Foreword

Richard G. Lipsey

The pursuit of economic integration has been one of the most important economic developments over the whole of the 70-year period starting with the end of the Second World War. Integration has been attempted at various depths, running from tariff reductions under the GATT and the WTO, through full preferential elimination of tariffs in various customs unions, through various levels of deeper integration, to the type of full economic union envisaged by the European Union (EU). It has also been pursued at various geographic coverages, running from all the members of the WTO, down to the plethora of free trade agreements now in existence or currently being negotiated, often between no more than two countries.

Over this whole period, the many issues and problems raised by the various forms of integration have been an ongoing concern of both theoretical and applied economists as well as policy makers. I first encountered the theoretical problems when, as a graduate student at the London School of Economics in 1953–54, I read Viner's path-breaking book, *The Theory of Customs Unions*. Shortly after that, I made my own small contribution to the early development of this literature by arguing that, important though they were, Viner's concepts of trade creation and trade diversion concentrated solely on the production side, studying the effect on producers of the changes in relative prices brought about by the union, while tariff reductions also had an effect that works through the consumption side by changing the relative prices to which consumers respond. During the second year of my graduate studies, I made early contact with the applied side of integration when I was a delegate at the Council of Westminster, which was held in London as one of the early stages in the movement towards the European Economic Community. The Canadian government wanted to be represented, but not thinking it worthwhile to send a delegation from Canada, they sought out Canadians already in the UK, choosing three, Robert M. Clark, a UBC professor on sabbatical at Manchester, Harry Johnson, then a fellow of King's College Cambridge, and me, a PhD student at the LSE. I knew some trade theory but little about trade policy and nothing about diplomacy or the formation of the EEC, so this was pretty heady stuff.

Although working in many other fields, I maintained an interest in integration over the subsequent years. Then as Senior Economic Adviser for the C.D. Howe Institute, a Toronto think-tank, I took part in the great Canadian debate over the proposed free trade area with the US and later, as chairman of a federal government's subcommittee overseeing that agreement, I played some part in Canada's decision to insinuate itself into the US–Mexican FTA negotiations, thereby turning a proposed bilateral US–Mexican FTA into the NAFTA (North American Free Trade Agreement).

During that time, I taught one course on economic policy at Queen's University and

met Miroslav Jovanović, who was the outstanding student in my class. I have followed his career ever since and welcomed an earlier version of the present book that went through two editions and then the present one, *The Economics of International Integration*, now in its second edition. Here he has updated and in places extended his already comprehensive work on all aspects of the economics of integration. Notable changes, among many others, are wholly new discussions of what he calls dissipating multilateralism (Chapter 2), globalisation (Chapter 5), the eurozone catastrophe (Chapter 6a), new regional material (Chapter 6b) and a discussion of the Trans-Pacific Partnership and Regional Comprehensive Economic Partnership (Chapter 7).

The most distinctive aspect of his treatment continues to be his union of theory and applied material. For him, the major interest always resides in the problems created by the working out of various forms of integration in real situations. He uses theory but no more than is needed to act as a tool for enlightening our understanding of what we see in the world around us.

For those who want a comprehensive survey relevant for understanding the issues surrounding economic integration, this is an excellent book. For those who wish to go more deeply into the theories that deal with these issues, this book establishes a set of signposts that can provide guidance when more formal and specific theoretical treatments are studied in detail.

One of the most important issues in economic integration today is how the evolution of multinational economic integration will be affected by the growing number of regional, often overlapping and often bilateral, trade and investment agreements. After the conclusion of the US–Canada FTA, I was optimistic that these regional agreements could solve problems that seemed intractable in more multinational contexts; that they would not inhibit multinational negotiations in the WTO; and that some of them would grow to become much wider regional agreements – as the Canada–US FTA evolved into the NAFTA, which we hoped, vainly as it turned out, would in turn evolve into a Western Hemispheric FTA.

The wholly new Chapter 2 discusses these issues, from the problems with the Doha Round to the resulting rapid growth of regional FTAs. Does this represent the end of true multilateralism, or is it the only practical, if messy, route towards further trade liberalisation, given the political and economic constraints facing today's trade negotiators? Jovanović lays out the wide range of opinions on this important question and assesses them, even though the final answer must remain, for some time to come, clouded in uncertainty, both economic and political.

The book's much-updated Chapter 3 on customs unions sets the tone for the whole volume. It selects topic areas one after another; it reviews the relevant theory of each, on the assumption that the reader already has some acquaintance with it; it then goes on to consider a host of important applied issues in the area under consideration. The reader wanting to know the relevant theory and the main applied issues that have arisen around any topic relating to customs unions will find that this chapter provides excellent source material as well as a valuable consideration of most of the issues. Near the end of the chapter an extremely interesting question is asked: why do countries continue to press for integration when the measured effects of the resulting resource reallocations seem small? The discussion in the chapter covers many possibilities. In my view, I think two of the factors discussed there are of key importance. First, policy makers continue to

believe that the dynamic effects are larger than any measurement exercise has been able to establish and, second, institutionalising trade liberalisation is seen as an effective defence against the rise of sentiments for trade restrictions, such as can be seen sporadically in many countries, not the least of which is the US.

A wholly new Chapter 5 deals with globalisation. It is a balanced account of pros and cons, although from my perspective a little light on pros. The fact that the distribution of income is not what we would like it to be in developing countries is not necessarily a result of globalisation. It is a universal phenomenon whose alleviation by policy does not depend, one way or the other, on the forces causing globalisation. That millions in India, Bangladesh and China vote with their feet to show their preference for factory jobs over subsistence living on the farm is evidence that the globalised value chain is producing welfare gains for those many workers. Of course we decry the deplorable conditions in these factories – conditions that mirror those found in the UK and US in the late nineteenth century. But the remedy is not to go back on globalisation, negating the decades of effort on the part of trade critics to eliminate the advanced countries' trade restrictions on textiles. Instead it is to get more effective rules and regulations to control the worst excesses of managements, just as happened in the late nineteenth and early twentieth centuries in the UK and US.

An important aspect of the globalised economy is the growth of international supply chains. This, as the author notes, is integration from the bottom up – integration driven by market forces, not by economic policies that are focused on them. Policy was initially important, however, in providing the ground on which globalisation could grow naturally. In spite of the changes in communications and the falling transport costs that have driven globalisation technologically, the supply chains could not have flourished in the high-tariff climate that ruled at the end of the Second World War. Since then, supply chains and some forms of trade liberalisation have been linked in a form of mutual causation. As mentioned, some trade liberalisation was needed to allow them to develop in the first place, but since then, they have provided a powerful reason for new FTAs, particularly in Asian FTAs, which are more about facilitating trade than promoting deeper integration along the lines pioneered by the EU.

Readers who set out on these pages have a rich and varied experience awaiting them. The coverage is remarkably balanced and comprehensive, considering that it is all condensed into around 700 pages. For every reader, there will be things to agree with, and things to argue with – as is to be expected in so rich a survey. But there is much to be gained in both cases.

Richard G. Lipsey
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