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4. Is Regionalism the Outcome of Insufficient or Excessive Globalisation?¹

Serge Svizzero, Laurence Lasselle and Clem Tisdell

4.1 INTRODUCTION

It is widely agreed that during the last two decades the process of economic globalisation has been strengthened and extended to almost all countries and all economic activities. This has been a result of technological change that has reduced the real cost of communication and transport, and of institutional changes, such as the lowering of tariff barriers, designed to reduce social restrictions on international trade. The movement towards laissez-faire market systems is globally supported by bodies such as the International Monetary Fund (IMF) and the World Bank. Furthermore, after it came into existence after World War II, the General Agreement on Tariffs and Trade (GATT), and subsequently the World Trade Organisation (WTO) have played a central role in the economic globalisation process. Through its 'most favoured nation' (MFN) clause,² GATT promoted multilateralism. This was designed to rule out preference for one or a group of nations in international trade access to a particular country. Consequently, the aim was to make international trade access non-discriminatory thereby encouraging multilateralism with the ultimate goal of achieving global free trade.

Though economic globalisation has spread, GATT's objectives for multilateralism have encountered new barriers, partly because of the simultaneous evolution of regionalism. The Uruguay Round of GATT negotiations that commenced in 1986 and after several extensions, ended in Marrakech in 1994, were intended to extend multilateralism. Despite final agreement at Marrakech, not all nations were satisfied with the outcome and no agreement was reached on rules covering foreign direct investment. Moreover, many developing countries have found it difficult to implement the agreement and feel that it unfairly treated international trade in agricultural products, textiles and clothing (compare McCulloch et al. 2001).

As multilateral trade agreements are more and more difficult to negotiate,

trade agreements have progressively taken a new form, namely regionalism. Broadly speaking, regionalism can be defined as any policy designed to reduce trade barriers between a subset of countries. Contrary to multilateralism, regionalism is intrinsically discriminatory. It is now widely developed. There are currently more than one hundred preferential trading agreements³ (PTAs) all around the world. In theory there exist four main types of PTA: a free trade agreement, a customs union, a common market and an economic union.⁴ A free trade agreement (FTA) is a PTA among members under which tariffs are lowered to other members but maintained against non-members. Contrary to the customs union, in which there is free trade among members and a common external tariff on trade with non-members, any member of an FTA may impose its own tariffs to non-members. It is probably this feature which explains why PTAs concluded in recent years consisted almost entirely of FTAs.

Two phenomena can be pointed out concerning trade agreements.

On the one hand, the WTO policies encouraging economic globalisation and based on multilateralism are in crisis. Violent protests took place at the Millennium Meeting held in Seattle in November 1999. Actions against the WTO were sustained by the widening gap between rich and poor countries and the growing number of people living on less than \$2 per day (compare Tisdell et al. 2004 for a discussion about the inequality of nations). On the other hand, there has been an increasing number of PTAs.

In this article, we first outline the decline in multilateralism and the rise of regionalism and consider whether the two trends are connected (Section 4.2). We then pose the question of whether regionalism is currently an appropriate and reliable stepping-stone towards international free trade and multilateralism (Section 4.3). Authors such as Bergsten (1997) and Ethier (1998) claim strongly that it is. However, Viner's analysis (Viner 1950) suggests the need to be more cautious. Viner highlights several economic disadvantages of regionalism compared to multilateralism (Section 4.4). In view of these disadvantages, it seems possible that regionalism is a response to problems of political integration arising from intense economic globalisation rather than an economic ideal (Section 4.5).

4.2 REGIONALISM AND MULTILATERALISM: DEFINITION AND HISTORICAL TRENDS

Regionalism can be defined as a tendency towards some form of PTAs between a finite number of countries belonging possibly to a particular region. Such arrangements are not new. They were prevalent in the eighteenth and nineteenth centuries. These PTAs between sovereign states⁵

were a means to obtain better access to markets and therefore sustained economic growth based on exports. Their purposes were also political. They were designed to build either colonial empires or a sovereign state.⁶ These arrangements were also 'preferential'. Countries that did not belong to a particular regional arrangement were discriminated against.

Such intrinsic features explain the recurrent controversy regarding the desirability of regionalism. They also explain why during World War II the shift towards multilateralism⁷ occurred. First, multilateralism was a means to avoid the formation of regional blocs since the latter, and more specifically, their discriminatory nature, had been partly responsible for the Second World War.⁸ Second, it was also a means to avoid a massive shift back to protectionism that had transformed the 1930s economic crisis into a 'great depression'. Finally, it was a means for the powerful US economy to get access to foreign markets since most of these were protected until World War II by different PTAs derived from colonialism.

In 1947, the International Trade Organisation became the GATT. The GATT's Articles were the basis for the international trading system. Broadly speaking, GATT's goal was to promote free trade, that is, to liberalise trade at the world level. For that purpose, gradual liberalisation was negotiated among countries. The negotiations were multilateral and they dealt with the instruments of protection, namely tariffs. The two pillars of the GATT system were reciprocity and non-discrimination (Bagwell and Staiger 1998, pp. 1171-76).

The reciprocity pillar is not specific to multilateralism.⁹ It simply states that the negotiated agreements feature the mutual exchange of concessions.¹⁰ The non-discrimination pillar is the cornerstone of multilateralism. It states that each country is the MFN of every other country. The MFN clause in Article 1 of GATT forbids countries from pursuing discriminatory trade policies against one another. Indeed, '...any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties' (GATT 1994, p. 486). As pointed out by Krueger (1999, p. 105), the MFN existed before GATT. Indeed, except for the USA (until 1923), European countries were using such a clause in their bilateral agreements (since the nineteenth century) because in its absence, bilateral trade agreements were costly and their members were gaining little.¹¹ In other words, multilateralism – and its MFN clause – can be considered as a simple extension of regionalism, given the intrinsic problems of the latter.

From the late 1940s to the early 1980s, the GATT system was successful. There was a general trend towards multilateral free trade. PTAs were the

exception rather than the rule. Seven major multilateral trade agreements were concluded, each a so-called 'Round'. The first five rounds were 'parallel' bilateral negotiations, the remaining two were multilateral negotiations. One major exception has been the European Union (EU). From the Treaty of Rome in 1957 to the current Union, it has probably been the most successful customs union. Of course, its creation was initially motivated by geopolitical goals. The purpose was, on the one hand to avoid a third world war due to intra-European conflicts, and on the other hand to form a bloc against the Soviet Union and the East European economic bloc.¹² Although the European customs union was a case of pure regionalism, it was considered consistent with multilateral trade liberalisation. Indeed, it appeared during the post-war period that the EU was lowering its tariffs and expanding trade with the rest of the world at a very rapid rate.

In fact, regionalism – as illustrated by the EU – is not excluded by GATT and its multilateral approach. Article 24 of the GATT¹³ – and the now WTO¹⁴ – accommodates PTAs within the multilateral trading system provided they meet three criteria. First, they must cover 'substantially all' trade of members. Second, they must avoid raising new barriers to non-members. Third, they must achieve free trade among members by a certain date.¹⁵

Despite the example of the EU and the opportunities provided by GATT's Article 24, PTAs were not well accepted until the early-1980s. Most trade agreements were based on multilateralism. Attitudes were in fact largely influenced by the USA which had emerged after World War II as the champion of a non-discriminatory global trade regime grounded firmly in the MFN principle.

All this changed in 1982 when the launch of a new round of multilateral trade negotiations was quickly aborted.¹⁶ Multilateralism was then more or less abandoned in favour of regionalism (or PTAs). As the Europeans blocked the initiation of this round, the USA began efforts to start it by adopting a 'two-track' approach. On the one hand, they continued to seek multilateral liberalisation under GATT. On the other hand, they decided to abandon their opposition to regional arrangements. Thereafter, they concluded several PTAs with various partners such as the Caribbean countries,¹⁷ Israel in 1985, Canada¹⁸ in 1989. PTAs were also signed between other developed and developing¹⁹ countries.²⁰ At the end of 1998, the WTO listed 98 PTAs in force (Krueger 1999, p. 110). Since 1994 (see Table 4.1), over 60 per cent of world trade has taken place within regional arrangements that have either achieved free trade or have pledged to do so.

In fact, the share of world trade resulting from PTAs has increased faster than world trade, the latter having itself grown²¹ at an average annual rate of 6.5 per cent while world GDP grew at an average annual rate of 2 per cent. But, in parallel, the process of economic globalisation has been reinforced

year after year. This emergence of regionalism leads to the following questions: is regionalism the best way under which the globalisation process can be pursued? In other words, is regionalism a stepping-stone towards further trade liberalisation and economic globalisation? If not, can regionalism be considered as a means to solve problems that have emerged from excessive globalisation?

Table 4.1 Regional free trade arrangements (share of world trade, 1994) (%)

EU	22.8
EUROMED	2.3
NAFTA	7.9
MERCOSUR	0.3
Free trade Area of the Americas (in addition to its sub-regionals)	2.6
AFTA	1.3
Australia-New Zealand	0.1
APEC (in addition to its sub-regionals)	23.7
Total	61.0

4.3 BEYOND MULTILATERALISM: FURTHER GLOBALISATION THROUGH REGIONALISM

Considering regionalism as a means to liberalise trade further than the level possible under multilateralism was the argument enunciated by US officials in the early 1980s. When negotiations on further multilateral liberalisation are blocked, like in the aborted 1982 round, a PTA allows member countries to go further, that is, to liberalise beyond the extent that takes place multilaterally. Therefore PTAs promote freer trade and multilateralism. Indeed, it is often claimed, using Viner's (1950) terminology²² and also empirical evidence, that PTAs are predominantly 'trade creating'. Let us recall that when a country enters into a customs union, its trade is going to be affected twofold. This country can 'create' trade with its new economic partners, but it can also 'lose' trade if the trade within the customs union simply replaces trade with countries outside the union, that is, the so-called trade diversion effect.²³ Generally, one expects the former effect to dominate the latter effect. Therefore PTAs provide support for further multilateral liberalisation. This result comes from several rationales. For instance, in an FTA the producers of different members face different external tariffs. Then, competition among these producers tends to put pressure on external tariffs until harmonisation is reached as in a customs union. Of course, the implied tariffs reduction encourages trade creation.

Furthermore, regionalism promotes multilateralism since it has important demonstration effects. When countries use a PTA to go further, they provide a demonstration of the benefits of regionalism. This may in turn induce other countries to soften their resistance to multilateral liberalisation. For officials as well as for voters of countries who are reluctant to open their markets, their participation in a regional initiative can provide some 'learning by doing' and this may facilitate the adoption of further trade liberalisation. Similarly, an agreement on a thorny topic that seems impossible to be reached under multilateralism can be negotiated much faster under regionalism. Regional initiatives can often be subsequently generalised in the multilateral system.²⁴

Several arguments derived from a political economy analysis also show that deepening integration in a trade bloc can trigger the expansion of the bloc, leading the world one step closer to multilateral free trade.

First, regional arrangements favour global liberalisation especially when they include developing countries and/or when they consist of a large country linking with other small countries. Indeed, under such circumstances, the regional agreement is a means for the countries to 'lock-in' their domestic reforms,²⁵ that is, to prevent following governments from reversing them. Such commitment, when it is credible, is synonymous with stability and usually induces an increase of trade and investment flows from large countries.

Secondly, when a country, especially if it is small and developing, participates in a regional agreement, its own interests can be better defended at the international level. For instance, small countries with similar interests can combine (CARICOM, Caribbean Community) and their mutual co-operation can be effective within their bloc but also at the world level. One can also claim that multilateral negotiations between big trade blocs are simpler than between a multitude of countries. Indeed, on the one hand, there are fewer negotiators around the table, and on the other hand, a PTA can be used as a bargaining threat to encourage multilateral trade agreements.²⁶ However, it is possible that fewer players at the negotiation table can also mean tougher and more radical positions.

Thirdly, regionalism offers a device to create links between countries that were previously antagonists.²⁷ Economic integration is often a stepping-stone to a deeper political integration.

The economic and political arguments mentioned above help to ensure that regional agreements are in practice building blocs for further liberalisation rather than stumbling blocs that deter such progress (Ethier 1998). This concept of regionalism and of PTAs is often defined as 'open regionalism' (Bergsten 1997). It contrasts sharply with the closed, import-substituting regionalism of the 1950s and the 1960s. Let us emphasise that

open regionalism has only been adopted by one PTA as a fundamental principle, namely by APEC. It refers to plurilateral agreements that are non-exclusive and open to new members. The main features of open regionalism are the following ones (US Council of Economic Advisors 1995). First, members are allowed to liberalise further unilaterally or with non-members on a reciprocal basis. Therefore, customs unions are excluded while FTAs are not. Secondly, the plurilateral initiatives must be fully consistent with Article 24 of the GATT. Thirdly and more importantly, regionalism is 'open', that is, there is open membership and even positive encouragement to non-members to join. In other words, a PTA based on this 'open regionalism doctrine' can encompass the entire world and thus lead to multilateral free trade.

Regionalism, especially when it is consistent with the 'open regionalism' criteria, can be considered as a device that accelerates progress towards global liberalisation. However, that device needs to be tempered, as we shall discuss in the next section.

4.4 THE LIMITED BENEFITS OF REGIONALISM

Until Viner's (1950) seminal work, it was commonly acknowledged that any move towards free trade, through multilateralism or regionalism, was necessarily welfare improving. Indeed, at a first sight, a PTA increased the welfare of members while it remained neutral with respect to the welfare of non-members.

Following the end of the Second World War and pledges to create an European common market, the Carnegie Endowment commissioned Jacob Viner to study the 'Customs Union Issue'. Viner (1950) and his followers, such as Meade (1955) and Lipsey (1960), elaborated the economics of what is now called 'First Regionalism'.²⁸ This approach examines the static welfare effects of PTAs, specifically of customs unions. Viner reached a counter-intuitive conclusion: although regional integration arrangements may be trade-creating, they may also be trade-diverting. The entry of country A into a customs union has two effects for A. Country A can create trade with its new economic partners, but it can also 'lose' trade if the trade within the customs union simply replaces trade with countries outside the union. Therefore the net impact of the customs union on trade, and therefore on economic welfare of its members, is questionable. The net impact on trade is positive if the trade creation effect outweighs the trade diversion effect. Contrary to the intuitive pre-Vinerian belief, the welfare impact of regionalism critically depends on the circumstances surrounding each arrangement.²⁹ Such a conclusion is consistent with the second-best theory. While the (first-best) global trade liberalisation is necessarily welfare-

improving, the (second-best) intra-regional trade liberalisation may have positive as well as negative impacts on welfare.

The effect of trade diversion needs to be closely watched. It has often been considered as a negligible phenomenon (for example, by Summers 1991). However, as reported by Bhagwati et al. (1998), an increasing number of empirical studies begin to show that trade diversion is important in current PTAs.³⁰

Hence, the welfare of a country member of a PTA may decrease when trade diversion dominates since the latter involves shifting imports from lower to higher cost suppliers.³¹ The trade diversion effect may be important since tariffs, which are mostly very low, remain very high for particular economic activities. For instance, several tariff peaks exist in agriculture, making PTAs quite dangerous for the countries involved. In manufacturing industry, a customs union member can displace a more efficient outside supplier by taking advantage of the tariff preference it enjoys in a partner country.³² Buyers in the customs union then have to buy some expensive goods produced within the customs union rather than those produced outside the union. The agreement clearly improves intra-regional trade, but at the expense of buyers.

Moreover, even if all tariffs are low, other means, such as an anti-dumping policy, may be used to discriminate against non-members. Note that such instruments are elastic and selective, that is, they permit discrimination against specific countries and even specific firms within those countries. In addition to trade diversion, a country's welfare may decrease with a PTA, depending on arrangements for redistribution of tariff revenues among the members (see for instance Panagariya 1996).

Some economists may have neglected trade diversion because they were only considering PTAs as involving 'natural trading partners'. They studied countries that already traded a lot with each other and that were geographically proximate. The notion of 'natural trading partners', apparently quite intuitive, is in fact very controversial. Following Krugman (1991) and Summers (1991) who used it to explain the presumed beneficial effects of regionalism, this notion has been criticised, for instance, by Bhagwati, (1995). Natural trading partners can be defined using two criteria: a high volume of trade among partners and a low distance between them. Both criteria are dubious. For the latter, since transport costs are not different from any other cost, they do not deserve special attention.³³ Concerning the former criterion, it is not the volume of trade but the elasticities of substitution among products that are much more important in assessing the trade diversion effect.

Consequently, current theory does not provide a clear guide to the total welfare effect of regionalism. Furthermore, difficulties are encountered by

regionalism in practice. Indeed, PTAs that are mainly FTAs necessarily include preferential rules of origin and regional content requirements. Recall that in an FTA, each member retains its own outside tariffs. Therefore and in the absence of rules, a product from outside will enter into the FTA through a unique country, that is, through the lowest-tariff member country. To avoid this possibility, FTAs are supplemented by rules of origin that stipulate the conditions under which goods entering a member country will be 'deemed' to have 'origin' in the partner country.

However, rules of origin lead to a significant controversy (Krueger 1999). Indeed, they necessitate determination, for a given good, of the percentage of its inputs or of its added-value that originates in the partner country. This gives rise to disputes among members. The enforcement of such rules and their implementation impose high costs on members.³⁴ Moreover, when a given country belongs to several FTAs, each FTA including several countries, the rules of origin overlap, leading to what Bhagwati (1995) called the 'Spaghetti Bowl' phenomenon. Rules of origin, an inherent part of FTAs, constitute in practice a hindrance to the success of regionalism.³⁵

In addition to the previously mentioned shortcomings, regionalism is claimed to lead to 'attention' diversion. In other words, when a country actively engages in regional arrangements, it becomes uninterested in participating in the multilateral system. This criticism, mainly emphasized by the USA, also explains why regionalism and multilateralism can be in conflict. Furthermore the formation of strong and quite independent trade blocs, such as these existing between the First and the Second World Wars, have negative geopolitical impacts: any disagreement may transform peaceful economic blocs into aggressive political blocs.

For all the reasons previously mentioned in this section, regionalism is not a panacea, that is, it is not necessarily a stepping-stone towards freer trade and liberalisation. This rather pessimistic conclusion is in fact shared by many economists (Bagwell and Staiger 1998; Bhagwati et al. 1998; Krueger 1999) and by a growing number of officials and policy-makers. Indeed, since the late 1990s, several planned regional initiatives have been abandoned. The number of FTAs, increasing until the mid-1990s, is now stationary. For instance, the inclusion of Eastern Europe into the EU was frozen until last October. Likewise the US desire to turn APEC into an FTA has been rejected by its Asian members. The latter consider that any trade liberalisation under APEC should be on a MFN basis.³⁶

4.5 REGIONALISM AS A REACTION TO MULTILATERAL-BASED GLOBALISATION

During the last three decades, globalisation has contributed to economic growth mainly by reducing trade barriers and increasing trade and investment flows. However economic globalisation is at the heart of several economic disequilibria and inequalities. This is so not only within countries, but also between countries and groups of countries. It is often claimed that the rise of unemployment rates observed since the mid-1970s in northern countries can be partly explained by globalisation (Lasselle et al. 2004). There has indeed been greater competition from the south and an acceleration of skill-based technological change as a result of growing globalisation (Svizzero and Tisdell 2002). The strong process of economic globalisation, encouraged by international organisations, has led in some cases to convergence but also in some other cases to increasing income inequalities between nations (Tisdell et al. 2004).

As the economic globalisation process expands rapidly, competitive pressure sharply increases and implies more structural adjustment of the national markets. In such a context, regionalism can be interpreted as a strategy to soften the negative social impacts of globalisation. In a political economy approach, trade policy – especially when it leads to regionalism – can be viewed as determined by lobbying either concentrated interest groups or sovereign states. Let us consider both influences on the choice of trade policy.

The interest group which seems to be decisive in determining trade policy consists of domestic firms. This group can promote some regional arrangements as a means to protect themselves from the rise of foreign competition.³⁷ Indeed, if producers are protectionist, they may accept a PTA in order to avoid further multilateral liberalisation. However, even if they are not protectionist, they may prefer regionalism to multilateralism, especially if the former is associated with a large trade-diversion effect (Krishna 1998). Assume for instance that two countries are engaged in a bilateral arrangement. If there is little trade diversion, any firm of each country gains preferential access to the market of the partner's country. But since no trade is diverted from external firms, the arrangement looks like a zero-sum game.³⁸ Nevertheless, if trade is diverted away from the rest of the world's firms, the producers of both countries gain more and are therefore more likely to support the arrangement. This is a well-known result in economic literature (see, for example, Krueger 1999; Winters 1996). In the presence of lobbies, trade diversion is good politics even if it is bad economics.

Beyond the fact that trade-diverting PTAs are more likely to be supported politically, they could critically change domestic incentives, so multilateral

liberalisation, which was initially feasible, could be rendered infeasible by a PTA. In other words, sector-specific lobbies are a danger if regionalism is permitted since they tend to stop blocs from moving all the way to global free trade. Such an implication is illustrated for instance by MacLaren (2002). Indeed, when countries are negotiating about a future PTA, the firms of these countries are urged to make sector-specific sunk investments in order to produce accordingly to the pledged PTA. The expected regionalism leads each member country to specialise its economy in order to gain more within its regional bloc. Once the PTA is concluded, any move towards multilateral free trade that was possible before is henceforth almost impossible. After the PTA, firms within the bloc incur sunk costs as a result of their investment specific to their bloc. On the other hand, while member countries are more specialised towards each other, bloc and non-bloc countries are mutually less specialised. The expected supply of regionalism has generated its own demand since when regionalism is effective, the ex-post demand for multilateral free trade diminishes.

Besides the producers' strategy, regionalism can also be viewed as the result of decisions by states. Indeed, with growing economic globalisation, several governments have seen their policy activities curtailed to a considerable extent. Economic globalisation is making it increasingly difficult for nation states to control their own economic affairs independently of the rest of the world (Tisdell 2001). This reduction of governance possibilities is clearly illustrated by capital mobility and fiscal competitiveness. Indeed, in a world of capital mobility, governments' capacity to tax capital is eroded as jurisdictions are pitted against another. Therefore, embracing regionalism has been for states a means for recovering their governance capacity, that is, the control of the public management of the economy. This strategy can be considered as the outcome of three independent influences.

First, most large trading corporations and multinational companies are nowadays strongly in favour of economic globalisation. The decisions they take, especially about their location, have major economic influences, notably on employment opportunities. Therefore, this can result in harmful competition between countries desiring to attract these firms. Likewise, any multinational company may try to take advantage of fiscal and tariff differentials existing between the countries in which its production process is to be segmented (Eden 1998; Clausing 2001). Indeed, when a firm's production is segmented internationally, this gives rise to intra-firm trade. Such trade is realised 'out of the market' and at a price often called the 'transfer price' or the 'shadow price'. Many multinational companies manipulate their transfer pricing in order to minimise their fiscal burden. This leads to revenue losses for governments unless there exist some arrangements

between countries to avoid such practices. Thus, under regionalism, nations are more able to countervail against multinational companies, that is, to maintain their revenues through the harmonisation of tariffs, fiscal policies, standards (and so on).

Secondly, northern countries have faced increasing competition for specific products from southern countries since the mid-1970s. Besides this, competition among northern countries has increased in the supply of goods such as agricultural products³⁹ and cars.⁴⁰ In both cases, regionalism has permitted concerned countries to protect their economy from external competition and to keep their governance capacity. For many people, notably voters, the last point is important. Indeed, the public management of the economy is regarded by many as a good thing in helping to stabilise and to regulate economic activity. It also provides some degree of social insurance to citizens.

Thirdly, it is highly probable that regionalism implies regionalism, that is, that the strategy of some countries has much more to do with herd behaviour than with rational economic choices. It is well known that at the national level or at the international level (Knickerbocker 1973) a firm mainly makes its decision in reaction to the strategies adopted by its main competitors. For nations, the same logic prevails, at least partially. Baldwin (1995, 1997) has tried to evaluate 'domino regionalism'. Countries that do not belong to a trade bloc try either to join it or to create a new bloc. As noted by Bourguignon et al. (2002, p.26), in analysing this domino effect, 'one act of regional integration may stimulate the next because, the larger a bloc, the greater the costs to excluded countries of not belonging to it'. This domino process has happened, but it has probably not led to freer trade. Indeed, as there are fewer players in a round, the players can be more sensitive to the negotiation issues and the gains can be low.

4.6 CONCLUDING COMMENTS

Are PTAs building blocs or rather stumbling blocs to further multilateral liberalisation? As Winters (1996) said, 'we don't know yet'. Theory, as well as practice, provides no definite answer. The theoretical models are too far from reality. Empirical studies are not able to insulate the effects of PTAs from what is happening in the world economy. Let us add that, as many PTAs are quite recent, there is not enough data for satisfactory econometric studies. However, as the number of PTAs is growing, trade is becoming more concentrated in PTAs. This does not prove anything about the extent of trade diversion or trade creation nor does it help us in our debate about 'regionalism vs. multilateralism'.

To our question 'Is regionalism the outcome of insufficient or of excessive globalisation?'; we can now say that it has no clear answer. According to several authors (Rodrik 2001; Summers 1999), international economic integration has not yet gone too far. Globalisation remains remarkably limited, for instance by national borders and jurisdictions. Consequently, there still remain economic, as well as political, benefits to be obtained from further economic integration.

The main hindrance faced by the globalisation process is the absence of political or institutional underpinnings for integration. Even if economics is becoming more and more integrated, politics remains highly national. One can argue that there is possibly a need for a 'world government', but there is no tendency towards such an outcome. Political integration is already far more difficult than economic integration at the regional level (the EU is a perfect example). Furthermore, the absence of the former implies the standstill of the latter. While in theory, economic integration seems to be more beneficial and, therefore, easier when national economies are quite different, the converse is true in practice for political integration.⁴¹

Although economic integration can be beneficial, its management is much more difficult to implement. Whereas governments of almost all developed countries are democratically elected, the election of a world democratic government is currently impossible. Such difficulties are often summarised via the existence of an 'integration trilemma'. In this trilemma, three features are impossible to conciliate: international economic integration, governance and national sovereignty (Rodrik 2001; Summers 1999). Facing such a trilemma, regionalism appears to be a compromise solution. Pursuing integration at sub-global levels allows economic integration and trade liberalisation to proceed and also limits problems arising from lack of political integration.

NOTES

1. Collaboration of Serge Svizzero and Clem Tisdell in contributing to this chapter was assisted by their 2002-2003 award from FEAST-France. They are grateful for this award. The usual caveat applies.
2. See GATT, Article 1.
3. Nations establish PTAs under which the tariffs they apply to each other's products are lower than the rates on the same goods coming from other countries (Krugman and Obstfeld 2000, p. 241).
4. A common market is a customs union which also allows free movements of factors of production. An economic union is a common market with common economic laws such as standards across members.
5. For instance, the 1860 Franco-British free trade agreement.
6. See the German customs union called the 'Zollverein' which led to the formation of the German state.

7. The establishment of three multilateral economic institutions was considered. These were the International Monetary Fund, the International Bank for Reconstruction and Development and the International Trade Organisation.
8. See the UK's imperial preferences (later Commonwealth) and the closed economic zone created in Central Europe by Nazi Germany in the 1930s.
9. It is allowed under regionalism. Only unilateralism excludes reciprocity.
10. See GATT, Articles 28 and 28 bis.
11. For instance, without the MFN clause, bilateral agreements implied that the same imported commodity was often subject to varying tariff rates, depending on its country of origin.
12. Namely the COMECON (Council for Mutual Economic Co-operation).
13. Article 5 of GATS (General Agreement on Trade in Services), adopted in Marrakech (1994), extends to services the coverage of GATT Article 24.
14. The Uruguay Round (1994) created a new institution, the WTO, to replace the secretariat of the GATT.
15. Normally not to exceed 10 years from the start date of the regional agreement.
16. The eighth round (the so-called Uruguay Round) finally started in 1986 in Punta del Este and was completed in 1994.
17. Under the Caribbean Basin Initiative.
18. While the USA-Canada Auto-Pact was concluded in 1965.
19. For example, ASEAN (Association of Southeast Asian Nations), MERCOSUR (Southern Common Market Agreement also known as the Treaty of Asunción).
20. The only region which has so far remained firmly committed to multilateralism – and implicitly to the MFN clause – is East Asia.
21. Over the period 1990 to 1997.
22. See Section 4.4.
23. See Section 4.4 for a more detailed analysis.
24. WTO rules about investment are, for instance, largely derived from the ones adopted formerly in PTAs, namely by NAFTA (North American Free Trade Agreement) and by the Australia-New Zealand Closer External Relations Agreement.
25. Especially trade reforms.
26. Some people claim that the creation of APEC (Asia Pacific Economic Co-operation) in 1989 was a means for the US to reach agreements during the Uruguay Round (started in 1986) on topics (such as agriculture) for which there was a deep conflict with the EU.
27. See France and Germany, or Japan, China and East Asia.
28. Following Bhagwati's (1991) terminology.
29. These circumstances determine the magnitudes of the trade-creation and the trade-diversion effects.
30. This is especially true for countries (Argentina, Brazil, Paraguay, Uruguay) belonging to MERCOSUR. For an empirical study on MERCOSUR, see Yates (1996).
31. The welfare reduction also comes from the loss of tariff revenues incurred by members.
32. On the contrary, trade creation is a beneficial effect that arises from a union partner undermining another union member's less efficient industry.
33. If high transport costs prevent trade opportunities, they are not reduced by the formation of any PTA.
34. Herin (1986) estimated that the cost to EFTA (European Free Trade Agreement) members of documenting origin to receive duty-free entry into the EU averaged 3 to 5 per cent of the price.
35. This conclusion must be lessened since rules of origin also have the advantage for members of constituting an efficient instrument of protectionism.
36. Therefore, they confirm their wish to belong to any form of regionalism only if it is 'open regionalism'.
37. Firms might also want regionalism in order to create a standard of their products and capture a larger share of the market. In a longer run and if the PTA is strengthened, their products could become the world standard.
38. Of course, if the competitiveness of firms of both countries is not too different.

39. See the recurrent conflict between the USA and the EU and the Common Agricultural Policy adopted by the latter from its first days.
40. See the conflict between the EU and Japan and the Voluntary Exports Restraint (VER) adopted by the latter.
41. See for instance the difficulties encountered by the EU for the accession of Eastern Europe countries or of Turkey which are the most different from existing members.

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