicators per country, per region and/or per sector.

Aggregation procedures 'pre-process' the data so that the reading by the users is simplified, but it should be added that this is not necessarily true for its interpretation. Aggregate indicators might become too abstract, especially if they are multi-dimensional.

The index problem can be solved in different ways. The weighting procedure can be based on statistical criteria (based on the statistical contribution of the variables to the

variation of a goal variable)<sup>10</sup>, expert opinion or practical considerations (data availability, lack of knowledge or valid criteria, etc.) (De Lombaerde and Van Langenhove, 2006). In any case, weighting procedures will always be arbitrary to some extent. The World Bank (2002), for example, pointed to the problem of combining indicators applying to different topics or different regional arrangements, and suggests to accompany the quantitative data with qualitative assessments.

### **3. Systems of indicators: By whom and for whom?**

Of our set of 12 indicator systems under evaluation, three proposals are proposed by academics, nine by regional institutions.<sup>11</sup> Of the latter, five belong to the EU family, thus illustrating the active role the EU is playing in promoting regional integration worldwide.

The Cotonou agreement places particular emphasis on regional economic integration and the role of regional organisations (see articles 28-30 of the agreement and articles 6-14 of annex IV). Annex IV article 9 sets out some principles for regional resource allocation, which are comparable to those for national resources allocation. The article states *that the indicative resources allocation shall be based on an estimate of the need and the progress and prospects in the process of regional cooperation and integration*. The EU-ACP Reviews were based on reports prepared by DG DEV geographical services, with support from Delegations with a regional responsibility. These reports were discussed by the Commission services in the framework of a region team meeting and were finally formalised in the regional review meeting with the participation of regional authorising officers (RAOs), national authorising officers (NAOs), Heads of Delegation (HoDs), Member States and non-State actors. The 2003 operational reviews have concentrated on a limited number of priorities, such as:

- 9<sup>th</sup> EDF programming and the use of old EDF resources;
- performance indicators in the intervention framework (9<sup>th</sup> EDF) to measure results in focal sectors;
- preparation of the Economic Partnership Agreements (EPAs);
- preparation of MTRs.

The main weakness of the exercise has been the lack of involvement of the RAOs in the preparation of the operational reviews and the difficulty of ensuring participation of the RAOs, NAOs, HoDs, Member states and non-state actors (NSAs) in the exercise. In the absence of representatives of the region's member countries, it was not always possible to properly assess the economic integration process and the major constraints of its implementation at national level. In some cases there was no region team meeting but the 2003 draft annual report was only shared with the relevant services in headquarters and Delegations. Therefore, the annual reports cannot always be considered as real joint reports.

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<sup>10</sup> For an example of statistical weighting, see e.g. the CSGR Globalisation Index (Lockwood and Redoano, 2005).

<sup>11</sup> Although external experts were contracted in cases like ASEAN and UNECA.

In the case of EU-CAN and EU-CENTRAL, the Ad-Hoc Joint Working Groups deal with the technical aspects of this phase of the joint assessment exercise. This Working Groups report their conclusions and recommendations to the 9th Joint Committee and meet three times per year (usually during the months of April, June/July and October) alternating locations between both regions.

The report on Developing Indicators of ASEAN Integration is a technical document prepared for the ASEAN Secretariat and funded by the Australian Regional Economic Policy Support Facility (REPSF).

In general, it can be observed that only few actors are apparently involved in the monitoring exercises. In addition, communication with the broader public in the region is underdeveloped, if not completely absent. The participation of different actors in the monitoring exercise (regional organizations, national governmental actors, civil society, international organizations, academia), could considerably improve the monitoring exercise. Especially the quality and choice of indicators, transparency and relevance of the process and its sustainability could greatly benefit from higher levels of participation.

#### **4. For what purpose?**

##### *H&S*

The integration process of the western hemisphere is rather complex due to the vast differences between the countries of North and South America. Two sets of indicators have been developed by Hufbauer and Schott (1994) to analyse this process of economic integration in the western hemisphere (H&S). One assesses the level of economic integration achieved by each sub regional group and the other examines the level of readiness of these groups in order to increase the degree of hemispheric integration.

##### *F&G*

The indicator system proposed by Feng and Genna (2004) is directly based on H&S. The F&G system measures the level of regional integration according to six categories associated to regionalism. The integration achievement score was used mainly to test the following hypothesis “a critical condition for the emergence of a successful economic union is that the homogenization of domestic economic institutions and the process of regional integration reinforce each other”. The model has been applied to Africa, Asian and Latin America.

##### *GDRI*

The GDRI model developed by Estrada (2004) enables the process of regional integration to be analysed from a global perspective using a social, political, economic and technological framework. This analytical tool is said to be applicable to examine any form of regional integration based on past and present situations and characteristics. Unlike a majority of indicator system which focus on monitoring one aspect of regional integration, this tool encompasses a multidimensional approach. The GDRI model comprises the Regional Global Development Index which is “an

indicator to compare different historical periods of the regional integration process in any region” (Estrada, 2004:13) and the Regional Integration Stage Index “measures the degree or stage of the regional integration development that any region achieves in its different stages of evolution” (Estrada, 2004:15).

#### *UNECA*

Progress in regional integration is assessed by UNECA in order to analyse the performance of each regional country (individually and relative to other member countries) in achieving specific objectives set by the treaties as well as to evaluate the overall progress made by the regional economic communities towards realizing the goals and objectives of the African Economic Community. The assessment focuses on the progress made after the African Economic Community was established by the Abuja Treaty. The indicators have been based on the eight sectors that are common to the treaties of the regional economic communities. The sectors are trade, money and finance, transport, communications, energy, agriculture, manufacturing and human development and labour markets. The Composite Integration Index which assesses the ‘relative performance of a regional economic community’ is also developed based on the eight sectoral indices.

The main objectives of the indices are listed as follows:

- “• To assess each country’s performance and relate it to the goals and objectives of each regional economic community and that of Africa as a whole, as well as to assess the performance of each economic community to that of Africa.
- To compare the contributions of each member country in a regional economic community towards the realization of such goals and objectives, in addition to the contributions that each regional economic community has made towards the realization of goals and objectives of the continent at large.
- To monitor the performance of each country, regional economic community, and the continent as a whole for regional integration efforts over time.
- To enhance the quality of the analysis by providing indices for scores and rankings at country, regional economic community and continent levels” (ECA, 2004:244).

#### *ECB-MERCOSUR*

The main goal of the ECB’s contribution is “to test for the hypothesis that institutional integration interacts with economic integration at the regional level” (Dorrucci et al., 2002:6). The authors seek to draw lessons from the European integration experience for MERCOSUR.

#### *EU-MERCOSUR*

The inter-regional Framework Co-operation Agreement signed by the EU and MERCOSUR in Madrid in 1995 led to the creation of three Technical Working Groups (on Goods, on Services and on Trade Norms and Discipline). The TWGs met for the first time in Brussels in March 1997, and for the second time in Punta del Este,

Uruguay, in November 1997. In accordance with the agreed calendar, the TWGs have worked towards preparing a detailed photography of the current status of trade relations between the European Community and MERCOSUR, which has been finalised in April 1998. The assessment served as a background document for the preparation of the interregional association agreement between the European Community and MERCOSUR. In order to prepare each part of this photography, the EC and the MERCOSUR delegations to the Working Groups have conducted a number of comparative analyses of various aspects and areas of EC-MERCOSUR trade relations covering the period from 1990 to 1996. They have also exchanged complete data bases and information bases on all facts and legislation directly relevant to these analyses.

The Joint Photography establishes the final agreed description of the current situation and of its recent evolution as regards trade in goods and in services and trade standards and disciplines (regulations; technical norms and conformity assessment; commercial defense instruments; competition rules; public procurement; rules of origin and veterinary and phytosanitary rules).

#### *EU-CAN and EU-CENTRAL*

The Madrid Declaration (2002) provided the political mandate to the European Commission for the negotiation of political dialogue and cooperation agreements with CAN and CA. The prospects for an Association Agreement, including FTAs, rest on two preconditions: (i) completion of the Doha Development Agenda; (ii) achievement of a sufficient degree of Regional Integration.

An agreement on the Joint Assessment was reached during the EU-LAC Summit in Guadalajara in May 2004 and was formalized in January 2005 during the EU-CAN mixed commission. Under the joint exercise, officials from both sides meet on a regular basis to review the state of integration and assess whether the progress achieved permits to start negotiations. The exercise is conducted in parallel but independently with CAN and CA.

#### *EU-ACP*

Regional mid-term reviews (MTRs) and end-of-term reviews are explicitly foreseen in the Cotonou agreement<sup>12</sup>. The Cotonou text is clear on the key principle, i.e., flexibility of financial cooperation to ensure that it is kept constantly in line with the objectives of the Agreement. Therefore MTRs are based on three elements:

1. The review process should provide an update of the regional strategy paper (RSP) analysis, i.e., update on the political, economic and social situation, priorities and

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<sup>12</sup>Cotonou Agreement, article 11 of annex IV: *Financial cooperation between each ACP region and the Community shall be sufficiently flexible to ensure that operations are kept constantly in line with the objectives of this Agreement and to take account of any changes occurring in the economic situation, priorities and objectives of the region concerned. A mid-term and end-of-term review of the regional indicative programmes shall be undertaken to adapt the indicative programme to evolving circumstances and to ensure that they are correctly implemented. Following the completion of mid-term and end-of-term reviews, the Community may revise the resource allocation in the light of current needs and performance.*"

objectives of the region concerned, highlighting any changes occurred since the RSP programming.

2. Regional MTRs should in principle not lead to a change in the RSP but should assess the implementation of the regional indicative programme (RIP), ensure its correct implementation and, where appropriate, lead to the formulation of concrete proposals to adapt the RIP to evolving circumstances.

3. Regional MTRs may lead to a revision of the region's allocation by the Community in the light of current needs and performance.

In addition, and following the EU Council conclusions of March 2003:

4. "MTRs should take into account and operationalise, as appropriate, EC/EU policy initiatives and commitments taken at the international level, while respecting the principles of subsidiarity, ownership and concentration of aid."

Although the Cotonou agreement does not explicitly require annual operational reviews within regional programming, such reviews were organised in 2003 for each of the programming regions in accordance with the principle of rolling programming and by analogy with the country strategy paper (CSP) review process.

#### *COMESA*

The COMESA proposal (COMESA, 2002) was a response to DG Development's proposal for the RCRP (EU-ACP). The short term goal was to identify indicators to measure the effectiveness of COMESA programmes in promoting regional integration. The aim was to build up a time series which could measure the effectiveness over a specific period of time. This would allow COMESA as an organisation to determine which programmes are more effective than others and allow some fine-tuning of programmes which are not performing well.

Long-term goal: develop a regional surveillance mechanism (RSM) to

- Provide a measure of how successful regional policies are in promoting regional integration
- Highlight potential issues which might slow down the regional economic integration and allow the region to develop timely policy responses
- Take the initiative to determine what parameters the regions itself thinks are important in terms of poverty reduction and development rather than relying on preconceptions of outside agencies
- Develop a set of indicators to measure the progress being made in regional integration which can act as both "conditionalities" for the PRSP approach and as a basis for assessing risk for outside investors
- Develop a set of regional lock in mechanisms through a peer pressure system
- Be used as a trigger mechanism for budgetary support in cases where countries need such assistance to continue with the process of liberalisation

#### *ASEAN and ASEAN-KEY*

The objective of the ASEAN proposal was to measure "the progress towards economic integration of the 10 ASEAN nations in the context of the aim to move towards an ASEAN Economic Community" (Dennis and Yusof, 2003:1), a

comprehensive set of indicators has been identified. These focus on the following areas, trade in goods, investment, trade in financial and other services, infrastructure, customs, standards, mutual recognition agreements and conformity assessment, small and medium enterprises, e-ASEAN and intellectual property. While a complete set of indicators to monitor the progress of economic integration has been recommended, a limited set of indicators has been selected as key integration indicators to be used in the initial stages of monitoring (ASEAN-KEY).

### Summary

Summarising, the following objectives of indicator systems can be identified:

- to measure the level of integration of a given regional grouping (H&S, GDRI, EU-MERCOSUR);
- to measure the pre-conditions for (further) integration (H&S, F&G);
- to assess the performance and contribution of individual countries in regional groupings (UNECA);
- to evaluate regional integration policies (ASEAN, ASEAN-KEY, COMESA);
- to compare regional integration in different regions (UNECA, H&S, GDRI, EU-MERCOSUR, ECB);
- to evaluate donor-financed support programmes for regional integration (EU-ACP);
- to assess needs and merits of regional organizations upon which to base future aid decisions (EU-ACP);
- to be strategically used in the context of a negotiation process (EU-MERCOSUR, EU-CAN, EU-CENTRAL).

## 5. Conceptual frameworks

The conceptual framework is often not very developed in the proposals under consideration. Most of the cases exclusively focus on economic integration without further elaborating the conceptual framework. Some include also institutional aspects (ECB-MERCOSUR, H&S, F&G); three cover also technological variables (GDRI, UNECA, ASEAN). Table 2 shows the policy areas covered by the different indicator systems.

**Table 2: Coverage of Policy Areas**

Indicator System	Policy Areas						
	Economic	Social	Institutional	Political	Monetary	Cultural	Technological
H&S-AS	x		x		x		
H&S-RI	x			x	x		
EU-MERCOSUR	x		x	x			

ECB-MERCOSUR-INST	x		x		x		
ECB-MERCOSUR-ECO	x				x		
COMESA	x		x	x	x		
ASEAN Road Map	x		x		x		x
ASEAN-KEY	x				x		
GDRI	x	x		x			x
UNECA	x	x			x		x
F&G	x		x		x		
EU-CAN	x		x	x			
EU-CA	x		x	x			
EU-ACP	x		x	x	x		

Note: AS = Achievement Scores of Economic Integration; RI = Readiness Indicators; INST = Institutional Index of Regional Integration; ECO = Economic integration measure.

Only a few proposals deal with conceptual issues. In the ASEAN proposals, for example, a distinction is made between integration, openness and interdependence (Dennis and Yusof, 2003:24-25). In the EU-ACP review process it is stressed that integration and cooperation should both be examined. The European Commission (2002b) further sustained that it favours indicators of inputs and efforts.

A few proposals explicitly refer to a theoretical framework. The conceptual framework of GDRI is based on the old (closed) and new (open) regionalism (Bhagwati, 1999). However, in spite of this economic bias in the theoretical framework, the choice of indicators shows a multi-dimensional approach (Ruiz, 2004).

To evaluate institutional integration, the ECB developed an institutional index of regional integration based on Balassa's (1961) conceptual framework. The authors consider four stages of regional integration: (i) free trade area (FTA)/customs union (CU), (ii) common market (CM), (iii) economic union (EUN), and (iv) total economic integration (TEI). The index measures at a specific instance the level of integration attained by a particular regional arrangement. "Institutional integration can be defined as the outcome of joint policy decisions designed to affect the depth and breadth of regional integration over time" (Dorrucci et al., 2002:6). Interesting here is that they apply the Balassa model in a flexible way in order to account for different time patterns, instead of sticking to a strict sequencing. Economic integration is evaluated using a set of variables based on the Optimum Currency Area theory and also other measures outside of this framework. Dennis and Yusof (2003) also use a Balassa type conceptual framework.

## 6. Variables and categories

The number of variables in the indicator systems under evaluation varies from one system to the other. It ranges from six variables (F&G) to 145 variables (ASEAN) (table 3). Cases like ECB's Economic Integration Measure (ECO) and COMESA feature mainly quantitative measures, whereas H&S, F&G, ECB's Institutional Index of Regional Integration (INST) are based on ordinal variables.

**Table 3: Number and Type of Variables**

Indicator System	Number of Variables	Type				
		Quantitative Measures	Scores	Ranks	Binary System	Other qualitative measures
H&S-AS	6		x			
H&S-RI	7		x			
EU-MERCOSUR	52					x
ECB-MERCOSUR-INST	11		x			x
ECB-MERCOSUR-ECO	12	x				
COMESA	57	x				x
ASEAN	145	x				x
ASEAN-KEY	11	x				x
GDMI	102	x			x	x
UNECA	20	x	x	x		
F&G	6		x			
EU-CAN	21	(x)				x
EU-CA	21	(x)				x
EU-ACP	35	(x)				x

Notes: see Table 2.

The twelve cases classify the variables in different ways, making a direct comparison difficult. The categories are usually based on policy areas. This is the case for EU-MERCOSUR, EU-CAN, EU-CENTRAL, all focusing on trade related variables, and UNECA, featuring eight ‘clusters of activity’ to classify the variables and indicators. These are: (i) trade and market integration, (ii) monetary, fiscal and financial integration, (iii) transport, (iv) communications, (v) industry, (vi) energy, (vii) food and agriculture, and (viii) human development and labour markets (UNECA, 2001, 2002).

More sophisticated classifications of variables, with features of the input-output model are found in ECB and EU-ACP systems.

ECB distinguishes between institutional and economic integration (Dorrucchi, 2002). The former is evaluated on the basis of the implementation of decisions in four dimensions, based on Balassa’s stages approach to integration, as mentioned before. Within the latter category, seven subcategories (and 11 variables) are considered: (i) synchronisation of the business cycle, (ii) convergence of inflation rates, (iii) exchange rate variability, (iv) trade openness and integration, (v) financial market integration, (vi) convergence of interest rates, (vii) income convergence.

EU-ACP distinguishes between types of policies. In the 2002 document, the categories were:

- regional economic integration
- functional regional cooperation

- governance and financial issues
- implementation of EDF projects and programme

The indicators measure the efforts or inputs into the integration process (they do not attempt to measure results and outputs). In the 2005 document the indicators proposed by the EC are grouped under the following categories:

- regional trade liberalisation and facilitation,
- other regional integration policies (including EDF implementation),
- institutional structure and governance issues.

The distinction is stressed between institutionalisation (reaching agreements and adopting required legislation) and effective implementation. Monitoring should be able to distinguish those cases. However, it is not clearly specified how this should be done.

As a response to DG Development's proposal, the COMESA Secretariat launched a proposal for a system of indicators with an alternative design. The philosophy of that proposal is different in the sense that inter-regional comparisons are not the main focus, but rather the monitoring of their own integration process. COMESA considers 12 categories of variables: (i) trade liberalisation, (ii) trade facilitation, (iii) trade in services, (iv) transit facilitation, (v) monetary convergence, (vi) domestic payments and settlement systems, (vii) fiscal environment, (viii) government intervention in the economy, (ix) capital flows and foreign investment, (x) governance issues, (xi) regulatory environment, (xii) licensing requirements.

In its discussion of the UNECA methodology, the COMESA Secretariat expressed strong reservations over the methodology used, precisely for the reason that the UNECA indicators do not necessarily reflect the effects of programmes being undertaken by regional organisations (COMESA, 2002:6). COMESA criticised, for example, the ranking of SADC and ECOWAS as the most successful regional organisations. According to COMESA, these rankings simply reflect the presence of a member with a large economy in each case (South Africa and Nigeria, respectively). One should therefore carefully distinguish between structural characteristics of countries and regional groupings, on the one hand, and integration policies, on the other hand.

In order to better compare the contents of the different indicator systems, we re-organised all the variables of the twelve systems according to the categories of our conceptual framework, as presented in section 2.4. The detailed results of this exercise are shown in Annex 1.<sup>13</sup> A summary is shown in table 4. The table shows a different picture than the one based on the published results of the indicator systems.

The main conclusions are the following:

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<sup>13</sup> In a (limited) number of cases, the re-classification of the variables in our framework was not always straightforward, especially in the border area between the Institutionalisation and Policies category and the Implementation category. We consulted the original documentation to minimize classification errors.

- Surprisingly, it appears that one third (172 out of 536  $\approx$  32%) of the variables do not inform us directly about the regional integration process. And this is not only due to the presence of readiness indicators. COMESA, UNECA, ASEAN, and GDRI illustrate this very well.
- The categories on which the systems focus are varied.
- Those that focus on one category are: F&G on Institutionalisation and Policies; EU-MERCOSUR, EU-CAN and EU-CENTRAL on Implementation; ASEAN-KEY on National Macroeconomic Indicators; and GDRI on Other National Indicators.
- Those that focus on two categories are: H&S on Institutionalisation and National Macroeconomic Indicators; ECB-MERCOSUR and ASEAN on Implementation and Interdependence; EU-ACP on Institutionalisation and Implementation.
- Only EU-CENTRAL, EU-CAN and ASEAN cover all categories (with the exception of structural factors) at the regional level.

ASEAN (and ASEAN-KEY) is the only case where the criteria to select indicators are made explicit. The criteria chosen by the authors include: policy relevance, simplicity, statistical consistency, validity, data availability and indicator coverage (Dennis and Yusof, 2003).

**Table 4: Distribution of variables across categories**

Indicator System	Actors	Structural Factors	Institutionalisation and policies	Implementation	Effects	Interdependence	National Macroeconomic Indicators	National Trade Indicators	Governance and Regulations	Externally Financed Regional Development Projects	Other National Indicators
H&S-AS	16.7%	0	83.3%	0	0	0	0	0	0	0	0
H&S-RI	0	0	0	0	0	0	57.1%	0	42.9%	0	0
EU-MERCOSUR	0	0	3.8%	94.2%	0	1.9%	0	0	0	0	0
ECB-MERCOSUR-INST	0	0	18.2%	81.8%	0	0	0	0	0	0	0
ECB-MERCOSUR-ECO	0	0	0	0	0	100%	0	0	0	0	0
COMESA	0	0	0	19.3%	0	7.0%	19.3%	14.0%	40.3%	0	0
ASEAN	0.7%	0	4.1%	43.4%	2.1%	49.0%	0.7%	0.7%	0	0	0
ASEAN-KEY	0	0	0	9.09%	0	0	90.9%	0	0	0	0
GDRI	3.9%	0	3.9%	0	0	2.9%	21.6%	5.9%	9.8%	0	52.0%
UNECA	0	0	0	0	0	20.0%	25.0%	20.0%	0	0	35.0%
F&G	16.7%	0	83.3%	0	0	0	0	0	0	0	0
EU-CAN	9.5%	0	14.3%	61.9%	9.5%	4.8%	0	0	0	0	0
EU-CA	9.5%	0	14.3%	61.9%	9.5%	4.8%	0	0	0	0	0
EU-ACP	14.3%	0	37.1%	34.3%	0	5.7%	0	2.9%	2.9%	2.9%	0

## 7. Aggregation and weighting procedures

European Commission indicator systems (EU-CAN, EU-CENTRAL, EU-MERCOSUR, EU-ACP) and COMESA do not feature aggregation procedures. Of the other seven indicator systems, ECB-MERCOSUR, ASEAN, GDRI and UNECA feature two-step aggregation procedures with sub-indices (table 5).

The weighting procedures are never based on statistical weights or expert opinion. In most cases (H&S, ASEAN, ASEAN-KEY, F&G), simple unweighted arithmetic averages are used. UNECA calculates unweighted arithmetic averages per country, which are then weighed by GDP figures. ECB-MERCOSUR and GDRI use a combination of ad hoc and equal weights.

The ASEAN Regional Economic Integration Index is calculated as follows:

$$\text{INTEGA}_{at} = (\text{TRADEA}_{at} + \text{FDIINT}_{at})/2$$

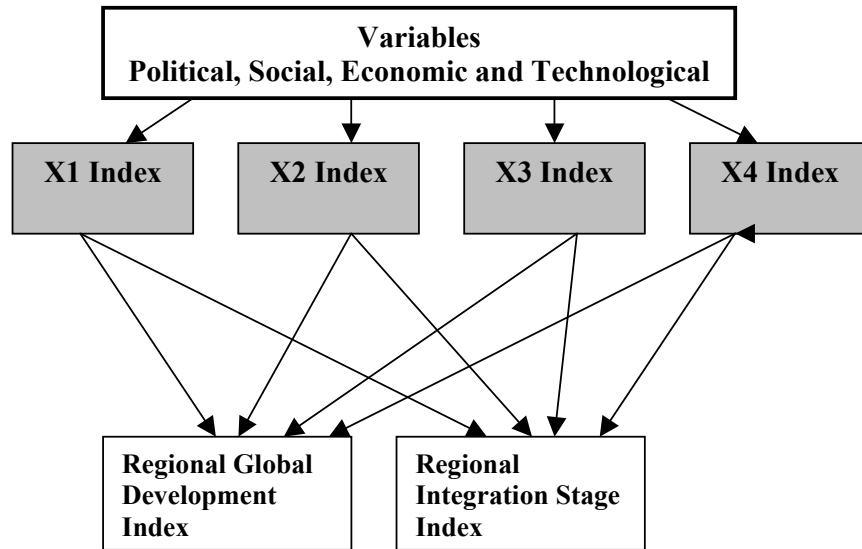
$\text{TRADEA}_{at}$  refers to the index value of intra-regional trade for the whole region as a percentage of intra-regional GDP for the same year and  $\text{FDIINT}_{at}$  is the index value of intra-regional FDI for the whole region as a percentage of intra-regional GDP for the same year.

UNECA calculates the weighted composite integration index as the average regional economic community indices multiplied by the corresponding GDP weight of each regional economic community.

ECB's Institutional Index of Regional Integration is calculated as follows. Scores ranging from 0-25 are assigned according to the degree of regional integration achieved over time in the development of the four stages. The scores are assigned to the variables based on the year and month when a decision started being implemented. Scores can be assigned in parallel to each of the stages. These scores are then summed up for all months to obtain the Institutional Index of Regional Integration. This index ranges from 0 (no economic integration) to 100 (economic, monetary and financial integration)

For each of the Regional Global Development Indexes ( $X_i$ ) (GDRI) - the values of the variables are added up under Actual Situation (AS) and the Total Possible Results (TPR) is obtained. Using the following expression each of the indexes are calculated.  $X_i = \frac{\sum AS(i)}{\sum TPR(i)} \times 100$ . The Regional Global Development Index is the summation of the four Regional Global Development Indexes ( $X_i$ ). The Regional Integration Stage index is calculated using the four Regional Global Development Indexes ( $X_i$ ) and a constant coefficient, Regional Integration Approach Incline (RIAI) (figure 2). The RIAI can be taken as homogenous interest where each RAI has the same level of importance or it can be taken as an incline with different possibilities of political approach incline, social approach incline, economic approach incline or technological approach incline.

**Figure 2: Aggregation procedure in the GDRI model**



**Table 5: Aggregation and weighting procedures**

	<b>H&amp;S</b>	<b>EU-MERCOSUR</b>	<b>ECB-MERCOSUR</b>	<b>COMESA</b>	<b>ASEAN</b>	<b>GDRI</b>	<b>UNECA</b>	<b>F&amp;G</b>	<b>EU-CAN</b>	<b>EU-CENTRAL</b>	<b>EU-ACP</b>
<b>Overall/ aggregate index</b>	YES - Achievement scores on economic integration  - Readiness Indicators	NO	YES - Institutional Index of Regional Integration	NO	YES - Regional Economic Integration Index	YES - Regional Global Development Index  - Regional Integration Stage Index	YES - The weighted Composite Integration Index	YES - IAS	NO	NO	NO
<b>Weighting procedure</b>	Unweighted arithmetic average	NO	Adhoc weights within categories. Unweighted arithmetic average for the overall indicator	NO	Unweighted arithmetic average	Unweighted arithmetic average at the level of factors. Adhoc weights for the overall indexes.	Weighted arithmetic average	Unweighted equally weights	NO	NO	NO
<b>Sub indexes included</b>	NO	NO	• FTA and CU	NO	• Regional Trade Index <sup>14</sup>	• Regional Global Political	Sectorial Indices	NO	NO	NO	NO

<sup>14</sup> Value of intra-regional trade for the region as a whole as a percentage of intra-regional GDP in year t compared to the base year.

			<ul style="list-style-type: none"> <li>• CM</li> <li>• EUN</li> <li>• TEI</li> </ul>		<ul style="list-style-type: none"> <li>• Regional Investment Index<sup>15</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Development Index (X1)</li> <li>• Regional Global Social Development Index (X2)</li> <li>• Regional Global Economic Development Index (X3)</li> <li>• Regional Global Technological Development Index (X4)</li> </ul>					
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<sup>15</sup> Value of intra- regional foreign direct investment as a percentage of GDP in country i, year t compared to the base year.

## **8. Conclusions: technical quality and policy relevance**

The growing importance of the regional level of governance, combined with a growing variety of governance modes in a multi-level governance context, indicate a need for adequate monitoring tools. Both academia and the policy community have recognized this.

In this paper we reviewed 12 indicator systems that have been developed for the purpose of monitoring regional integration processes. Conclusions that can be drawn from this revision include the following:

First, in general, only few actors seem to be involved in the monitoring exercises. Participation of stakeholders other than the designers of the system is very scarce, if not inexistent. The same holds for communication more in general. In our view, the participation of other actors in the monitoring exercise (regional organizations, national governmental actors, civil society, international organizations, academia), could considerably improve its technical quality and its policy relevance. Considerable resources are sometimes invested in the design of the systems, but most of these remain one-shot efforts; there is certainly a potential to make the systems more sustained efforts through a better management of the monitoring systems and more openness.

Second, the review also learned that the objectives of indicator systems are diverse. They include the following: (i) to measure the level of integration of a given regional grouping; (ii) to measure the pre-conditions for (further) integration; (iii) to assess the performance and contribution of individual countries in regional groupings; (iv) to evaluate regional integration policies; (v) to compare regional integration in different regions; (vi) to evaluate donor-financed support programmes for regional integration; (vi) to assess needs and merits of regional organizations upon which to base future aid decisions; (vii) to be strategically used in the context of a negotiation process. This explains in part, but not totally, why the different systems focus on different types of variables.

Third, only a few proposals deal with conceptual issues. This, in turn, leads in many cases to a lack of clarity related to the selection of variables and categories and the existence of discrepancies between stated objectives and those that can be realistically and technically achieved with the indicator systems. An illustration of this point was that one third of the variables included in the indicator systems do not inform us directly about the regional integration processes.

Fourth, technical issues are often linked to political issues. Solutions for technical problems often require political decisions. Examples include: the inclusion of cross-region comparisons, the choice between absolute and relative comparisons, the choice of weights, the inclusion of policy implementation variables, the combination of quantitative measurements with qualitative assessments, and the interpretation of results.

A new initiative, involving national, regional and international organizations, academia and civil society would be welcome in this area in order to improve the design and implementation of tools to monitor regional integration.

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## Annex 1: List of variables of indicator systems, by category

Category	H&S	EU-MERCOSUR	ECB-MERCOSUR
<b>Actors</b>	- Supranational institutions		
<b>Structural Factors</b>			
<b>Institutionalisation and policies</b>	<ul style="list-style-type: none"> <li>- Monetary coordination</li> <li>- Fiscal coordination</li> <li>- Free movement of goods and services</li> <li>- Free movement of capital</li> <li>- Free movement of labour</li> </ul>	<ul style="list-style-type: none"> <li>- Elaboration of public procurement regime</li> <li>- Common policies</li> </ul>	<ul style="list-style-type: none"> <li>- TEI <ul style="list-style-type: none"> <li>o The set up of supranational institutions and decision making processes and structuring of the process of regional integration through laws issued and enforced at the supranational level</li> <li>o Structuring of the process of regional integration through laws issued and enforced at the supranational level</li> </ul> </li> </ul>
<b>Implementation</b>		<ul style="list-style-type: none"> <li>- Application of CET</li> <li>- Harmonisation of regulatory frameworks: <ul style="list-style-type: none"> <li>o Application of the MERCOSUR framework Agreement in Services</li> <li>o Consistency with the WTO agreement on TBT</li> <li>o Definition of norms (also consistent with TBT)</li> <li>o Validation of market procedures, including consultations with Party States before consideration by the Common Market Group</li> </ul> </li> <li>- Safeguard Measures: <ul style="list-style-type: none"> <li>o Scope and application</li> <li>o Examination of import prices</li> <li>o Economic factors</li> <li>o Qualified applicants</li> <li>o Initiation; measure; investigation</li> <li>o Verification</li> <li>o Provisional Measures</li> <li>o Definitive measures</li> <li>o Appeals/Dispute Settlement</li> <li>o Public Interest</li> <li>o Authorities (Trade defence &amp; safeguard committee; national sections; MERCOSUR trade commission)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- CM <ul style="list-style-type: none"> <li>o Progress in abolishing non-tariff barriers</li> <li>o Measures taken to liberalise the movement of capital</li> <li>o Measures taken to liberalise the movement of workers</li> </ul> </li> <li>- EUN <ul style="list-style-type: none"> <li>o Degree of coordination of national macroeconomic policies</li> <li>o The implementation at the regional level alongside the national level of those microeconomic policies which are most likely to affect the need for regional exchange rate stability</li> </ul> </li> <li>- TEI <ul style="list-style-type: none"> <li>o The concrete steps towards and the conduction of macroeconomic policies at the supranational level</li> </ul> </li> <li>- FTA and CU <ul style="list-style-type: none"> <li>o Changes over time of tariffs and quotas on trade within the area (FTA) vis-à-vis third countries (CU)</li> <li>o CET implementation</li> <li>o Completion of a Customs Union</li> </ul> </li> </ul>

		<ul style="list-style-type: none"> <li>○ WTO Notification</li> <li>○ Adjustment Plan</li> <li>- Implementation of Anti-dumping legislation: <ul style="list-style-type: none"> <li>○ Normal value</li> <li>○ Volume of imports/Market share</li> <li>○ Minimum dumping</li> <li>○ Support for complaint</li> <li>○ Deadlines for proceedings</li> <li>○ Period of investigation</li> <li>○ Verification of the information submitted</li> <li>○ Confidential information submitted by parties</li> <li>○ Provisional measures</li> <li>○ Definitive measures</li> <li>○ Regional application</li> <li>○ Lesser duty rule</li> <li>○ Appeals/dispute settlement</li> <li>○ Legitimacy of third parties (consumers and users; other regional or foreign parties)</li> <li>○ Public interest/community interest</li> <li>○ Measures on behalf of a third country</li> <li>○ Circumvention</li> <li>○ Definition of domestic production</li> <li>○ Normal value and export price comparison</li> </ul> </li> <li>- Competition rules: <ul style="list-style-type: none"> <li>○ Restrictive acts</li> <li>○ Concentrations</li> <li>○ State aid</li> </ul> </li> <li>- Rules of origin: <ul style="list-style-type: none"> <li>○ Basic origin test</li> <li>○ Direct transport</li> <li>○ Principle of territoriality</li> <li>○ Cumulation of Origin</li> <li>○ Insufficient working or Processing</li> <li>○ Tolerance provision</li> <li>○ Neutral elements</li> <li>○ Documentary proof</li> <li>○ Harmonisation of SPS</li> </ul> </li> </ul>	
<b>Effects</b>			

<b>Interdependence</b>		- Level of Intra-regional trade	<ul style="list-style-type: none"> <li>- Business cycle correlation (EIM)</li> <li>- Real per capita GDP % difference (EIM)</li> <li>- Inflation % rate correlation (EIM)</li> <li>- Real interest rate correlation (EIM)</li> <li>- Nominal interest rate correlation (EIM)</li> <li>- Real exch.rate volatility (EIM)</li> <li>- Nominal exch.rate volatility (EIM)</li> <li>- Intra-regional trade X (% total trade) (EIM)</li> <li>- Intra-regional trade X (% GDP) (EIM)</li> <li>- Monthly equity market returns across countries (EIM)</li> <li>- Equity market capitalisation % GDP per country (EIM)</li> <li>- Convergence of income (real GDP per capita % difference to the region's average) (EIM)</li> </ul>
<b>Other Indicators</b>			
<ul style="list-style-type: none"> <li>• <b>National Macroeconomic Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- Price stability (RI)</li> <li>- Budget discipline – public deficit or surplus as a percentage of GDP (RI)</li> <li>- External debt – public and private (RI)</li> <li>- Currency stability (RI)</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>National Trade Indicators</b></li> </ul>			
<ul style="list-style-type: none"> <li>• <b>Governance and Regulations</b></li> </ul>	<ul style="list-style-type: none"> <li>- Functioning democracy (RI) 1994 Freedom House rankings converted to scale of 0-5.</li> <li>- Market oriented policies (RI)</li> <li>- Reliance on trade taxes (RI)</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Externally</b></li> <li>• <b>Financed Regional Development Projects</b></li> </ul>			
<ul style="list-style-type: none"> <li>• <b>Other National Indicators</b></li> </ul>			

## Annex 1 (continued)

Category	COMESA	ASEAN <sup>16</sup>	ASEAN-KEY
<b>Actors</b>		- Mode of supply index <sup>17</sup>	
<b>Structural Factors</b>			
<b>Institutionalisation and policies</b>		<ul style="list-style-type: none"> <li>- Agreement on the indicative timeframe for implementation of the three steps towards an open sky regime<sup>18</sup></li> <li>- Number of signed Mutual Recognition Agreements in business services (By number of specific service, per round of service negotiation)</li> <li>- Percentage of the Customs Valuation Guidelines that have been agreed at a given time</li> <li>- Number of sectors identified for development of Mutual Recognition Agreements</li> </ul>	

<sup>16</sup> The following indicators that were suggested by the authors have not been included in the above table as these were not clearly defined in the documentation.

- The enactment of appropriate legislation and/or regulations to change the maximum permissible limit is suggested to measure the progress towards achieving the target of the maximum permissible equity levels for ASEAN construction firms from other ASEAN countries should be raised to 49 per cent in ASEAN countries where they do not already exceed this limit.

- It is proposed that there be mutual recognition of licensing and registration of construction companies incorporated and 100 per cent owned by nationals of the ASEAN country of origin. As a necessary step towards further consideration of this idea, information regarding ASEAN country requirements and criteria for licensing and registration is being exchanged. A process indicator towards progress in this area would be to indicate which countries have provided the relevant information by the deadline proposed.

- In order to assess the effectiveness of broadly defined ASEAN infrastructure in terms of facilitating the economic integration of ASEAN, the following approach is discussed. The average cost for each ASEAN country of using the various infrastructure services (primarily air, land and sea transport; telecommunications and energy) can be compared with those for ASEAN as a whole in the same year. Indices can be developed using a single base year to show changes in relativities for each ASEAN country for each year. Costs should be expressed in current US dollars to provide a basis for international comparison.

- There are some input indicators of economic integration in terms of the number and value of projects that have been implemented under the ASEAN Industrial Cooperation scheme (AICO) and other matchmaking exercises for SMEs. If the proposed regional export financing and credit guarantee schemes were implemented under ASEAN, then the amount disbursed annually and the amount covered by credit guarantee could also be used as indicators, with comparisons being made year on year. The size in value terms of these schemes (i.e. how much was made available) are also input indicators as they measure the commitment of the ASEAN Members (and their dialogue partners) to promoting SMEs in the context of economic integration, irrespective of the amount actually drawn down.

<sup>17</sup> Indicates progress towards establishing the foundation for integration in the supply of services. The total number of offers made by each country after the end of each round of negotiations is compared to the regional average. The index is calculated at the end negotiations by country and for the region as a whole.

		<ul style="list-style-type: none"> <li>- Number of ASEAN harmonized standards</li> <li>- Number of Mutual Recognition Agreements for professional services that have been negotiated</li> </ul>	
<b>Implementation</b>	<ul style="list-style-type: none"> <li>- Use of COMESA customs document</li> <li>- Highest regional tariff</li> <li>- The number of non-zero tariffs</li> <li>- The highest MFN tariff</li> <li>- The weighted average MFN tariff</li> <li>- Use of ASYCUDA</li> <li>- Implementation of COMESA harmonised road transit charges</li> <li>- Use of the COMESA carriers licence</li> <li>- Use of the COMESA customs bond guarantee</li> <li>- Implementation of the COMESA third party vehicle licensing system</li> <li>- Implementation of harmonised axle load and vehicle dimensions regulations</li> </ul>	<ul style="list-style-type: none"> <li>- Ratification and Implementation Indicator<sup>19</sup></li> <li>- CEPT (% of tariff lines)</li> <li>- CEPT Index</li> <li>- CEPT Index (in value terms)</li> <li>- 0 intra regional tariffs (% of tariff lines)</li> <li>- 0 intra regional tariffs (% of tariff lines) (in value terms)</li> <li>- NTBs (% of tariff lines)<sup>20</sup></li> <li>- ASEAN Investment Area indicators<sup>21</sup></li> <li>- Temporary Exclusion List</li> <li>- Sensitive List</li> <li>- Most Favoured Nation</li> <li>- Mode of supply (implementation) index <sup>22</sup></li> <li>- Implementation of the existing MoU. By ASEAN country of destination, annually<sup>23</sup></li> <li>- Implementation of the amended MoU regarding 5<sup>th</sup> freedom rights, BY ASEAN country of destination, annually from 2005<sup>24</sup></li> <li>- Ratification, enactment of appropriate legislation and implementation of air services agreements agreed to.</li> <li>- Implementation of the Mutual Recognition Agreements in business services. (By country, annually)</li> <li>- Enactment of appropriate legislation and/or regulations to change the maximum possible limit of equity levels for regional construction firms from other regional countries</li> <li>- Countries that have provided information regarding intra-regional country requirements and criteria for licensing and registration by the proposed deadline</li> <li>- Regional project – Singapore-Kunming Railway <sup>25</sup></li> </ul>	<ul style="list-style-type: none"> <li>- CEPT Usage Index</li> </ul>

<sup>18</sup> Liberalization of scheduled passenger services within the region.

<sup>19</sup> To measure the success of a ASEAN country in meeting its AFTA, AIA, AFAS and other commitments in the time agreed (monitored annually by country). It is also suggested that the ASEAN Secretariat consider developing a Scoreboard (“with the proviso that name and shame comments would go to ASEAN Member Countries only and would not be made publicly available, at least not at this time” (Dennis and Yusof, 2001:33) ) similar to the one developed by the European Union.

<sup>20</sup> There is no form of standardised monitoring for the member countries.

<sup>21</sup> Indicators to measure the speed and extent of liberalisation under the AIA

<sup>22</sup> Similar to the supply mode index, it is based on the implementation of the offers made.

<sup>23</sup> Measures progress towards liberalization of ASEAN air freight services.

<sup>24</sup> Measures progress towards liberalization of ASEAN air freight services.

		<ul style="list-style-type: none"> <li>○ Progress towards the completion of the full feasibility studies.</li> <li>○ Progress towards development of the implementation programs and the securing of finance.</li> <li>○ Progress on the construction of the 48km Poipet-Sisophon missing section. (Overall construction cost, ASEAN contribution towards the construction cost, Money spent per year, Kilometres of track laid, Passenger kilometres travelled and revenue earned, Volume and value of freight carried)</li> <li>○ Overall construction cost</li> <li>○ ASEAN contribution towards the construction cost</li> <li>○ Money spent per year</li> <li>○ Kilometres of track laid</li> <li>○ Passenger kilometres travelled and revenue earned</li> <li>○ Volume and value of freight carried</li> <li>- Regional project – ASEAN Highway Network <ul style="list-style-type: none"> <li>○ Progress towards the completion of the project preparation studies.</li> <li>○ Overall construction cost</li> <li>○ ASEAN contribution towards the construction cost</li> <li>○ Money spent per year</li> <li>○ Kilometres of highway completed</li> <li>○ Kilometres of highway open and in use</li> <li>○ Estimations of passenger movements and freight carried on the highway network</li> </ul> </li> <li>- Regional project – ASEAN Power Grid <ul style="list-style-type: none"> <li>○ Progress towards the completion of the ASEAN Interconnection Masterplan study</li> <li>○ Progress towards developing ASEAN common policy for power interconnection and electricity trade.</li> <li>○ Progress towards concluding an ASEAN cooperation agreement on interconnection policy and implementation</li> <li>○ Overall construction cost</li> <li>○ ASEAN contribution towards construction cost</li> <li>○ Money spent per year</li> <li>○ Estimate of the percentage of the power grid that is</li> </ul> </li> </ul>	
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<sup>25</sup> It is stated that indicators relating to the achievement of the targets for each country could be developed. They would be process indicators relating to ratification and implementation which would point to likely bottlenecks in completing the project as a whole.

<sup>26</sup> The project currently consists of seven gas interconnection projects for implementation, the indicators measures each project as well the total project.

<sup>27</sup> Measures the pace of development and commitment of the ASEAN infrastructure program.

<sup>28</sup> Measures the pace of development and commitment of the ASEAN infrastructure program.

		<ul style="list-style-type: none"> <li>completed.</li> <li>o Number of connections to households and industry made possible by the grid</li> <li>o Additional power available to areas covered by the grid</li> <li>- Regional project - Trans ASEAN Gas Pipeline Project<sup>26</sup> <ul style="list-style-type: none"> <li>o Overall construction cost</li> <li>o ASEAN contribution towards construction cost</li> <li>o Money spent per year</li> <li>o Estimate of the percentage of the pipeline that is completed</li> <li>o The value of production of new/expanded industries that have been made possible by the pipeline</li> <li>o Amount of gas available to areas covered by the pipeline and its interconnections</li> <li>o Regional project- proposed Trans ASEAN Land and Submarine Water Pipeline <ul style="list-style-type: none"> <li>o Overall construction cost</li> <li>o ASEAN contribution towards construction cost</li> <li>o Money spent per year</li> <li>o Estimate of the percentage of the pipeline that is completed</li> <li>o The amount of water made available to households and industry by the pipeline</li> <li>o Additional water that could be made available</li> </ul> </li> </ul> </li> <li>- Number and value of new projects handled by the ASEAN infrastructure section<sup>27</sup></li> <li>- Number and value of all current projects handled by the ASEAN infrastructure section<sup>28</sup></li> <li>- Progress towards the goal of harmonization of Custom's automation in terms of achievements of defined goals by Member Countries.</li> <li>- Number of harmonized standards that have been introduced by country</li> <li>- Number of institutions and testing facilities that are authorised to test and certify products according to ASEAN Mutual Recognition Agreements</li> <li>- Number of sectors/sub sectors for which technical regulations or requirements are harmonized</li> <li>- Implementation of the Mutual Recognition Agreements, by country</li> <li>- Number and value of projects that have been implemented under the ASEAN Industrial Cooperation scheme Openness <ul style="list-style-type: none"> <li>o comparison of the avg intra regional tariff with the average tariff for regional imports from the rest of the world also with the avg intra-regional import tariff % for the whole region for the same year</li> </ul> </li> </ul>	
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<b>Effects</b>		<ul style="list-style-type: none"> <li>- Index of intra-regional passengers carried under the liberalized system by regional airlines<sup>29</sup></li> <li>- CEPT Usage Index<sup>30</sup> (compared with the value of actual intraregional imports of eligible products)</li> <li>- CEPT Usage Index<sup>31</sup> (compared with the value of all intra regional imports)</li> </ul>	
<b>Interdependence</b>	<ul style="list-style-type: none"> <li>- Monetary Convergence<sup>32</sup> <ul style="list-style-type: none"> <li>o Inflation</li> <li>o Size of the budget deficit</li> <li>o Size of external debt</li> <li>o Exchange rate movements</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Intra-regional X (% of total X)</li> <li>- Intra-regional X (% of GDP)</li> <li>- Intra-regional X index</li> <li>- Intermediate X Index</li> <li>- Intra-regional M (% of total M)</li> <li>- Intra-regional M (% of GDP)</li> <li>- Intra-regional M index</li> <li>- Intermediate M Index</li> <li>- Intra-regional trade (% of total trade)</li> <li>- Intra-regional trade (% of GDP)</li> <li>- Intra-regional trade by country index</li> <li>- Intra-regional Trade time based Index</li> <li>- Intra-industry trade index</li> <li>- FDI Index<sup>33</sup></li> <li>- Share of intra-regional FDI<sup>34</sup></li> <li>- Index on intra-regional FDI<sup>35</sup></li> <li>- Intra –regional investment by sectors<sup>36</sup></li> <li>- Intra –regional investment by source country</li> <li>- Intra –regional investment by value of investment and source country</li> <li>- Overall regional transnationality index<sup>37</sup></li> </ul>	<ul style="list-style-type: none"> <li>- Intra-regional X index</li> <li>- Intra-regional M index</li> <li>- Intra-regional trade index</li> <li>- Intra industry trade index</li> <li>- Regional FDI index</li> <li>- Intra-regional FDI index</li> <li>- Regional transnationality index</li> <li>- Foreign assets and liabilities indicator</li> <li>- Portfolio equity and FDI indicator</li> <li>- Regional economic integration index</li> </ul>

<sup>29</sup> The index compares the percentage of intra-regional passengers carried by regional airlines to a particular country with the percentage of intra)regional passengers carried by regional airlines for the region as a whole in the same year.

<sup>30</sup> This measures the importance and effectiveness of CEPT in encouraging regional economic integration.

<sup>31</sup> This measures the importance and effectiveness of CEPT in encouraging regional economic integration.

<sup>32</sup> No indicators of convergence are presented.

<sup>33</sup> Indicates the change in total FDI in the region. The ratio for the change in FDI for subsequent years is expressed as a % of the base year.

<sup>34</sup> For each country, the share of FDI from the region is expressed as a % of the total FDI.

<sup>35</sup> The index measures over time the trends in regional FDI instead of total FDI in the region. (the relative size of the regional GDP is taken in to consideration)

<sup>36</sup> All the investment indicators are for intra-regional investment by the nationals of the region and the companies owned by them. Investment by foreign residents in the region and by foreign owned companies resident in the region are to be excluded. It has been recommended that a list of the mentioned investment indicators should be drawn up separately for non regional investment.

<sup>37</sup> Includes the non regional transnationals.

		<ul style="list-style-type: none"> <li>- Intra –regional transnationality index<sup>38</sup></li> <li>- Financial integration indicator, Savings investment indicator<sup>39</sup></li> <li>- Foreign assets and liabilities indicators <sup>40</sup> <ul style="list-style-type: none"> <li>o stocks of aggregate foreign assets and liabilities as a ratio of GDP</li> <li>o Indicator of the level of equity (portfolio and FDI) cross holdings</li> </ul> </li> <li>- Credit and Bond Market indicators <ul style="list-style-type: none"> <li>o Interest rate differentials between the regional economies</li> </ul> </li> </ul>	
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38 Includes only the regional transnationals.

39 A regression of the ratio of gross capital formation to GDP to the ratio of gross saving to GDP is run for the region as well as for each country.

40 This indicator is focused on intra-regional stock of foreign assets and liabilities.

41 No specific indicators are mentioned. However, it is mentioned that indicators on the type and value of international financial instruments that are available that are issued by intra-regional countries for intra-regional corporations should be drawn up.

42 Measures the value and % of intra-regional air freight carried by regional carriers compared to that carried by all airlines. By regional country of destination and for the region as a whole, annually.

43 Measures the market share of regional carriers in the volume of intra-regional air freight.

44 The percentage of the value of telecommunication services in and from a particular country in the region carried by non host intra-regional service providers in a given year is compared with the same percentage for the region as a whole for the same year.

45 Measures the number of intra-regional visitors as a percentage of all visitors to a country in the region compared to the average for the same percentage for the region as a whole in the same year.

46 The indices based on the number of tourists and/or on tourism receipts would measure the relative intensity of intra-regional tourism in a particular member country compared to the regional average for the same year.

47 Measures the number of intra-regional business arrivals as percentage of the total number of business arrivals from all the countries for the same regional destination for the same year and this is compared to the regional average for the same year to obtain the index.

48 Developed on the same methodology as the Intra-regional visitors index except the unit of comparison is the person days in the destination country.

49 Indicates the relative importance of the trade in products with intra-regional standards.

50 Indicates the extent of investment by intra-regional corporations and research institutions in the creation of knowledge within the region and the potential for intra-regional diffusion of knowledge.

51 Indicates the contribution of e-commerce to total commercial transactions in the region.

52 This index combines trade and foreign direct investment integration indices.

53 Two separate balance of payments are suggested based on the distinction between an ASEAN balance of payments that *covers all international transactions* and an ASEAN balance of payments that *only includes international transactions involving ASEAN member countries*.

54 Focus is on the official numbers recorded for immigrant labour.

55 The prices of identical goods and services in each intra-regional country is compared to assess how far the prices of common goods and services deviate or converge with each other.

		<p>(inter bank 3 months rate, 10 years government bond benchmark yield, mortgage rate and corporate loan rate)</p> <ul style="list-style-type: none"> <li>○ Price differentials for banking services (comparisons of charges in the region for credit cards, loan and deposit rates, coroperate loan rates and current accounts. Cross border or cross regional bank transfer chargers compared with costs of within country bank transfers.)</li> <li>○ Share of assets of intra -region banks (number of intra regional banks in each country, share of total banking assets held by the intra regional banks, share of loans extended by banks from other intra-regional countries in each regional country and share of foreign assets and liabilities held by national banks in each country)</li> </ul> <ul style="list-style-type: none"> <li>- Stock market indicators <ul style="list-style-type: none"> <li>○ Returns on stock market equity</li> <li>○ Correlation in stock market returns in the region</li> <li>○ Equity funds in the region (share of equities invested in each country in regional equities compared to total international funds )</li> </ul> </li> <li>- Cross border corporate financing indicators<sup>41</sup></li> <li>- Intra-regional air freight value index<sup>42</sup></li> <li>- Intra-regional air freight market share index<sup>43</sup></li> <li>- Index of competitiveness of the intra-regional construction sector within the region.</li> <li>- Index of competitiveness of the non intra-regional construction sector within the region. (to be used for comparison in order to measure intra-regional competitiveness compared to foreign construction firms)</li> <li>- Intra-regional cargo index</li> <li>- Intra-regional cargo index (volume terms)</li> <li>- Intra-regional telco index<sup>44</sup></li> <li>- The growth rate of intra-regional visitor arrivals compared with that of all visitor arrivals</li> <li>- The number of intra-regional visitors as a percentage of all visitor arrivals</li> <li>- Intra-regional visitors index<sup>45</sup></li> <li>- Number of intra-regional travellers who tick ‘tourist’ or ‘visiting friends and relations’ on their arrival cards</li> <li>- Length of stay of regional tourists in the destination country</li> <li>- Share of intra-regional tourists from all tourists to the countries in the region</li> <li>- Proportion of total tourism receipts that come from intra-regional tourism</li> <li>- Intra-regional tourism indices<sup>46</sup></li> </ul>	
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		<ul style="list-style-type: none"> <li>- Intra-regional business arrivals index<sup>47</sup></li> <li>- Intra-regional visit intensity index 48</li> <li>- Average cost for each intra-regional country of using the various infrastructure services compared to those for the whole region in the same year.</li> <li>- Intra-regional approved products index<sup>49</sup></li> <li>- Number of intra-regional professionals working in regional countries that are not their own (By profession and by country)</li> <li>- Value of SME intra-regional investment as a percentage of total intra-regional investment</li> <li>- Value and number of joint ventures that SMEs establish with partners residing in other regional countries</li> <li>- Value of SME intra-regional manufacturing exports by country and sub sector. Comparison with total intra- regional manufacturing exports from the same country and sub sector</li> <li>- Proportion of SME production that is exported to other intra-regional countries</li> <li>- Proportion of manufacturing imports that are sourced from SMEs in other intra-regional countries. In comparison with all manufactured imports into the regional country concerned and/or by selected sub sectors</li> <li>- Number of patents (nature and sector of patent) that are registered by regional nationals in the region</li> <li>- The value of R&amp;D expenditure and as a percentage of GDP<sup>50</sup></li> <li>- Estimates of the amount of intra-regional commerce transacted through ecommerce, business-to-business (B2B) and business-to-consumer (B2C)<sup>51</sup></li> <li>- Estimates the number of intra-regional residents (individuals, households and corporations) that subscribe to intra-regional ISPs</li> <li>- Intra-regional economic integration index<sup>52</sup></li> <li>- Intra-regional balance of payments<sup>53</sup></li> <li>- Wage rates of intra-regional labour in individual member countries</li> <li>- Number of intra-regional workers employed in individual member countries and also as a percentage of total labour employed<sup>54</sup> (the data should also be disaggregated by skill level, occupation and key sectors)</li> <li>- Wage rate, for a specific category of labour that is paid to the worker in the intra-regional host country can be compared to the wage rate for the same category of worker in the other member countries</li> <li>- Intra-regional price comparisons 55</li> <li>- Macro economic policy harmonization <ul style="list-style-type: none"> <li>o Growth forecast or expectation of each member economy</li> <li>o Contribution of each country's economic growth in GDP to the overall intra-regional GDP growth</li> </ul> </li> </ul>	
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		<ul style="list-style-type: none"> <li>○ Degree of looseness of monetary policy</li> <li>○ Size and nature of the fiscal stimulus (size of the public investment for the budget or fiscal year and the size of the fiscal deficit or surplus of each member country)</li> <li>○ Current account of the balance of payments of each member country.</li> </ul>	
<b>Other Indicators</b>			
<ul style="list-style-type: none"> <li>• <b>National Macroeconomic Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- The weighted average income tax rate</li> <li>- Income tax as a percentage of GDP</li> <li>- The weighted average of direct taxes on business</li> <li>- Direct business taxes as a percentage of GDP</li> <li>- The VAT rate</li> <li>- VAT as a percentage of GDP</li> <li>- Government expenditure as a percentage of GDP</li> <li>- Government consumption as a % of the economy</li> <li>- Government ownership of businesses and industries</li> <li>- The share of government revenues from state owned enterprises and from government owned property</li> <li>- The economic output produced by government</li> </ul>	<ul style="list-style-type: none"> <li>- Financial Openness<sup>56</sup> <ul style="list-style-type: none"> <li>○ Total capital flows (inflows and outflows)</li> </ul> </li> </ul>	
<ul style="list-style-type: none"> <li>• <b>National Trade Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- Use of GATT valuation system</li> <li>- Use of HS1996 (or later) customs classification system</li> <li>- Establishment and publicising the Contact and Entry Point (GATS)</li> <li>- Performance with regard to commitments (GATS)</li> <li>- Reductions in exemptions over time(GATS)</li> <li>- Use of domestic electronic clearing systems</li> <li>- The ability to regulate and monitor sanitary and phytosanitary standards</li> </ul>	<ul style="list-style-type: none"> <li>- Openness <ul style="list-style-type: none"> <li>○ total % share of trade to GDP</li> </ul> </li> </ul>	

<sup>56</sup> No specific indicator is presented.

	<ul style="list-style-type: none"> <li>- The level of conformity to the WTO TBT Agreement</li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Governance and Regulations</b></li> </ul>	<ul style="list-style-type: none"> <li>- Restrictions on current account</li> <li>- Restrictions on capital account</li> <li>- The level of government ownership of banks</li> <li>- The degree to which there are restrictions on foreign banks to open branches and subsidiaries</li> <li>- Government influence over the allocation of credit</li> <li>- The level of restrictions on private sector companies to offer all types of financial services, securities and insurance policies</li> <li>- Restrictions on foreign financial institutions</li> <li>- Whether there is a foreign investment code providing national treatment</li> <li>- The degree to which there are any restrictions on foreign ownership of businesses</li> <li>- The level of restrictions on foreign ownership of land</li> <li>- The level of restrictions on repatriation of earnings</li> <li>- Freedom of the judicial system from government influence</li> <li>- The level to which contracts are respected and whether there is an independent arbitration of contract disputes</li> <li>- The level of transparency and accountability of the judiciary</li> <li>- Legally granted and protected private property rights</li> <li>- Existence of an independent competition authority</li> <li>- Existence of an independent telecommunications authority</li> <li>- Existence of an independent standards authority</li> <li>- Whether a member state has defined regulations dealing with public</li> </ul>		

	procurement - The level of licensing requirements to operate a business - Time taken to obtain appropriate licenses to start business operations - Transparency of the licensing system - The capacity of a member state to implement mutually recognised certification marking schemes and whether member states have notified National Enquiry Points		
<ul style="list-style-type: none"> <li>Externally Financed Regional Development Projects</li> </ul>			
<ul style="list-style-type: none"> <li>Other National Indicators</li> </ul>			

### Annex 1 (continued)

Category	GDRI	UNECA
<b>Actors</b>	<ul style="list-style-type: none"> <li>Group negotiation power (X1)</li> <li>Intra-Regional institutions number (X1)</li> <li>Border problems (X1)</li> <li>Foreign policy orientation in each member (Domestic foreign policy influences) (X1)               <ul style="list-style-type: none"> <li>Regional</li> </ul> </li> </ul>	
<b>Structural Factors</b>		
<b>Institutionalisation and policies</b>	<ul style="list-style-type: none"> <li>Intra-regional physical projects (number of projects under regional level) (X3)</li> <li>Regional integration model (X1)</li> <li>Intra-regional tariff application (X3)               <ul style="list-style-type: none"> <li>Tariff barriers level</li> <li>Non tariff barriers level</li> </ul> </li> </ul>	
<b>Implementation</b>		
<b>Effects</b>		

<b>Interdependence</b>	<ul style="list-style-type: none"> <li>- Intra-regional trade volume (X3)</li> <li>- Intra-regional Direct Investment (X3)</li> <li>- Extra-regional trade (X3)</li> </ul>	<ul style="list-style-type: none"> <li>- Weighted average of exports within each regional economic community (Trade)</li> <li>- Weighted average of imports within each regional economic community (Trade)</li> <li>- Cross boarder industrial inputs (Industry)</li> <li>- Intraregional food trade flows (Agriculture and food security)</li> </ul>
<b>Other Indicators</b>		
<ul style="list-style-type: none"> <li>• <b>National Macroeconomic Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- Taxation (X3) <ul style="list-style-type: none"> <li>o Indirect</li> <li>o Direct</li> </ul> </li> <li>- Domestic debt (X3)</li> <li>- Income per-capita (X3)</li> <li>- Foreign debt (X3)</li> <li>- Government expenditures (X3) <ul style="list-style-type: none"> <li>o Operational and administrative</li> <li>o Investment</li> </ul> </li> <li>- Foreign Direct Investment (X3)</li> <li>- Domestic Direct Investment (X3)</li> <li>- Interest rate (X3)</li> <li>- Exchange rate stability (X3)</li> <li>- Stock market activity (X3)</li> <li>- Buyer purchase (X3)</li> <li>- Poverty level (X3)</li> <li>- Inflation rate (X3)</li> <li>- Saving rate level (X3)</li> <li>- GDP structure by sector (X3) <ul style="list-style-type: none"> <li>o Agriculture</li> <li>o Industry</li> <li>o Services</li> </ul> </li> <li>- GDP (%) (X3)</li> <li>- Economic development stage (X3)</li> <li>- Labour productivity (X3)</li> </ul>	<ul style="list-style-type: none"> <li>- Share of the budget spent on education (Human development)</li> <li>- Inflation (Money and Finance)</li> <li>- External debt (Money and Finance)</li> <li>- Investment (Money and Finance)</li> <li>- Budget deficit (Money and Finance)</li> </ul>
<ul style="list-style-type: none"> <li>• <b>National Trade Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- Trade &amp; Tourism promotion expenditures (X3)</li> <li>- Market location (X3)</li> <li>- Market size (X3)</li> <li>- Export structure (X3)</li> <li>- Tourism facilities (X3)</li> <li>- Import of new technologies (X4)</li> </ul>	<ul style="list-style-type: none"> <li>- Exports (Agriculture and food security)</li> <li>- Imports (Agriculture and food security)</li> <li>- Electricity exports across countries (Energy)</li> <li>- Electricity imports across countries (Energy)</li> </ul>
<ul style="list-style-type: none"> <li>• <b>Governance and Regulations</b></li> </ul>	<ul style="list-style-type: none"> <li>- Opening economy to the world (X3)</li> <li>- Customers services (X3)</li> <li>- Planning economy (medium run) (X3)</li> </ul>	

	<ul style="list-style-type: none"> <li>- International cooperation (X3) <ul style="list-style-type: none"> <li>o Financial</li> <li>o Technical</li> </ul> </li> <li>- Privatization process (X3)</li> <li>- Monopoly controls (X3)</li> <li>- Subsidies level (X3)</li> <li>- Copy right regulations (X3)</li> <li>- Public education (X2)</li> </ul>	
<ul style="list-style-type: none"> <li>• <b>Externally Financed Regional Development Projects</b></li> </ul>		
<ul style="list-style-type: none"> <li>• <b>Other National Indicators</b></li> </ul>	<ul style="list-style-type: none"> <li>- Labour concentration (X3) <ul style="list-style-type: none"> <li>o Urban</li> <li>o Rural</li> </ul> </li> <li>- Low cost housing projects ( Number of public housing projects) (X2)</li> <li>- Wealth distribution ( Gini Coefficient by country and region) (X3)</li> <li>- Foreign policy orientation in each member (X1) <ul style="list-style-type: none"> <li>o Global</li> </ul> </li> <li>- Immigration level (X3)</li> <li>- Emigration level (X3)</li> <li>- Corruption level (X3)</li> <li>- Type of government (X1)</li> <li>- Army size (X1)</li> <li>- Bureaucracy level (X1)</li> <li>- Political regime (X1)</li> <li>- Legislative background (X1)</li> <li>- Internal security (X1)</li> <li>- Human rights (X1)</li> <li>- Political stability (X1)</li> <li>- Official political party in the gov. (X1)</li> <li>- Political structure and public administration (X1)</li> <li>- External forces into national politics (X1)</li> <li>- Negotiation style (X1)</li> <li>- International organizations support (X1)</li> <li>- International social division (Industrial and Services sector &lt; 60% ) (X3)</li> <li>- Industrial concentration in large cities (X3)</li> <li>- Labour qualification (X3)</li> <li>- Oil production and energy resources (X3)</li> <li>- Natural resources (X3)</li> <li>- Colonization (country) (X1)</li> <li>- Literacy (X2)</li> </ul>	<ul style="list-style-type: none"> <li>- Air transport freight (Transport)</li> <li>- Air passengers carried (Transport)</li> <li>- Number of aircraft departures (Transport)</li> <li>- Length of the paved roads network (Transport)</li> <li>- Length of the total roads network (Transport)</li> <li>- Number of intracountry telephone calls (Telecommunications)</li> <li>- Number of intracommunity telephone calls (Telecommunications)</li> </ul>

	<ul style="list-style-type: none"> <li>- Society structure (X2)</li> <li>- Religions (X2)</li> <li>- Society behaviour (X2)</li> <li>- Minorities (X2)</li> <li>- Society adaptability (X2)</li> <li>- Social problems (crime and drugs) (X2)</li> <li>- Health and medical programs ( &lt; 45% total population has health care) (X2)</li> <li>- External culture influence (X2)</li> <li>- Language (X2)</li> <li>- Food security (X2)</li> <li>- Environmental protection (X3)</li> <li>- Population growth (X3)</li> <li>- Domestic physical infrastructure (X3)</li> <li>- Transportation system (X3)</li> <li>- Telecommunications (X3)</li> <li>- Electricity production (X3)</li> <li>- Technology (R&amp;D) level (X4)</li> <li>- Internet hosts (X4)</li> <li>- Software production (X4)</li> <li>- Internet access (X4)</li> <li>- Telecommunications (Mobil phones) (X4)</li> <li>- Research institutes (X4)</li> <li>- Biotechnology advances (X4)</li> <li>- R&amp;D public investment (X4)</li> <li>- Technology information development (X4)</li> </ul>	
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## Annex 1 (continued)

Category	F&G	EU-CENTRAL	EU-CAN	EU-ACP
<b>Actors</b>	<ul style="list-style-type: none"> <li>- Level of supranational institution importance</li> </ul>	<ul style="list-style-type: none"> <li>- Effective participation of all countries in all institutions</li> <li>- Repartition of legislation competence between different actors</li> </ul>	<ul style="list-style-type: none"> <li>- Effective participation of all countries in all institutions</li> <li>- Repartition of legislation competence between different actors</li> </ul>	<ul style="list-style-type: none"> <li>- Regularity and attendance of meetings</li> <li>- Participation structure (involvement on national parliaments, creation of regional parliaments etc)</li> <li>- Budgetary procedures and contributions to regional institutions</li> <li>- Joint positioning in negotiations</li> <li>- Common positioning in trade negotiations (EPAs; WTO)</li> </ul>
<b>Structural Factors</b>				
<b>Institutionalisation and Policies</b>	<ul style="list-style-type: none"> <li>- Degree of monetary policy coordination</li> <li>- Degree of fiscal policy coordination</li> <li>- Trade in goods and services</li> <li>- Degree of capital mobility</li> <li>- Degree of labour mobility</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable financing mechanisms to support institutional set-up</li> <li>- Common External Trade Policy</li> <li>- Common Policy on Agriculture</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable financing mechanisms to support institutional set-up</li> <li>- Common External Trade Policy</li> <li>- Common Policy on Agriculture</li> </ul>	<ul style="list-style-type: none"> <li>- Establishment of regional institutions (secretariats, court of justice, parliaments etc)</li> <li>- Dispute settlements mechanisms</li> <li>- Common policies or cooperation frameworks in specific fields (competition, transport, cohesion, monetary, statistics)</li> <li>- Establishment of common macroeconomic indicators</li> <li>- Right of establishment</li> <li>- Competition policy</li> <li>- Transport policy</li> <li>- Cohesion policy</li> <li>- Monetary Cooperation</li> <li>- Macroeconomic surveillance</li> <li>- Common Environmental Policies</li> <li>- Collaboration in the area of statistics</li> <li>- Recruitment policy in regional institutions</li> <li>- Staff training and Human Resources policies</li> </ul>
<b>Implementation</b>		<ul style="list-style-type: none"> <li>- Implementation of common trade regulatory frameworks:               <ul style="list-style-type: none"> <li>o Legislation on competition</li> <li>o Trade defence instruments</li> <li>o SPS norms</li> <li>o Investment</li> <li>o Government procurement</li> <li>o TBTs</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Implementation of common trade regulatory frameworks:               <ul style="list-style-type: none"> <li>o Legislation on competition</li> <li>o Trade defence instruments</li> <li>o SPS norms</li> <li>o Investment</li> <li>o Government procurement</li> <li>o TBTs</li> <li>o IPRs; geographical</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- Tariff elimination (application of agreed schedules; distinction between different products)</li> <li>- Implementation of CET</li> <li>- Rules of Customs valuation</li> <li>- Classification</li> <li>- RoOs</li> <li>- Exemptions</li> <li>- Phasing out of temporary measures</li> </ul>

		<ul style="list-style-type: none"> <li>○ IPRs; geographical indications</li> <li>- Implementation of Legislation on minimum prices, subsidies etc</li> <li>- Implementation of CET</li> <li>- Implementation of Customs procedures (Valuation of goods, requirements for release in free circulation)</li> <li>- Implementation of dispute settlement mechanism</li> <li>- Implementation of regional liberalisation of trade in services</li> <li>- Completion of FTA</li> </ul>	<ul style="list-style-type: none"> <li>indications</li> <li>- Implementation of Legislation on minimum prices, subsidies etc</li> <li>- Implementation of CET</li> <li>- Implementation of Customs procedures</li> <li>- (Valuation of goods, requirements for release in free circulation)</li> <li>- Implementation of dispute settlement mechanism</li> <li>- Implementation of regional liberalisation of trade in services</li> <li>- Completion of FTA</li> </ul>	<ul style="list-style-type: none"> <li>- Level of TBT</li> <li>- Application of SPS standards</li> <li>- Standardised customs documentation</li> <li>- Standardised transit charges</li> <li>- Implementation of the regional budget</li> </ul>
<b>Effects</b>		<ul style="list-style-type: none"> <li>- Equal treatment for any EU products entering CA from any port</li> <li>- Progress of intra-regional trade</li> </ul>	<ul style="list-style-type: none"> <li>- Equal treatment for any EU products entering CAN from any port</li> <li>- Progress of intra-regional trade</li> </ul>	
<b>Interdependence</b>		<ul style="list-style-type: none"> <li>- Level of intra-regional trade</li> </ul>	<ul style="list-style-type: none"> <li>- Level of intra-regional trade</li> </ul>	<ul style="list-style-type: none"> <li>- Intraregional trade (% total trade)<sup>57</sup></li> <li>- Mobility of people</li> </ul>
<b>Other Indicators</b>				
<ul style="list-style-type: none"> <li>• <b>National Macroeconomic Indicators</b></li> </ul>				

<sup>57</sup> However one should be cautious about this indicator. The document stresses that EC regional integration initiatives are outward-oriented and designed as a strategy for collective integration into the world economy and not to achieve a kind of collective autarky. *A strategy towards autarky might lead to a very high share of intra-regional trade, but to little development and poverty reduction. It is also important to take into account the fact that the size of trade flows is determined to a large extent by the size of the economy. When small economies integrate, they still will naturally trade a lot with the large trading blocs. As a result there is no benchmark figure for a good share of intra-regional trade. (It can be perfectly sound economic policy if the share of intra-regional trade for developing countries is around 10 % whereas it is above 60 % for the EU.) Another limitation that should be taken into account is that for many ACP countries trade statistics cover only recorded trade. For many countries unrecorded trade (which is a broader concept than illegal trade) can be as important as recorded trade (MTR p.24).*

• <b>National Trade Indicators</b>				- Liberalisation of trade in services (commitment and mode of supply)
• <b>Governance and Regulations</b>				- Facilitation of investments (processing time and costs; - application of restrictions: sectoral, ownership etc)
• <b>Externally Financed Regional Development Projects</b>				- Implementation of EDF programmes/projects (progress on appraisal; decisions; disbursements)
• <b>Other National Indicators</b>				

