Foreword

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This book explores a central issue of the world economy today: the role of regional integration for economic development and global governance. The importance of this issue comes from the fact that the globalization process that we have been experiencing in recent decades is also a process of open regionalism. This is, in turn, a result of both policy- and market-driven processes of regional integration.

This trend is, of course, uneven across the world. It is clearly strong among the industrial economies of Western Europe and North America. As the first part of this book indicates, in the developing world the process has proceeded at a faster pace in East Asia, where it is market-driven, followed by Latin America, where the history of integration is older and policy-driven but is fragmented and has been subject to periodic reversals. Regional integration is weaker though gradually strengthening in Sub-Saharan Africa, and is very weak in South Asia. However, even in regions that have lagged behind, a web of regional initiatives has played an important role in reshaping the world economic system since the early 1990s.

To what extent does this process contribute to development? The reader will find many interesting answers to this question in the book. In my view, the answer is clearly positive. In the trade area, the spectacular growth of East Asian trade has been supported by deep intra-regional trade linkages. In Latin America, intra-regional trade has a stronger share of manufactures with more technological contents than exports to the rest of the world. Intra-regional trade also provides greater opportunities for small and medium-sized enterprises in Latin America, and this is probably true throughout the world. In contrast, it can be said that the limited scope of intra-regional trade has probably been an obstacle to the industrialization of Sub-Saharan Africa. As the chapters in part III of this book indicate, growing trade has also enhanced South–South FDI flows, and vice versa, even in regions with weak regional integration process, such as South Asia. In this area, however, the benefits generally accrue to firms from the larger countries in a given regional arrangement.

The issue of monetary and financial cooperation is explored in the last
two sections of the book. The virtues of regional financial cooperation among developing countries are evident. One case in point is the development of regional standards that comply with best practices, which can improve resource allocation, as Michael Pomerleano argues in Chapter 9. I also find particularly attractive the argument by James Reade and Ulrich Volz in Chapter 12 that regional monetary cooperation can enhance monetary autonomy, which, according to their empirical analysis, is actually quite limited even for large developing countries today. Another way of expressing this view is that in a world where capital mobility has reduced the room for manoeuvre for national macroeconomic policies, the regional arena has become crucial for exercising what remains of macroeconomic policy autonomy.

This is the view that I have expressed in my own contributions to the analysis of regional financial cooperation. Whether the process should be pushed all the way to the creation of a monetary union is a more debatable issue, which has come back with force even among industrial countries with the recent financial crises of several European countries. A better approach would involve mixing active cooperation in the area of development financing with partial monetary cooperation. The latter would imply breaking up such cooperation into its different components: macroeconomic policy dialogue, monitoring and surveillance; liquidity support during crises and exchange rate coordination. The first is clearly underdeveloped and should be encouraged. In the second area, there are successful experiences, though limited in scale, such as the Latin American Reserve Fund, and is, of course, the field where the ambitious Chiang Mai Initiative has represented a giant leap forward. In contrast, the third objective, which has, of course, been central to European cooperation, should probably be left aside in monetary cooperation among developing countries.

An interesting question, which is explored in part II but also in the last two parts of this book, is whether regional integration improves or blocks the development of better global governance structures. In the trade area, Jagdish Bhagwati (1991) has raised the question of whether regional trade agreements are a building block or a stumbling block for multilateral trade. Several answers can be given to this question. Trade creation seems to have been a more common outcome than trade diversion. At the same time, however, the proliferation of bilateral and plurilateral trade agreements has ended up eroding the basic principle of non-discrimination – the most favoured nation (MFN) clause – upon which GATT and later WTO were built. The implications were ably summarized in the report on the Future of the WTO led by Peter Sutherland: “MFN is no longer the rule; it is almost the exception. . . . Certainly the term might now be better defined
as LFN, Least-Favoured-Nation Treatment”. However, it can be argued that the basic problem in the rise of the “spaghetti” or “noodle” bowl has been associated with bilateral agreements, not deep regional trade integration processes. The latter are still rather rare and in a sense simply redefine the basic unit of the multilateral trading system: regional grouping rather than the nation-state. I find very interesting in this regard the way Jeff Schott summarizes the challenges to WTO in his contribution to this volume in Chapter 5, as threefold: to “multilateralize multilateralism”, to “multilateralize regionalism” and to “modernize multilateralism”.

In a broad sense, however, regionalism and multilateralism are clear complements in a heterogeneous international community, and we should think of them (as well as nation-state and even local governments) as responding to the principle of subsidiarity that has been central to European integration. The need to fill the gaps in the world’s current highly incomplete international architecture makes these complementary roles even more important. On top of that, the strongest argument in favour of regional arrangements is of a political economy character, and may be called the “federalist” argument. The essential issue is that regional and subregional institutions enjoy a greater sense of ownership because member states feel that they have a stronger voice in these organizations. This creates a special relationship between them and member countries.

The system of multilateral development banks, where the World Bank is complemented by several regional development banks and an even larger array of subregional and inter-regional banks shows the clear advantages of the complementary role of global and regional institutions. I have argued for a decade that this should be the structure of global monetary cooperation, where the International Monetary Fund should be the apex of a network of regional and subregional reserve funds and swap arrangements. A similar structure should be built in the area of prudential regulation and supervision of financial systems, and in the development of an infrastructure for capital markets.

An institutional framework such as this would have two positive features. First, it would bring more stability to the world economy by supplying essential services that can hardly be provided by a few international institutions in a heterogeneous international community. Second, from the point of view of the equilibrium of world relations, it could be more balanced than a system based on a few world organizations. It would also increase the commitment of small countries to abide by rules that contribute to world and regional stability. An institutional structure made of complementary global and regional institutions would contribute, therefore, to both a better global economy and a better global polity.

It is, of course, essential for this outcome that regional institutions help
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provide “regional public goods” that complement the provision of “global public goods”. A major problem in this regard is the clear underinvestment in the former, as Nancy Birdsall (2006) claimed a few years ago, a tendency that comes on top of underinvestment in the provision of global public goods. A second major challenge of regional arrangements is that they may be weak in the face of pressures from some of their individual members, particularly the more powerful among them. Therefore, their virtues can only be realized when matched by strong institution-building, which is a rather slow process. This is related to a third challenge, that of guaranteeing an equitable distribution of the benefits from integration. This is a particular problem in trade integration, as due to economies of agglomeration, the benefits from trade integration may accrue disproportionately to larger and higher-income countries. So, there is no presumption that trade integration will facilitate convergence in real incomes within regions. Asymmetric rules may help a better outcome, but the best solution is the European model of special development financing facilities (through the European Investment Bank) and fiscal transfers (cohesion funds) to the weaker countries or regions. The first model is easier to implement in the developing world; it is more difficult to think of a system of fiscal transfers among developing countries.

This book is an outstanding contribution to this debate. I welcome its publication and look forward to its influence on global debates on the relations between regional integration, development and global governance.

NOTES

3. The Andean Development Corporation is possibly the most successful subregional development bank, rapidly becoming, thanks to its success, a regional development bank in its own right. The Islamic Development Bank is, in turn, the best example of an inter-regional bank.
4. See Ocampo (2002) and the previously quoted paper on regional financial cooperation.

REFERENCES

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