Introduction

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Over the past decades, the European Union (EU), and its forerunner, the European Community (EC), has been at the forefront of what seems to have become a general trend towards the regionalization of the world economy. The world is arguably turning into a "world of regions" (Katzenstein, 2005), which has its manifestations not only in regional free trade areas and customs unions but also in the emergence of currency blocs.[1] In this book we take a look at the integration processes that are currently taking place in different regions of the world and seek to examine the potential effects of these regional integration processes on a national, regional and global level.

The regions we are most concerned with, namely East Asia, South Asia, Southern Africa and Latin America, have one thing in common in that they constitute (with the exception of a few countries in East Asia) developing or emerging countries. This requires new thinking, as regionalism needs to be viewed in the context of economic development. How can regional economic cooperation and integration contribute to economic development? What particular forms of regional integration are emerging in these specific regions? Are there lessons to be learned from other regions – not only Europe?

There are three main themes that run through this book. The first is the relation between regional economic integration and global economic governance. Does regional integration – relating to trade, foreign direct investment (FDI), finance and monetary policies – stand in contrast to global initiatives or can it be regarded as a stepping stone towards greater global economic cooperation and integration? Does regional integration contribute to a segmentation of the world economy or should it rather be viewed as a stabilizing factor? How far are regional integration processes and the emergence of regional schemes around the world necessitating and driving reform of international institutions like the World Trade Organization (WTO) or the International Monetary Fund (IMF)?

The second theme addressed in this book is the potential effects of regional integration on economic growth and development. There are many channels by which regional economic integration might impact the national, regional and global economy. Regional trade and investment agreements are likely to have direct consequences for trade flows and the attraction of foreign investment and thus also on a country's or region's economic growth prospects. Similarly, regional monetary integration might have effects on trade, but also on macroeconomic stabilization and the development of regional capital markets. The development of regional financial markets, in turn, could help an efficient allocation of resources and contribute to greater economic stability by averting the currency mismatches that plague countries with weak currencies and weakly developed capital markets.

The third theme of this book is the special role of the big emerging economies, Brazil, China, India and South Africa in regional integration processes. These four economies, which together make up about 40 per cent of the world's population and about 12 per cent of world GDP, are not only becoming increasingly more important for the world economy, they also exert ever-increasing influence on a regional level.[2] By their sheer economic and population size alone, they shape the regionalization processes with their neighbours and impact on regional and global economic governance. Do they actively encourage regional integration and seek to dominate their respective regions? Or is regional integration taking place more as a by-product of these countries' mounting economic power and influence, with their regional neighbours trying to respond to and benefit from their growing weight in the world economy?

The terms regional economic integration and regionalization are commonly used to describe processes that lead to greater regional economic interdependence, for example a stronger co-movement of business cycles, increased transmission of macro shocks, increasing intra-regional trade and investment or substitutability of financial products across the region.[3] The highest level of regional economic integration that can be reached is a single market, where goods, services, capital and labour can move freely, without distortion whatsoever. Regional integration need not necessarily be driven by political initiatives or take an institutionalized form; integration might also be a market-driven process, although the latter usually leads the political sphere to respond to this process.

Regional economic cooperation refers to inter-governmental activities that encourage or foster regional economic integration as well as to coordinated government responses to developments that affect the whole region (or activities to prevent certain events from happening, such as financial crises). Cooperation at its lowest level would take the form of a formal or informal dialogue and exchange of information between governments or other state authorities like central banks and financial regulatory authorities. More advanced cooperation would include formal agreements, possibly within institutionalized regional bodies like the EU.

The term regionalism conveys the notion that regional (economic) integration is a positive process that should be encouraged by regional cooperation. Yet regional economic integration as such is not necessarily positive or negative. While regional integration carries a rather positive notion among most Europeans (or at least continental Europeans), North American and particularly US scholars and politicians seem to be generally more suspicious as regional integration is often seen by them as a form of protectionism hindering the creation of liberalized global trade and financial markets. Indeed, the appeal of regional cooperation very much depends on the form that it takes; whether it is discriminatory to countries outside the region or open, whether it stands in contrast to multilateral cooperation or can be regarded as a supplement.[4]

Regional integration may take different forms, and need not necessarily follow a certain scheme. In trade, the stalling progress in GATT and, today, WTO negotiations has led to a plethora of bilateral and regional free trade agreements (FTAs), with expressions like spaghetti and noodle bowls commonly used to describe the mushrooming of overlapping bilateral and regional trade arrangements all over the world. In the context of multilateral trade negotiations and frustration with GATT, Baldwin (1997) speaks of a "regionalism-is-easier" attitude. There has also been a great increase of investment agreements, often in conjunction with trade agreements.

According to the WTO Secretariat, 209 regional trade agreements (RTAs) are currently in force (as of October 2009).[5] This number, however, also includes RTAs that have only two partner countries (often from different continents), so that the number of RTAs that deserve that name is much lower. Table 0.1 lists the 27 RTAs currently in force that have a "truly" regional character, that is, that include more than two regional neighbours. As can be seen from Table 0.1, more than two-thirds of them have been established quite recently, in the 1990s and 2000s. While on the one hand the increase in RTAs suggests increasing importance of such arrangements, one should be aware that some of the agreements listed in Table 0.1 have rather little economic significance (e.g., APTA, CIS or ECO).

Regional financial integration has become a focus of attention since the financial crises of the 1990s. Especially in East Asia, countries have teamed up to strengthen the regional financial architecture.[6] Initiatives so far have involved the creation of regional financial supervision and monitoring schemes, the establishment of regional financing facilities for crisis lending and concerted efforts to develop a regional capital market. All these are

Table 0.1 Regional trade agreements notified to the GATT/WTO and in force

Agreement	Name	Member States	Date of Entry into Force	Date Notified by Parties*	Related Provisions	Type of Agree-ment**	Additional Notes
AFTA	ASEAN Free Trade Area	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	28-Jan-92	30-Oct-92*	Enabling Clause	FTAw	
APTA	Asia Pacific Trade Agreement	Bangladesh, China, India, Republic of Korea, Lao People's Democratic Republic, Sri Lanka	17-Jun-76	2-Nov-76*	Enabling Clause	PS	
CACM	Central American Common Market	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua	12-Oct-61	24-Feb-61*	GATT Art. XXIV	CU	
CAN	Andean Community	Bolivia, Colombia, Ecuador, Peru, Venezuela	25-May-88	1-Oct-90	Enabling Clause	CU	

CARICOM	Caribbean Community and Common Market	Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Monserrat, Trinidad & Tobago, St Kitts & Nevis, St Lucia, St Vincent & the Grenadines, Surinam	1-Jul-97	17-Jan-03	GATS Art. V	EIA	CU first effective 1-Aug-73
CEFTA Enlargement	Central European Free Trade Agreement	Albania, Bosnia and Herzegovina, Croatia, Former Yugoslav Republic of Macedonia (FYROM), Moldova, Montenegro, Serbia and United Nations Interim Administration Mission in Kosovo	1-May-07	26-Jul-07	GATT Art. XXIV	FTA	
CEMAC	Economic and Monetary Community of Central Africa	Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon	24-Jun-99	21-Jul-99	Enabling Clause	CU	

Table 0.1 (continued)

Agreement	Name	Member States	Date of Entry into Force	Date Notified by Parties*	Related Provisions	Type of Agree-ment**	Additional Notes
CIS	Common-wealth and Independent States	Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, Russian Federation, Ukraine, Uzbekistan, Tajikistan, Kyrgyz Republic	30-Dec-94	29-Jun-99	GATT Art. XXIV	FTA	
COMESA	Common Market for Eastern and Southern Africa	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe	8-Dec-94	4-May-95	Enabling Clause	FTA	
EAC	East African Community	Kenya, Tanzania, Uganda	7-Jul-00	9-Oct-00	Enabling Clause	CU	
EAEC	Eurasian Economic Community	Belarus, Kazakhstan, Kyrgyz Republic, Russian Federation, Tajikistan	8-Oct-97	21-Apr-99*	GATT Art. XXIV	CU	

EC (Treaty of Rome)	European Communities	Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, the Netherlands, United Kingdom	1-Jan-58	10-Nov-95*	GATS Art. V	EIA	Member states as of 1-Jan-2008
ECO	Economic Cooperation Organization	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan	Not available	10-Jul-92	Enabling Clause	PS	
ECOWAS	Economic Community of West African States	Benin, Burkina Faso, Cape Verde, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo	24-Jul-93	6-Jul-05	Enabling Clause	PS	
EEA	European Economic Area	EC, Iceland, Liechtenstein, Norway	1-Jan-94	13-Sep-96	GATS Art. V	EIA	

Table 0.1 (continued)

Agreement	Name	Member States	Date of Entry into Force	Date Notified by Parties*	Related Provisions	Type of Agree-ment**	Additional Notes
EFTA	European Free Trade Association	Iceland, Liechtenstein, Norway, Switzerland	1-Jun-02	15-Jul-02	GATS Art. V	EIA	FTA first effective 3-May-60
GCC	Gulf Cooperation Council	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	1-Jan-03	3-Oct-06	GATT Art. XXIV	CU	
LAIA	Latin American Integration Association	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela	18-Mar-81	1-Jul-82*	Enabling Clause	PS	
MERCOSUR	Southern Common Market	Argentina, Brazil, Paraguay, Uruguay	7-Dec-05	5-Dec-06	GATS Art. V	EIA	CU first effective 29-Nov-91
MSG	Melanesian Spearhead Group	Fiji, Papua New Guinea, Solomon Islands, Vanuatu	22-Jul-93	3-Aug-99	Enabling Clause	PS	
NAFTA	North American Free Trade Agreement	Canada, Mexico, United States	1-Apr-94	1-Mar-95*	GATS Art. V	EIA	FTA first effective 1-Jan-94

Pan-Arab Free Trade Area		Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, Qatar, Saudi Arabia, Sudan, Syria, Tunisia, United Arab Emirates, Yemen	1-Jan-98	3-Oct-06	GATT Art. XXIV	FTA
SACU	Southern African Customs Union	Botswana, Lesotho, Namibia, South Africa, Swaziland	15-Jul-04	25-Jun-07	GATT Art. XXIV	FTA
SADC	Southern African Development Community	Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	1-Sep-00	2-Aug-04	GATT Art. XXIV	FTA
SAPTA	South Asian Preferential Trade Agreement	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka	7-Dec-95	21-Apr-97	Enabling Clause	PS
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement	Australia, New Zealand, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Niue, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, Western Samoa	1-Jan-81	20-Feb-81*	Enabling Clause	PS

Table 0.1 (continued)

Agreement	Name	Member States	Date of Entry into Force	Date Notified by Parties*	Related Provisions	Type of Agree-ment**	Additional Notes
WAEMU/ UEMOA	West African Economic and Monetary Union	Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali Niger, Senegal, Togo	1-Jan-00	27-Oct-99	Enabling Clause	CU	

Notes:
Only regional agreements with more than two countries included; GSTP, OCT, PTN, Trans-Pacific SEP excluded due to trans-regional partnership character.
* Dates of WTO documents containing notification.
** Types of agreement: CU = Customs Union; EIA = Economic Integration Agreement; FTA = Free Trade Agreement; PS = Partial Scope. RTA definition by highest form of integration: FTA < CU < EIA.

Source: Compiled from WTO (2009).

hoped to contribute to financial market stability and secure the growth prospects for the region. This process, which has just started in East Asia, has already attracted much interest in other regions.

The financial crises of the past two decades have also created much interest in regional monetary cooperation and integration. This interest was further nurtured by the successful creation of the European Economic and Monetary Union (EMU) in 1999. Many observers see a new "geography of money" (Cohen, 1998) emerging, with a trend for a regionalization of money (Volz, 2010). Following the European experiment with monetary integration, proposals for regional monetary cooperation are being discussed in all corners of the world (cf. Table 0.2). In 2000, five Western African countries established the West African Monetary Zone (WAMZ), which is supposed to develop into a monetary union by 2015.[7] Plans for regional monetary integration also exist in Southern Africa, where in 2005 the 13 members of the Southern African Development Community (SADC) declared their goal of creating a monetary and economic union by 2016.[8] Even a monetary union for all of Africa is being discussed: in 2003, the Association of African Central Bank Governors announced it was working towards a single currency and common central bank by 2021 (Masson and Pattillo, 2004a, 2004b). In the Middle East, the six member states of the Gulf Cooperation Council have laid out a path to a monetary union, which was originally scheduled for 2010 (Sturm and Siegfried, 2005; Al-Mansouri and Dziobek, 2006; IMF, 2008; Buiter, 2008; Khan, 2009).[9] Proposals for monetary union also exist for the Caribbean (Worrell, 2003) and in Oceania where six Pacific Islands are considering forming a monetary union (Browne and Orsmond, 2006). Last but not least, plans for regional monetary integration are frequently raised (and dismissed) also for the Mercado Común del Cono Sur (MERCOSUR) (Eichengreen, 1998; Fratianni and Hauskrecht, 2002; De Carvalho, 2006; Nitsch, 2006) and the North American Free Trade Agreement (NAFTA) (Buiter, 1999; Helleiner, 2006). While serious doubt about the viability of several of these proposals or projects is warranted – either because of lack of political commitment or because of economic problems or both – this enumeration, which is by no means exhaustive, illustrates the prominence that the idea of regional monetary integration has attained among policy-makers.

This cursory overview of ongoing regional cooperation and integration schemes around the world illustrates the attention policy-makers have given to regional economic integration. The current trend for economic regionalism, however, is in fact nothing new. Already in the 1950s the idea gained prominence that a restructuring of the world economy into regional blocs would mark a step forward in international economic relations and

Table 0.2 Schemes for regional monetary integration in different regions

Monetary Agreement	Member States	Start of Cooperation	Current Status	Common Currency
West African Monetary Zone (WAMZ)	Gambia, Ghana, Guinea, Nigeria, Sierra Leone	2000	West African Monetary Institute (WAMI) to result in the West African Central Bank (WACB), Plans to merge WAMZ with WAMU, exchange rate band against US dollar	Adoption of a single currency (eco) by 2010 (implementation delayed)
South African Development Community (SADC) Monetary Area	Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe	Negotiations in progress	SADC would become a rand zone indicating South Africa's leading role in monetary policy	Goal of creating a monetary union by 2016
Common Monetary Area of Southern Africa (CMA)	South Africa, Namibia, Lesotho, Swaziland	1974	Successor of RMU (Rand Monetary Agreement), fixed but adjustable exchange rates, monetary policy is determined by the South African Reserve Bank (SARB)	In Lesotho and Namibia, the rand serves as legal tender; rand also widely used in Swaziland although not officially; other members peg their currencies to the rand; smaller members retain their right to issue national currency

CFA franc zone	Consists of the West African Economic and Monetary Union (UEMOA) and the Economic and Monetary Community of Central Africa (CEMAC): Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger Senegal, Togo (UEMOA), Cameroon, Central African Republic, Chad, Republic of Congo, Gabon, Equatorial Guinea (CEMAC)	1945		CFA franc, which is pegged to the euro with the assistance of the French Treasury
Partly Commonwealth of Independent States (Partly CIS)	Russia, Belarus, Ukraine, Kazakhstan	2003	No monetary cooperation yet	Envisaged common currency
Gulf Cooperation Council (GCC)	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates	1981	Common Market by 2007, exchange rate peg to US dollar	Envisaged monetary union by 2010 (implementation delayed)
CARICOM Single Market and Economy (CSME)	Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Surinam, Trinidad and Tobago	1992	No monetary cooperation yet	Envisaged common currency
Mercado Común del Cono Sur (MERCOSUR)	Argentina, Brazil, Paraguay, Uruguay, Venzuela	1991	No monetary cooperation yet	Envisaged common currency

Table 0.2 (continued)

Monetary Agreement	Member States	Start of Cooperation	Current Status	Common Currency
Pacific Region	Fiji, Papua New Guinea, Samoa, Solomon Islands, Tonga, Vanuatu			Formation of monetary union under consideration
Association of South East Asian Nations (ASEAN)	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam	1997	Liquidity Fund (Chiang Mai Initiative); working groups on common monetary arrangements	Not under negotiation yet

Source: Compiled by author.

might also help resolve international political problems (Gordon, 1961). What is different this time, however, is that emphasis is increasingly on the financial and monetary side of integration.

Regional cooperation and integration efforts traditionally went along Balassa's (1961) five-step approach for regional integration in which countries start integration with a free trade area and incrementally move on to a customs union, a common market, an economic and monetary union and finally to a political union. Europe has more or less followed this route up to monetary union, but there is no obvious reason why other regions should follow the same path. Dieter and Higgot (2003) have pointed out that this typology was developed in a different historical context and that in today's world of high capital mobility some kind of "monetary regionalism" that concentrates more on the monetary and financial side of integration would be more appropriate. While Europe is an interesting example of political and economic integration, there is no reason to assume that integration processes in other regions need to follow the same path or lead to the same results as in Europe. The circumstances under which Western European countries started developing an economic community were unique, both economically and politically.

The positive attention regional economic integration has received worldwide should not obscure the fact that many integration agendas (if existent) are poorly conceived and lack a clear vision. Integration is not a means in itself, and yet for many regional groupings it is not apparent *why* regional integration should be the way forward. It is thus important to analyse the merits and predicaments of regional economic integration and the implications for each region. Europe might be looked upon as a reference to provide ideas and lessons of what worked well and what did not, but the specific context of each regional grouping – including the developmental challenges and the capacities available for regional integration – needs to be taken into account. The challenges arising from globalization are enormous for each nation; regional economic integration can certainly not provide an answer to each of these challenges, but if adequately designed and managed, regional integration might be a means to shape globalization. The chapters in this study will hopefully contribute to a better understanding of how this can be best achieved, for the sake of the people in the respective regions and for the stability of the world economy.

The book is structured into five parts. In Part I Renato Baumann, Trudi Hartzenberg and Davie Malungisa, Rajiv Kumar, and Yanghua Huang and Yongsheng Zhang provide an overview of the integration processes in Latin America, Southern Africa, South Asia and East Asia and highlight the roles that Brazil, South Africa, India and China play in their respective regions. It becomes very clear that each region exhibits its very own characteristics and hence has to find its very own approach to regional integration – if regional economic integration is what is desired.

South Asia is today among the least integrated regions of the world, with intra-regional trade accounting for barely 5 per cent of its total world trade. In Chapter 1 Rajiv Kumar analyses why the South Asian Association for Regional Cooperation (SAARC), despite its common cultural heritage, has seen such low levels of economic integration since dissolution of the British Raj in 1947 and argues that there have been and continue to be some very strong arguments in support of regional economic integration in South Asia. He also contends that it is the right time now to provide the needed impetus to this process to make it move beyond the tipping point after which the virtuous impulses generated by regional cooperation will push the region to a higher growth trajectory.

In Chapter 2 Yanghua Huang and Yongsheng Zhang look at integration in East Asia. While South Asia's integration agenda is still dominated by trade, East Asian countries have broadened the agenda to also include financial and monetary issues. The ten member countries of the Association of Southeast Asian Nations (ASEAN) have not only declared the goal of creating an ASEAN Economic Community by 2015 with free flow of goods, services, financial flows and skilled labour. The ASEAN countries are also engaged in dialogue with China, Japan and Korea in what has become known as the ASEAN+3 process. ASEAN+3 has already made progress in strengthening regional financial cooperation and the ASEAN+3 finance ministers are also discussing various forms of exchange rate cooperation, although no agreement has been reached here so far. Though many problems remain, including the political and economic rivalry between China and Japan, Huang and Zhang take a positive view on East Asian integration and describe why China has an active interest in intensifying regional economic cooperation.

Unlike South and East Asia, Southern Africa already has a clearly defined goal for regional integration, including a timetable: the 14 members of the Southern African Development Community (SADC) have agreed to create an FTA by 2008 (which was launched on time), a customs union by 2010, a common market by 2015, a monetary union by 2016 and an economic union by 2018. The problem, write Trudi Hartzenberg and Davie Malungisa in Chapter 3, lies in the implementation of these ambitious plans. Asymmetry of power within the region, lack of coherence on policy matters, lacking institutional capacity on a national and regional level and duplication of regional agreements are only some of the problems that will make it very difficult if not impossible to achieve these ambitious goals.

Like Southern Africa, Renato Baumann asserts in Chapter 4 that regional integration efforts in Latin America lack a coherent strategy and suffer from chronic duplication of sub-regional groupings like the MERCOSUR, the Andean Community, the South American Community of Nations and the Bolivarian Alliance for the Peoples of Our America (ALBA). Moreover, Latin American countries have developed a web of preferential agreements within and outside the region that complicates any serious regional integration process. More fundamentally, Baumann maintains that without clear views about the purpose of regional integration the outcomes of the negotiating processes in Latin America will be slow and unclear.

Part II of the book looks at the implications of regional trade integration for the multilateral trading system. In international trade, an important issue is whether RTAs stand in contrast to global trade arrangements within the WTO framework. Or, as Jagdish Bhagwati (1991) has put it, whether RTAs are a building block or a stumbling block for multilateral trade. In Chapter 5 Jeff Schott examines the future of the multilateral trading system in a multipolar world. In Schott's view, the problems of the stalling Doha Round and competing regionalism confront the WTO and its members with a central challenge: how to make the multilateral trading system more relevant and more effective in addressing the problems of the free flow of goods, services and capital and in promoting sustainable development. Schott summarizes the challenges to the WTO and its members as threefold: to "multilateralize multilateralism", to "multilateralize regionalism" and to "modernize multilateralism".

Chapter 6 by Peter Draper and Mzukisi Qobo critically discusses Baldwin's (2006) "multilateralizing regionalism" paradigm that has recently gained much prominence in trade discussions and contrasts it with the realities in Africa. Baldwin's domino theory basically predicts that forces of regionalism, initially working independently of each other, will at a certain point generate a multiplier effect that would knock down protective barriers like a row of dominoes and open a path to regional and eventually global trade liberalization. Trade and investment diversion resulting from the formation or deepening of preferential trade arrangements are expected to cause other countries to join existing regional integration arrangements or to form their own to direct commercial flows in their favour. In this respect "multilateralizing regionalism" is proffered as a possible path by Baldwin, which facilitates global trade liberalization. Draper and Qobo discuss the prospects for and pitfalls of this path for developing countries and illustrate these points via a brief case study of the SADC and its fraught economic partnership agreement negotiations with the EU.

Part III focuses on the implications of regional trade arrangements for FDI flows and possible effects on development. In Chapter 7, Ram

Upendra Das scrutinizes the effects of regional trade-FDI linkages on poverty alleviation using illustrations from South Asia. Subsequently, he shows how the India-Sri Lanka trade and investment agreement has stimulated Indian investment in Sri Lanka and significantly increased bilateral trade. Das also presents estimates on economic growth convergence in different regional groupings, which suggest that regional integration leads to growth convergence among partner countries.

Julia Kubny, Florian Mölders and Peter Nunnenkamp examine in Chapter 8 whether and how regional integration schemes have been successful in attracting FDI in emerging markets. Focusing on MERCOSUR, ASEAN, SAARC and SADC they detect little evidence that RTAs have had significant effects for the attraction of FDI to the contemplated regions. They conclude that country-specific factors often seem to be more important as a stimulus to FDI than regional integration viewed in isolation. Analysing the distribution of FDI within regional integration schemes, Kubny et al. conclude that members of regional integration agreements (RIAs) are unlikely to equally share FDI-related benefits – but they point out that the larger and richer RIA members are not necessarily the winners taking all.

Part IV of the book turns to regional financial integration. Two different aspects of regional financial integration are addressed. In Chapter 9 Michael Pomerleano probes the benefits of regional financial integration, using East Asian financial markets to illustrate how concerted efforts to create an integrated regional financial market can help overcome market inefficiencies and increase resilience of the financial sector. The low level of regional financial integration that we currently see in East Asia, Pomerleano maintains, is the result of growth strategies in which policymakers "governed the market" by relying on bank-dominated financial systems. This has not only led to severe shortcomings in domestic financial market efficiency and underdeveloped domestic capital markets but also to an overdependence on Western financial markets. These deficiencies were painfully brought to the fore during the Asian crisis. Regional financial cooperation – including efforts to implement region-wide standards and codes that comply with international best practice and the development of a regional capital market – would not only help a better allocation of resources. It would also help increase financial market stability by addressing the problem of round-tripping of East Asian savings to Western financial markets and back via intermediaries in London and New York. Moreover, the advance of regional financial markets would be adjuvant to development finance, as a regional bond market would provide governments as well as corporate borrowers and investors with new instruments, for instance for the financing of infrastructure projects.

Second, Chapter 10 by Julie McKay, Ulrich Volz and Regine Wölfinger addresses financial integration on an institutional level. A string of financial crises and continued dissatisfaction with the IMF has led many emerging markets to build up a war chest of foreign exchange reserves. In addition, regional financing arrangements (RFAs) in which partner countries have agreed to provide each other liquidity in case of a balance of payment crisis have gained much prominence recently and could potentially trigger a further fragmentation of the multilateral financial system. McKay, Volz and Wölfinger compare the crisis lending of the IMF with regional arrangements like ASEAN+3's Chiang Mai Initiative and the Latin American Reserve Fund and discuss implications for international financial stability and the IMF itself. RFAs, they conclude, can provide a useful second line of defence against financial crisis and can lead to a healthy competition between the IMF and RFAs.

Last but not least, Part V of the book is dedicated to the effects of monetary integration. With many regions considering the formation of monetary arrangements, possibly even monetary unification, a better understanding of the costs and benefits of monetary integration is crucial. Chapter 11 by Volker Nitsch looks into the potential trade-creating effects of monetary integration. It is only recently that the trade effect has received much attention in the monetary integration literature, a merit that is due to Andrew Rose (2000) who has revolutionized economic thinking about this issue. Examining the trade patterns of countries inside and outside of currency unions, Rose found that countries sharing a common currency, trade significantly more with each other than countries using separate currencies, an effect that according to his estimations would go far beyond simply eliminating bilateral exchange rate volatility. Nitsch critically reviews and highlights the shortcomings of the recent research on this topic and looks into the trade-creating effects of the euro to draw conclusions for other regions considering monetary unification. His conclusions are rather cautious: since the pattern and dynamics of European trade provide little evidence that the introduction of the euro has measurably affected trade, he argues that the isolated trade effects of monetary integration appear to be rather small.

In Chapter 12 James Reade and Ulrich Volz analyse regional monetary integration in the light of policy independence. The degree of monetary policy independence that countries enjoy (or lack) has great implications for the discussion about the costs and benefits of monetary integration. According to conventional wisdom the main costs of monetary integration are to be seen in the loss of independent monetary policy. This, however, holds true only if countries enjoy monetary policy independence to begin with. Thus, for economies with a low degree of policy independence the costs of monetary integration might be much smaller than commonly assumed. Reade and Volz measure to what extent monetary policy independence exists in a number of different regions. Using cointegration analysis they distinguish whether a country belongs to a steady-state relationship involving interest rates of other countries, and whether a country adjusts to that relationship or not. Regional poles of influence other than simply the US are considered, and in general, they find little independence in the data for smaller nations; even large emerging economies like Brazil, China and India are far from displaying the degree of monetary independence that large developed economies such as Japan, the US and the euro area exhibit.

Subsequently, Laurissa Mühlich discusses potential gains of monetary integration among developing and emerging market economies arising from de-dollarization in Chapter 13. She argues that South–South regional monetary cooperation differs fundamentally from North–South regional monetary arrangements as they involve no international reserve currencies. Her analysis of regional monetary cooperation endeavours in Southern Africa, Southeast Asia and South America suggests that South–South monetary cooperation can have beneficial effects, such as development of regional financial markets that may contribute to an overall macroeconomic stabilization of the countries involved.

In Chapter 14 Eiji Ogawa considers one particular form of monetary integration that is currently being discussed in East Asia, but which could be potentially interesting also for other regions: currency baskets. East Asia, like many other regions, is lacking an anchor currency that could take on a similar role as the German mark in European monetary integration. Ogawa highlights the advantages of currency baskets not only with respect to stabilizing effective exchange rates and being a potentially useful tool for region-wide exchange rate coordination, but also in respect to its expediency for the denomination of financial instruments on a regional capital market.

There are certainly many more aspects to regional economic integration that are to be studied in depth, but I am confident that the chapters contained in this book address and help enhance our understanding of some of the key questions pertaining to regional economic integration among developing and emerging nations.

NOTES

1. See, for example, Frankel (1998) and Kenen and Meade (2008).
2. Data are for 2008 and are drawn from WDI 2010, available at: http://data.worldbank.org/data-catalog/world-development-indicators/wdi-2010; accessed 22 December 2010.

3. Dent (2008) distinguishes regional integration from regionalization, where the latter is defined as market-driven and the former as policy-driven.
4. It is indeed misleading to judge the success of regional economic integration solely by indicators like the share of intra-regional trade in total trade. Successful regional integration efforts, by creating a region-wide production base, can in principle also lead to an even greater increase in world exports (i.e., exports to outside of the region) than in exports to the regional neighbours. As Plummer and Click (2009) point out, a successful integration programme could theoretically lead to a decrease in measures such as shares of intra-regional trade and isnvestment.
5. Three hundred and two RTAs were notified under GATT Article XXIV and an additional 22 RTAs under the GATT's "Enabling Clause". Some RTAs have become "inactive" or redundant as regional groupings have expanded so that the number of RTAs that are currently in force is effectively reduced to 209.
6. See, for instance, Hamada et al. (2009).
7. There are further plans to subsequently merge the WAMZ with the already existing West African Monetary Union (WAMU). The WAMU was established in 1962 with a common monetary unit, the franc of the African Financial Community (CFA franc), which is issued by the Central Bank of West African States. On monetary union in West Africa see Debrun et al. (2002) and Masson and Pattillo (2002, 2004a).
8. South Africa, Lesotho and Swaziland have already been operating a Common Monetary Area since 1986. See Jenkins and Thomas (1997) and Metzger (2006).
9. Apparently, Oman and the United Arab Emirates have abandoned plans to join the intended monetary union in the meantime, leaving the realization of the entire project open. Cf. *The Economist* (2009).

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