

The Significance of Trade Integration among Developing Countries: A Comparison between ASEAN and AMU*

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This paper analyses the significance of trade integration among two developing regional trading arrangements: the Association of South-East Asian Nations (ASEAN) and the North African Arab Maghreb Union (AMU). The analysis is for the period 1973-92 with a sub-division for 1973-82 and 1983-92. The findings show that the former has had a more profound economic impact on its members than the latter.

I. Introduction

Economic integration can assume many forms (Testas (1996, 1997)). The most advanced of these have occurred in Customs Unions (CUs) and Free Trade Areas (FTAs) such as the European Union (EU), North American Free Trade Agreement (NAFTA) and Australia-New Zealand Closer Economic Relations Trade Agreement (ANZCERTA).

Similarly, the Association of South-East Asian Nations (ASEAN) and the North African Arab Maghreb Union (AMU) are now evolving into more comprehensive regional trading arrangements. Since this study is aimed to focus on these two integration schemes, a brief background on their formation is needed before any empirical analysis is made.

First, ASEAN - comprising the original five (Malaysia, Singapore, Thailand, Indonesia and the Philippines) - has an explicit timetable for eliminating tariffs within the group by the year 2003 and introducing its Common Effective Preferential Tariff (CEPT) (see Asian Development Outlook (1996)). The CEPT was formerly restricted to manufactured and processed agricultural products; but at the ASEAN economic Ministers meetings in September 1994 and April 1995, a number of measures were taken to reduce exclusions and extend the commodity coverage to services and to accelerate the timetable.

Under the Framework Agreement on enhancing ASEAN economic integration, the member states have agreed to eliminate quantitative restrictions and non-tariff barriers on trade in products in the CEPT and to co-operate in some areas of service trade. The member states have also agreed to explore co-operation regarding some non-border measures, including harmonisation of standards, reciprocal recognition of tests and certification of products, and removal of barriers to foreign investments.

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The AMU - comprising Algeria, Morocco, Tunisia, Libya and Mauritania - is, however, more recent, having been formed only in 1989. But this is a revival of earlier attempts which started as early as 1964, although excluding Libya and Mauritania. The 1989 agreement basic thrust has several dimensions. First, it is aimed to increase intra-regional trade and foster economic development, by allowing the free movement of goods and services, labour and capital (Africa Research Bulletin (1989), Testas (1996, 1997)).

Second, it was aimed to provide a framework for co-ordinating policies regarding access to export markets with the EU as the completion of the Single Market in 1992 was expected to reduce access to European markets for Maghreb (North African) exports.

Third, there is the economic crisis from which all the union members have suffered in the 1980s. Algeria and Libya, for example, were adversely affected by the downturn movements in world prices of oil, while the entry of Spain and Portugal into the EU in 1986 has affected Morocco and Tunisia, the traditional competitors of the two European countries.

Fourth, there is the recognition that political disputes over borders or in terms of differences in political orientations have cost the North African Countries (NACs) much time and energy. Therefore, the AMU was partially aimed to normalise bilateral trade relations between these countries such as those between Algeria and Morocco, Libya and Tunisia and Libya and Morocco.

The AMU member states identified four stages of economic integration: (i) a Free Trade Area (FTA), (ii) a Customs Union (CU), (iii) a Common Market (CM), and (iv) Total Economic Integration (TEI). The founding treaty identifies the tasks to be undertaken under each stage but in very broad terms.

A FTA was planned by the NACs to be established before 1992, involving the elimination of customs duties and taxes of equivalent effects, quantitative restrictions and restrictive commercial practices. The AMU treaty also envisages a CU by the end of 1995 and a CM by the end of the year 2000. For the purpose of completing a CU, the NACs have established a Committee on Customs Co-operation aiming at: (i) harmonisation and simplification of customs legislation and regulations of the NACs, (ii) mutual assistance in the fight against fraud, (iii) the development and harmonisation of data systems, and (iv) the harmonisation of positions on customs issues at the international level. In this respect, work is already advanced on the study on a common external tariff (CET) for the NACs. Furthermore, these countries have already developed since 1991 a common customs nomenclature on the basis of a harmonised system.

The main aim of this study is to analyse the significance of trade integration among these two integration schemes. The growth, intensity, constraints and causes of their intra-regional trade will be analysed in the next two sections. The section that follows explains the main shortcomings of this analysis, while a final section provides some conclusions and policy implications.

II. Analysis of Intra-Union Trade

1. Nominal Rates of Growth

It is first of all clear from Table 1 that over the period 1973-82, both ASEAN and AMU's intra-regional exports expanded at a nominal rate not only faster than the growth rate

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of total exports of the trading arrangements but also than the world exports. The rates of growth of intra-ASEAN and intra-AMU exports were, respectively, 20% and 17%, while the growth rates of their total exports were, respectively, 19% and 16%. The growth rate of world exports was less than 14%.

Table 1 Nominal Growth Rates of ASEAN, AMU and World Trade, 1973-92

	1973-82	1983-92	1973-92
World Exports	13.5	8.7	8.4
AMU			
Intra-Union Exports	16.7	-6.5	-1.5
Total Union Exports	15.9	2.9	4.2
ASEAN			
Intra-Union Exports	20.1	11.7	12.4
Total Union Exports	18.6	11.9	11.5

Note: Growth rates were calculated by means of a semi-log trend model of the form:

$$\log X = a + bT$$

where X is the variable to be measured (exports), a is a constant, T is a time trend and b is the growth rate.

Source: UN Statistical Yearbook, Various Issues.

In the period 1983-92, however, such a good performance could not be sustained. Thus the growth rates of both intra-union and total exports for ASEAN dropped to 12%, while those of AMU dropped to a negative base of -7% for intra-union exports and only 3% for total exports. The world export growth rate also declined to 9%.

The reason as to why growth rate of intra-union trade for AMU dropped to a negative rate of -7% in the period 1983-92 is partly due to the fact that, the period under consideration comprises the sub-period 1983-88 during which diplomatic relations between Algeria and Morocco were suspended because of the Western Sahara conflict.¹ Trade between the two countries was completely interrupted and, since they are major contributors to AMU's intra-regional trade, it is understandable that intra-union trade as a whole would be decreased during that period. On the whole, in the period 1973-92, intra-AMU trade decreased by 2%, while intra-ASEAN trade increased by 12%.

2. Market Distribution

Intra-ASEAN trade has mainly been dominated by Singapore, Malaysia and Indonesia. These provided, on average, about 90% of intra-union exports in the period 1973-92. Singapore contributed by about 40%, Malaysia by 30% and Indonesia by about 20%. The remaining 10% or so has been shared by Thailand and the Philippines, with the latter contributing with less than 20%.

Similarly, intra-AMU trade has been dominated by Morocco, Tunisia and Algeria. These alone provided, on average, about 95% of intra-union exports in the period 1973-82. Tunisia's contribution was the highest (60%), followed by Morocco (25%) and Algeria (10%). The remaining 5% or so has been shared by Libya and Mauritania.

1. See Zoubir (1996) for a more detailed background of this issue.

3. Trade Intensity

The method to be used here for analysing trade intensity among each of the two integration schemes draws on Testas (1996). A Trade Intensity Index (*TTI*) is developed on the basis that world trade flows are allocated among the importing and exporting regions such as the following two main conditions are satisfied. First,

$$W_{ji} = \frac{X_{ji}}{X}, W_j = \frac{X_j}{X}, W_i = \frac{X_i}{X}, \quad (1)$$

where W_{ji} is the share of the flow from region i to j in world trade, W_j is the share of j in world exports and W_i is the share of i in world imports; X_{ji} , X_j , X_i and X are, respectively, the flow of exports from region i to j , total exports from region i , total imports by region j and world trade. Evidently, W_{ji} , W_j and W_i are non-negative and add up to 1. Second,

$$X_j = \sum_i X_{ji}, X_i = \sum_j X_{ji}, X = \sum_j \sum_i X_{ji}. \quad (2)$$

Given the above, a Trade Intensity Index (*TTI*) for intra-regional trade is developed on the assumption that the flow from a member country, i , to the rest of the union, j , will depend on: (i) the share of the member country's exports to the rest of the union in world exports, W_{ji} , (ii) the share of its total exports in world exports, W_j , and, (iii) the share of the union's total imports in world exports, W_i . That is:

$$TTI = \frac{W_{ji}}{W_j W_i}, \quad (3)$$

where the logarithm of this ratio will indicate over time whether intra-union trade has increased, decreased or remained constant.

With little manipulation of (3), it is not difficult to see that the intra-union TII (or the flow from one member country to the rest of the union) can also be shown to depend on: (i) the share of the member country's exports to the union in its total exports, and (ii) the share of the union's total imports in world trade. That is,

$$TTI = \frac{X_{ji}}{X_j} / \frac{X_i}{X}. \quad (4)$$

This ratio is zero when the trade from i to j is at certain level (to be referred to as the independence level), negative when it is below that level and positive when this trade is above that level. It takes algebraically larger values when the flow from i to j increases relative to the total exports of i and the total imports of j . The development of this logarithmic

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ratio should then enable us, at least in principle, to make judgment about the changes in the pattern of trade.

The results for ASEAN and AMU are shown in Table 2. The data clearly indicate that ASEAN member countries have concentrated trade among each other much more than the AMU member countries. All ASEAN member states have registered positive Trade Intensity Indices (TIIs) during the period 1973-92. This, as stated above, is a clear indication that the flow from one ASEAN member country to the rest of the union is above the independence level. The logarithm of Ratio (4) is greater than 1 in all ASEAN member countries except the Philippines.

Table 2 Intra-Regional Trade Intensity Indices for ASEAN and AMU, 1973-92

	1973-82	1983-92	1973-92
ASEAN			
Indonesia	1.4	1.0	1.2
Malaysia	2.1	1.9	2.0
Philippines	0.3	0.6	0.5
Thailand	1.8	1.2	1.5
Singapore	2.0	1.7	1.8
<i>Average</i>	1.5	1.3	1.4
AMU			
Algeria	-2.8	0.3	-1.0
Morocco	0.3	1.5	0.9
Tunisia	1.5	1.9	1.7
Libya	-3.9	-1.0	-2.5
<i>Average</i>	-1.2	0.7	-0.3

Notes: 1. ASEAN includes the founding members only, i.e., excluding Brunei, Vietnam, Laos and Burma.

2. AMU excludes Mauritania whose trade with AMU was negligibly different from zero during the period under study.

Source: UN Yearbook of International Trade Statistics, Various Issues.

On the contrary, only Morocco and Tunisia have managed to conduct their intra-union above the independence level and only the latter has recorded a TII greater than 1. Even worse, both Algeria and Libya have registered negative TIIs during 1973-92, suggesting their intra-union trade was far below the independence level.

The superior performance of ASEAN is also shown in Figures 1 and 2 where TIIs of the member states are drawn on a yearly basis. First, unlike AMU, all ASEAN member countries, except the Philippines in 1973-4, have registered positive TIIs on a yearly basis. Second, TIIs tend to vary over time more in AMU than in ASEAN. Such an instability of TIIs implies much about the nature of intra-AMU trade, the presence of political instability, and other factors that constrain the flow of this trade.

Figure 1 ASEAN's Trade Intensity Indices, 1973-92

Figure 2 AMU's Trade Intensity Indices, 1973-92

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On the other hand, as can be seen from Figures 1 and 2, TIIs of ASEAN member countries have tendency of decrease in the period 1973-92, except for the Philippines, unlike AMU whose member countries reveal upward tendency of trade intensity indices on the whole. The reasons are not straightforward, but a number of key variables must be taken into account. First, as pointed out by the Asian Development Outlook (1996), ASEAN economies have become more adept at exploiting their comparative advantage internationally. Increasing penetration of markets outside the ASEAN integrated area is likely to have been abetted by the market-friendly reforms that have been spearhead by the ASEAN countries.

Second, there is a shift in the ASEAN pattern of comparative advantage, technology and tastes. The member countries' acquired comparative advantage in electronic assembling operations, for example, may have encouraged diversification of their export markets and, therefore, caused TIIs to decline.

Third, the increase in per capita incomes in ASEAN may have stimulated the demand for a much greater variety of consumer goods, many of which are likely to be covered by extra-regional imports.

Finally, the steps that the ASEAN member countries have taken to liberalise their intra-regional trade may have led to more Trade Creation (TC) - shift from high-cost domestic production to lower cost production in a partner country - than Trade Diversion (TD) - shift from low-cost production outside the region to higher-cost production in a partner country. Had only TD occurred, TIIs would have risen within ASEAN. There is, however, a need for more research in this area as the method applied here does not lend itself to estimating and separating TC from TD.

III. Causes and Constraints of Intra-Union Trade

Although it is difficult to provide a clear-cut answer to the question as to why TIIs tend to decrease in ASEAN rather than the AMU, since it is hard to estimate empirically the effects of different factors, the analysis so far shows clearly that intra-regional trade has been more intensive within ASEAN than within the AMU.

One reason is related to the nature of NAC's intra-regional trade. Primary products (including agricultural) constitute a big fraction of intra-AMU trade, whose volume has been subject to supply side constraints. The volume of agricultural products is largely dependent on rainfall which fluctuates from one season to another. More important, the category of these primary products is too small and, therefore, even when this category of products is disaggregated, potential expansion of intra-AMU trade would not appear quite likely.²

The second is related to initial level of the intra-union trade itself. According to the classic theory of customs union (Lipsey (1960)), economic integration is more likely to increase welfare the higher is the proportion of trade with the country's union partner and the lower

2. Mikesell (1963) argued that expansion of intra-regional trade may be relatively significant for primary commodity exports but only if this category is broad enough. Similarly, Imady (1984: 116) stated that, the real trouble with intra-Arab trade as a whole "was not with the restrictions and handicaps to trade in existence -- though considerable and mostly irrational -- but with the basic fact that there were not available all that many goods and services to put into the stream of intra-regional trade to begin with".

the proportion with the rest of the world. During the period 1973-92, the AMU offered less than 3% of intra-regional trade to its members, while the rest of trade was conducted with the outside world, mainly the EU. This is not strictly the case with ASEAN whose intra-regional trade was estimated at more than 20% during that period.

Therefore, in the light of these considerations, and according to the orthodox theory of economic integration, one may argue that the case for discriminating in favour of the outside world would tend to be much stronger than that for discriminating in favour of the NACs.

The third factor constraining intra-AMU trade stems from differences in political orientations and disputes over borders. A good example is political frictions between Algeria and Morocco in the period 1976-88, leading to a complete interruption of bilateral trade flows between 1983 and 1988. This eventually constrained the flow of North African multilateral trade within the union as a whole.

Another explanation for the slow growth of the North African intra-regional trade is to be found in the role played by such factors as per capita income and economic development. The demand for imported inputs and final goods (thus intra-regional trade) expands according to expansion in per capita income and increases in real output.

The explanation of differences in GDP per capita is important in what is commonly referred to as Commodity Overlap or Intra-Industry Trade (IIT). There has been an observed tendency for average levels of IIT to increase with increases in per capita incomes. This reflects, on the one hand, the variety hypothesis which states that, as per capita income grows so too does the demand for variety or differentiated products and, on the other, the *similarity* thesis which states that, similarity of demand patterns between any two countries results in a higher value of reciprocal trade as a percentage of national income than where demand patterns are dissimilar.

On the whole, the higher the level of a country's per capita income, the greater the demand for variety. The demand for variety leads to an increase in the degree of product differentiation which promotes intra-industry and reduces inter-industry trade as a percentage of total trade. The fact that IIT has increased with the rise in per capita income in the EU would lend support to this hypothesis.

The level of economic development positively influences recorded levels of IIT because of the differences in incomes and economic structure between stages of development. In addition to the possibility of greater relative availability of primary products (less capable of differentiation) in developing countries, then there is also likely to be an income constraint on the diversity of demand and, therefore, on the demand for differentiated goods.

As shown in Table 3, the NACs have relatively low levels of incomes as approximated by GDP per capita. In 1973, for example, AMU's average GDP per capita was 60% of ASEAN's (US\$400 compared with US\$650) dropping to only 26% in 1992 (US\$1300 compared with US\$5000). Although income differences among member countries exist both in ASEAN and AMU, the former's member countries still enjoy higher per capita income than AMU's. Mauritania's GDP per capita, for example, was 18% of Malaysia's in 1992 and only 3% of Singapore's in that year. Even Tunisia's GDP per capita, the highest among the AMU member countries in 1992, did not exceed 10% of Singapore's in the same year. This, according to the above analysis, would restrict the growth of the NACs' IIT and, therefore, decrease

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their interdependence among one another.

Table 3 GDP Per Capita for ASEAN and AMU in US\$, 1973 & 1992

	1973	1992
ASEAN		
Indonesia	126	694
Malaysia	690	3178
Philippines	265	819
Thailand	272	1930
Singapore	1855	17991
Average	642	4922
AMU		
Algeria	508	1690
Morocco	373	1129
Tunisia	490	1812
Mauritania	207	558
Average	395	1297

Source: IMF International Financial Statistics, 1996.

Intra-industry trade is important for at least two main reasons. First, IIT can be directly linked to the development of a leading manufacturing sector which both generates and is stimulated by the progress of technology, which in turn is the key to rising productivity and real income per head. Increased trade in similar or competitive goods is, therefore, a sign of advanced industrialisation. As an economy develops, its product lines diversify and consequently it engages in more and more intra-industry trade.

The second is related to the belief that adjustment will be easier when trade expansion following a policy change (e.g., economic integration) takes the form of an increase in intra-industry as opposed to inter-industry. This is of a particular importance to NACs which, since 1989, have been making efforts to accelerate the process of multilateral trade liberalisation within AMU. If IIT prevailed on a larger scale, changes in income distribution arising from such a policy change would not be as dramatic as under inter-industry specialisation. Because factor intensities between sectors are similar under the intra-industry conditions, one should expect labour to transfer from one sector to another with comparative ease; and that the package of skills acquired during employment in the import substitute sector can be re-deployed with minimal retraining in the export sector.

Another reason for the better economic success of ASEAN lies in reduction of trade barriers.³ The ASEAN began to liberalise their import trade sooner and have continued in the 1980s and 1990s to do so more rapidly on average than have the AMU. For example, before the independence of Malaysia, of which it was originally a part in 1963, Singapore had been a duty-free port for over 100 years. Soon after the establishment of Singapore

3. See Findlay & Garnaut (1986) and Ariff & Tan (1988) for an examination of the political economy of protection in ASEAN.

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as a separate independent state in 1965, it eliminated the quotas and most of the tariffs which protected a range of manufactured products.

Similarly, during the 1980s and 1990s, there has been a rapid decline in Malaysian tariffs so that there are now minimal controls on imports and very few items remain subject to quantitative restrictions. Even in the case of the most inward looking, Indonesia and the Philippines, protection regimes have now been simplified, and the general rate of protection for manufactures was reduced for a large number of manufactures.

Finally, there is the 'openness' factor - or the adoption of growth oriented policies - in stimulating economic growth in ASEAN member countries (Hill (1993)). Most ASEAN member countries have been externally oriented and attach high priority to export promotion. Those that have not been so oriented in the past are now moving in that direction through policy reforms. Although exports are aimed at the global market, not just intra-regional trade, the exploitation of endowment complementarities would itself involve a high volume of trade within the region, re-enforced by the advantage of proximity.

Although the AMU member countries have also been moving towards that end in recent years, the pace of policy reforms has been slow and adjustment is also likely to be constrained by political instability and social unrest in such countries as Algeria.

A closely related factor to this subject is the positive impact of foreign direct investment. This, in the case of ASEAN, has led to more rapid technological progress, reduced the cost of information technology, transport and, coupled with the transfer of some manufacturing activities from Japan to low-wage countries in the region, has considerably increased the level of intra-regional trade. This is far to be true for AMU where foreign direct investment has mainly been concentrated on the hydrocarbons sector (e.g., Algeria and Libya) or the primary sector in general (e.g., phosphates in Morocco).

IV. Limitations of the Analysis

In the absence of trade data in real terms, nominal data was used. Although real data on total exports or GDP per capita can be constructed from the international financial institution publications (e.g., IMF and World Bank), the task is much less easy in the case of intra-regional trade.

There is no a clear method by which to deflate such exports as from Malaysia to ASEAN or from Algeria to the AMU. One way is to use total exports price index or, as in Testas (1996) the Stone index, but these generate only limited - often misleading - estimates.

Another difficulty is closely related to the concept of Trade Intensity Index (*TII*). Although this method is simple and that the index can be calculated with minimal data requirement - as the impact of integration is compressed to depend only on trade data - the method does not calculate the 'dynamic effects' of economic integration. These are believed to be equally (if not more) important (than) the 'static' impact of trade expansion. These increase the level of investment, technological development and, therefore, result in more rapid economic growth. The method applied here, however, lacks sophistication for such effects to be isolated. These, therefore, remain a topic for future investigation.

On top of that, nominal growth rates and intra-regional trade intensity indices where

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calculated in terms of the US dollar, but the impact of exchange rate changes on the volume of intra-regional imports has not been estimated. For example, the Indonesian rupiah and the Philippine Peso depreciated against the US dollar in the period 1978-92 and 1982-92, respectively, which would consequently lower this study's estimates. In other words, because of currency devaluation, intra-union trade would register low increase rates in terms of the US dollar, even though trade amounts in terms of currencies of ASEAN member countries remain constant. The same applies to the AMU as all its member countries had their local currencies depreciated against the US dollar in the 1980s.

V. Conclusions and Policy Implications

This study has attempted to analyse the significance of economic integration among two developing integration schemes: the ASEAN and AMU. The findings for the period 1973-92 show that the former has had more significant impact on its members than the former.

Factors responsible for such a superior performance for ASEAN include reduction in tariff barriers, openness, raising per capita income, foreign direct investment and emphasis on economic diversification and manufacturing industries.

However, there are several factors that this study has not taken into account. These, to name a few, include the impact of technological development, co-operation in Research and Development (R & D), enlargement of the union and scale economies.

Countries can draw lessons from ASEAN'S experience. Although more space is needed for these to be explored in more detail, three main factors appear crucial for the AMU governments to consider: (i) outward orientation to trade, investment and technologies, (ii) sustained investments in physical and human infrastructure, and (iii) moving away from standardised (primary) commodities by diversifying their economies and developing a leading manufacturing sector. These, in the long-run, would raise the level of output and increase intra-regional trade.

Appendix

ASEAN's Trade Intensity Indices, 1973-92

Year	Indonesia	Malaysia	Philippines	Thailand	Singapore
1973	1.6	2.5	-0.2	2.1	2.2
1974	1.2	2.2	-0.7	1.9	2
1975	1.3	2.2	0	1.9	2.1
1976	1.2	2.1	0	1.9	2
1977	1.4	2	0.4	1.9	1.9
1978	1.5	1.9	0.8	1.7	1.9
1979	1.6	2	0.3	1.8	2
1980	1.3	2	0.7	1.6	1.9
1981	1.1	2	0.7	1.4	1.8
1982	1.4	2	0.6	1.4	1.8
1983	1.4	1.9	0.5	1.3	1.7
1984	1.1	1.9	0.9	1.3	1.7
1985	1.2	2.1	1.2	1.5	1.8
1986	1.2	2	1.3	1.6	1.9
1987	1	2	0.7	1.5	1.8
1988	0.9	1.9	0.7	1.2	1.7
1989	0.9	1.8	0.4	1	1.6
1990	0.7	1.8	0.4	1	1.5
1991	0.7	1.7	0.3	0.8	1.5
1992	0.8	1.7	0	0.9	1.3

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AMU's Trade Intensity Indices, 1973-92

Year	Algeria	Morocco	Tunisia	Libya
1973	0.3	1.4	2	-3.7
1974	0.1	1	1.6	-4.6
1975	-4.2	0.5	1.8	-4.7
1976	-4.2	-0.3	1.2	-4.9
1977	-4.4	0	1.3	-4.5
1978	-4.4	-0.1	1.7	-3.3
1979	-3.7	0.1	1.3	-1.7
1980	-3.2	0.1	0.8	-2.9
1981	-3.3	0.6	1.5	-5.4
1982	-1.4	-0.4	1.3	-3.4
1983	-1.5	0.1	0.9	-5
1984	-0.7	0.8	1.6	-4.9
1985	-0.1	0.9	1.4	-0.8
1986	-0.6	0.9	1.8	-0.2
1987	0.7	1.7	1.7	-0.2
1988	1.1	1.7	1.8	-0.6
1989	0.8	1.8	2.2	-0.6
1990	0.9	1.9	2.2	0.5
1991	0.7	2.4	2.5	1.1
1992	1.2	2.4	2.6	1

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