

# Preface

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This book addresses one of the most important aspects of international trade, namely, regional trade and regional integration agreements (RIAs). They have become an integral and enduring aspect of the multilateral trading regime. RIAs are groupings of countries formed with the objective of reducing barriers to trade between member countries. They have long historical antecedents. They were also a part of the process of nation building. As noted in Chapter 1, the *Zollverein* in nineteenth-century Germany was responsible for creating the modern German state. RIAs were also a part of the colonial trading arrangements. Over the post-war period the European Economic Community (EEC), presently the European Union (EU), led developments in this area. Over the last decade regional integration became the focus of intense global interest, debate and scrutiny.

To a much greater extent than is often realized and acknowledged, regional and multilateral integration initiatives are complements rather than alternatives in the pursuit of more open global trade. The objective of this book is to evaluate the pattern and gauge the progress of regional integration in the global economy over the post-war, and more specifically during the contemporary, periods. By contemporary period I imply the decade of the 1990s and the early 2000s. Although the essential focus of this book is on trade, it also delves into macroeconomic and investment related issues in regional co-operation and integration.

Although a derogation of the World Trade Organization (WTO) discipline, regional trade and integration is an intellectually challenging phenomenon. RIAs seem to arouse more debate and passion than do most other issues in international economic policy. During the 1990s, this issue led to unseemly spats among academics. The height was when a noted researcher was publicly accused of CIA connections. With virtually all the 146 members of the WTO partners in at least one RIA, and several part of two or more, RIAs have become by far the most important exception to the most-favored-nation (MFN) principle. It is intuitive to assume that with a large number of RIAs of different kinds in force, a great deal of the global trade must be influenced, if not governed, by them. Quantifying trade under various preferential trade agreements is not easy. It faces methodological problems. However, it is believed that at present 'more than half of the world trade' is intra-RIA (World Trade Organization, 2002c).

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The RIAs in trade in goods fall under three WTO categories, albeit they are generally treated as falling under the same rubric. The three categories are (1) the Article XXIV arrangements, (2) the Enabling Clause arrangements limited to developing countries and permitting partial preferences under the Generalized System of Preferences (GSP) and (3) the arrangements permitted by the WTO through a grant of an exception of Article I. What is more, regional integration that covers trade in service is governed by Article V of the General Agreement on Trade in Services (GATS). After an RIA is launched, the WTO has to be notified of its date of launch, membership details, legal agreement, coverage and the category under which it has been launched. Since the birth of the WTO in January 1995, on an average 15 RIAs have been notified every year. Compared to this, an average of three RIAs were notified to the GATT annually during its entire lifetime spanning 1948 to 1994. To be sure, the increase in notification reflects in part an increase in the membership of the WTO, and in part, new notification obligations.

RIAs presently have widespread existence in the global economy. As their number multiplies, networks of overlapping agreements may generate intricate webs of discriminatory treatment, which are likely to lead to complex and incoherent regulatory structures for the conduct of a growing share of world trade. Some economists believe that this proliferation of RIAs should be welcomed, while others are less sanguine and emphasize the importance and primacy of multilateral trade liberalization. The latter group warns against the discrimination and fragmentation of the global economy that can accompany the spread of RIAs. References to the EEC and EU have been made repeatedly in this book. The reason is that it is the oldest RIA of the contemporary period, lasting for almost half a century. Progress made by the EEC/EU has a good deal of educational value for the other RIAs.

Interestingly, the present trend of regionalization of the global trading system is progressing in the background of a strong trend toward globalization. Thus, both centripetal and centrifugal forces are working on regional economies simultaneously. There are some who argue that RIAs divert attention from the multilateral efforts to liberalize global trade and expend scarce negotiating resources. Others, however, assert that the negotiating realities require an admixture of regional and multilateral initiatives.

In the early 2000s, several pluri-dimensional and inter-linked issues were the subjects of raging debates among the members of the WTO. Some of them had legal overtones, while other were institutional issues. Some age-old economic chestnuts were also the focus of attention of the members. For instance, Article XXIV of the GATT-1994 was one such issue. Article XXIV has been decried as an antithesis of the spirit of the GATT-WTO system, because it allows members of a trade bloc to discriminate against the non-members. However, the authors of Article XXIV, in their pragmatic desire to

accommodate RIAs, were cautious in guarding the interests of the non-RIA members. They also attempted to ensure that RIAs were compatible with a rule-based and progressively more open world trading system. The conventional wisdom in this regard is that Article XXIV ensures that trade bloc formation ensures free trade. However, one view holds that in reality Article XXIV is partly responsible for the difficulties in further multilateral trade liberalization.

There is no presumption in this book that RIAs are benign and welfare enhancing. They can indeed be welfare enhancing, but only under certain conditions. In assessing the appropriate integrative strategy in regionalization for promoting economic growth, it is essential to look at how regionalism in the global economy developed to its current state and what are the most important trends and features during its contemporary phase of development. In this book, we examine *inter alia* the motivating factors and underlying dynamics of the progression towards closer regional and sub-regional cooperation and integration in the global economy. The objective of this book is to address the regionalization of world trade against a background of advancing global integration. In an interesting and scholarly manner, this book attempts to meet the needs of students as well as policy mandarins in this area. This book also attempts to make them understand how the dual forces of regionalism and globalism are impacting upon the world economy, particularly trade in goods and services.

Regional trade is a complex and diffused issue – albeit governed by simple principles – RIAs are even more so. This book covers several important areas germane to the theme of regionalism in a globalizing world economy. It is divided into six chapters, which cover a large area of contemporary knowledge in regionalism vis-à-vis multilateralism, the RIAs and the recent developments in them. RIA-related economic issues like motivation, rationale and welfare implications are the focus of the second chapter. Regionalism as applied to trade in goods as well as in services is examined. The third chapter focuses on contemporary regionalism, which has been christened the ‘new regionalism’. In this context, one can say that what is past is prologue. The characteristics of new regionalism, its impact, evolving landscape and constantly changing RIA kaleidoscope are closely examined. The RIAs and global trading system is the theme of the fourth chapter, along with the idiosyncrasies of Article XXIV of the GATT–WTO system. The post-Uruguay Round developments in regionalism are discussed and so is the progress in the Doha Round of multilateral trade negotiations. Two regional foci of the book are the Asia-Pacific region, the most dynamic regional of the global economy and the Western Hemisphere, where regionalism has had a long history – although the United States and Canada are recent converts. The last two chapters have been devoted to these two regional experiences. They provide a varied perspective

on RIAs because their historic and economic features differ radically from each other.

During the 1990s, RIA-related issues grew in significance, both for students of international economics, and academic scholars on the one hand and policy mandarins on the other. In the foreseeable future, they are likely to gain momentum and grow more significant. The agreement for the Free Trade Area of the Americas (FTAA) was signed in 2001. With 34 members, it is potentially the largest free trade area (FTA) ever attempted. Negotiations for the FTAA are progressing rapidly; it is scheduled to come into force in late 2005. The Accession Treaty to include ten more countries in the European Union (EU) was signed in April 2003 and these ten economies are due to become the new members of the EU in May 2004. Save for Cyprus and Malta, these are all Central and East European Countries (CEEC) countries. These eight economies were satellite economies of the Soviet Union until its collapse in 1990–91. Bulgaria, Romania and Turkey, three candidates for future membership, are waiting on the sidelines. The Association of South East Asian Nations (ASEAN) is actively endeavoring to include China – which is fast emerging as a highly successful trading economy accounting for 4.7 percent of global trade in 2002 – and Japan and Korea to complete the ASEAN-Plus-Three grouping. Several ‘New Age’ initiatives, which entail bilateral free trade agreements, like the one between Japan and Korea, are also underway.

In this book we try to see whether regionalism has a rightful place in a rapidly globalizing world economy in the new century. We try to see what place RIAs have in the global trading system, what their welfare implications are and whether they adversely affect the global trading system.

A unique feature of the book is that it deals with regionalism in a nuanced manner, in the background of on-going globalization. The traditional treatment used to be to analyse regionalism *per se*. Second, it familiarizes the readers with the newest concepts and latest knowledge in this sub-discipline. Regionalism has become a fertile area of academic research. The results of these analyses and research projects need to be presented in a comprehensible manner for the student and policy-making communities.

The book is pitched at the level of masters’ level students in International Economics, International Political Economy, Political Science, International Relations as well as MBA students. In business schools courses on ‘environment of business’ are taught, which would find the book useful. Senior level undergraduate students and researchers in the area of international trade and regionalism can also benefit from it. Decision makers in business and public policy community would find this book germane to their work. Although analytical, this book is *not* rigorous and is not aimed at academic scholars in the area of international trade. It steers clear of complex modeling

exercises, because a great many times they are inaccessible even to bright students.

A recent acknowledgement I read began with the following words: 'This book comes to publishing trailing clouds of the kindness of others.' These gracious sentiments represent what follows in these pages as well. My gratitude is due to my son, Siddharth, for providing efficacious research assistance, so very cheerfully. I thankfully acknowledge the generous assistance of L. Alan Winters, Professor of Economics, School of Social Sciences, University of Sussex; Anthony J. Venables, Yu Kuo-Hwa Professor of International Economics, London School of Economics, London, and Jeffrey A. Frankel, Professor of Economics, Harvard University, for either providing me with drafts of their current research work, or for giving me permission to cite from their work, or both. In particular, Alan kept in touch with me despite his frequent travels and overflowing schedule. He did not make me feel that my e-mail messages were nagging him. Throughout this endeavor my wife, Vasanti, remained a kind friend and wise counselor. She put up with my sixteen-hour long days with a smile and without complaining. I am grateful for her support.

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