REGIONALISM: DISGUISES PROTECTIONISM OR AN ALTERNATIVE PATH TO GLOBAL TRADE LIBERALIZATION?

BY

CUDJOE GAMADEKU

A RESEARCH PAPER SUBMITTED TO THE DEPARTMENT OF POLITICAL SCIENCE OF AHMADU BELLO UNIVERSITY, ZARIA IN PARTIAL FULFILMENT FOR MASTER OF INTERNATIONAL AFFAIRS AND DIPLOMACY (MIAD) DEGREE (2002)

DECLARATION

I, CUDJOE GAMADEKU, hereby declare that affirmed that this project work has been written by me and that the data contained herein is the result of my research. I further affirmed that the originality of this work is not as all quotations, speeches and other authors and other references used in this work have all been separately and appropriately recognized and acknowledged in the endnotes. I further submit that this project work has not been tendered, submitted or handed over to any other institutions or organization other than Ahmadu Bello University (ABU) Zaria. This work is submitted in its original form for consideration and acceptance as part of the requirement for the fulfillment of the award of a Master's Degree in International Affairs and Diplomacy (MIAD).

CERTIFICATION

This project work entitled "REGIONALISM: DISGUISED PROTECTIONISM OR ALTERNATIVE PATH TO GLOBAL TRADE LIBERALIZATION" *CUDJOE GAMADEKU*, meets the regulation governing the award of a Masters Degree in International Affairs and Diplomacy (MIAD) at the Department of Political Science and International Studies, Faculty of Social Sciences, Ahmadu Bello University (ABU), Zaria, Nigeria, and is approved for its contribution to knowledge and literary presentation.

……. ……..
Dr. Ntim Gyakari Esew Date
Supervisor

……. ……
Course Co-ordinator Date

……. ……
Head of Department Date

…… ……
Dean, Postgraduate School Date

DEDICATION

This work is dedicated to my parents **Julius** and **Grace Gamadeku** and to my wife, **Elizabeth**, and children **Edem**, **Senam** and **Emefa** for their patience and support.

ACKNOWLEDGMENT

I wish to acknowledge with gratitude the moral support I received from my friends during my stay in Nigeria especially during the last six months of my extended stay to complete the course. It was your friendship and moral support that kept me going and saw me through. You are too many to enumerate so thank you all. Gams

ABSTRACT

The emergence of three major powerful and growing regional blocs; the European Union (EU), the North American Free Trade Area (NAFTA) and the Asia-Pacific Economic Community (APEC) on the international trading system as a result of the proliferation of regional trading arrangements in the 1990s created the anxiety that they may turn inwards and flout the rules of the multilateral trading system and even oppose it. This was essentially because trade theory was not certain on their impacts on the system and various scholars took opposing views which all have some merits.

This work took a historical approach by looking at the institutional policy implementation and performance features of the three major blocs to determine their impact on the multilateral system. The conclusion was that both the EU and NAFTA exhibit both protectionist and liberalizing tendencies both in policy and its implementation. Consequently their impact depended on the policies being implemented. APEC was peculiar in the sense that its guiding principle had been open regionalism. The Asian members had been avid supporters of the multilateral system because they had benefited from it. They took the regional approach on survival instinct and as an alternative path to global free trade.

Based on the findings the research concludes, and in support of theory, that regionalism is not necessarily harmful to multilateralism. The outcome depends on the net effect of the trade creation and deflection associated with it. If the net effect is trade creation and so welfare enhancing then regionalism becomes a "stepping stone" and an alternative path to global free trade otherwise it becomes a "stumbling bloc".

TABLE OF CONTENTS

TITLE		PAGE
TITLE PAGE: ……..		1
DECLARATION: ……		2
CERTIFICAITON:…….……..		3
DEDICATION: ……		4
ABSTRACT: ……		6
CHAPTER 1: ……		8
1.1	INTRODUCTION:.……..	11
1.2	STATEMENT OF THE PROBLEM:……	11
1.3	OBJECTIVE: ……	11
1.4	PROPOSITIONS TO TEST IN THE STUDY:…….....	11
1.5	SIGNIFICANCE OF THE STUDY:…….....	12
1.6	METHODOLOGY:…….	12
1.7	THEORETICAL FRAMEWORK:…….	13
1.8	LITERATURE REVIEW:…….…….	15
1.9	SCOPE AND LIMITATIONS:…….……..	18
2.0	ORGANIZATION OF CHAPTERS:……..	18
REFERENCES:…….		19
CHAPTER 2:…….		20
THE NATURE AND SCOPE OF REGIONAL TRADING ARRANGEMENTS:		20
2.1	THE CONCEPT:……	20
2.2	EVOLUTION:……..	22
2.3	CHARACTERISTICS:…….	29
2.4	RATIONALE:……..	30
REFERENCES:……..…….		32
CHAPTER 3:……..		33
MULTILATERAL REGULATIONS AND RT AS: ……...		33
REFERENCES:……		38

CHAPTER 4: …… 39
EVALUATION OF THE THREE MAIN REGIONAL BLOCS: …… 39
4.1 EUROPEAN UNION:…… 39
4.2 EUROPEAN AND LIBERALISATION:…….. 40
4.3 EU AND PROTECTIONISM:……... 41
4.4 EUROPEAN UNION ASSESSMENT:……. 41
4.5 NORTH AMERICAN FREE TRADE AREA:…….. 42
4.6 NAFTA AND PROTECTIONISM:…… 43
4.7 NAFTA AND LIBERALIZATION:…….. 43
4.8 NAFTA ASSESSMENT:…… 44
4.9 ASIA-PACIFIC ECONOMIC COMMUNITY:……. 45
4.10 APEC AND LIBERALIZATION:……. 45
4.11 ASSESSMENT:……. 46
REFERENCES:…….. 47
CHAPTER 5:…….. 48
SUMMARY AND CONCLUSION:…….. 48

CHAPTER ONE

1.1 INTRODUCTION

Mercantilism and liberalism have co-existed in the international system since the formation of nation-states. They have led various attractions for states who use them to achieve their specific purpose. Mercantilism has been used as a doctrine of state formation. In the early 1960s most developing states adopted mercantilism for the purpose of rapid industrialization and economic development. They adopted protectionist policies of hiding "infant industries" behind tariff and non-tariff barriers with the hope that these industries would grow and eventually be able to reap the benefits of large – scale production, lower costs and subsequently compete in the world markets.

The reality however was that many of such industries never grew up but rather tended to be inefficient behind their protective barriers. Consequently by the 1980s, most of them failed and in the process collapsing the economies of the countries that pursued such policies.

Trade liberalization subsequently received a boost as many such countries took to unilateral liberalization. This was pursued side by side with multilateral liberalization under the auspices of General Agreement on Tariffs and Trade (GATT); formed in 1947 for the purpose of creating a forum for negotiating reduction and removal of tariffs and non-tariff barriers in international trade.

Significant progress in trade barriers reduction was made under the various GATT negotiations called rounds until the process stalled during the Uruguay Road (1986-94). Impatient with the political quagmire into which the multilateral negotiations had been stalled, most countries took to negotiations at regional levels. Yet, after the resumption and completion of the Uruguay Round, trade

liberalization was pursued through both regional and multilateral agreements simultaneously by the majority of the countries involved.

It soon became apparent that the regional approach increasingly came to dominate the process as more and more countries went into Regional Trading Agreements (RTAs). This was for a number of reasons. In the first place the regional option was less time consuming. Secondly, it was found to be less complicating striking an agreement with a few neighbors than with over 100 countries in a multi-lateral negotiation. Additionally, other motivational factors like national security act to make regional groups more willing to liberalize further than under global arrangements. It came to be taken for granted that both regional and multilateral agreements were complementary and alternative paths to global liberalization.

The scenario however began to change when three major and powerful trading blocs emerged on the international trading system. These are the European Union (EU), Asian-Pacific Economic Co-operation (APEC) and North American Free Trade Area (NAFTA). The emergence of these regional blocs with big and growing markets raised doubts as to whether they might not tend towards protectionism by failing to facilitate the rules of multilateralism and even flout them.

The anxiety was spawned by developments in these regional trade blocs. The EU has a membership that is expanding rapidly and intra-regional trade is growing more than trade with outside countries. Also some of its preferential arrangements with other regions tend towards undermining the GATT principles of non-discrimination and open competition. Such developments, it is feared, may lead Japan into gaining control of the Asian bloc's markets and manage them as to inhibit free entry of firms and products from outside. With regard to the United States (US), it was obvious it had started showing signs of abandoning

multilateralism and tending towards the protection of certain economic sectors from external competition because of trade and budget deficits. These trends were perceived as harbingers of the pernicious effect of regionalism on the process of global free trade.

With these developments, it is becoming apparent that the future of global liberalization seems to depend on the path threaded by these regional blocs. Whether regional blocs and multilateral liberalization are conflicting or complementary processes will depend on the extent to which these blocs remain supportive of the multilateral trading system. If they chose to accept new members, create trading opportunities and provide momentum for non-discriminatory trade liberalization effects instead of creating special interest groups then, both systems would be found to be complementary.

1.2 Statement of the Problem

The process of regional bloc formations has turned into a race for securing preferentially the neighbors market for one's exports. The European Union has moved aggressively to conclude free trade agreements with its neighbors in Eastern and Central Europe and with the Baltic Republics while the US has gone to promote the idea of free trade of the Americas. This race between two giants has in turn led to a renewal of efforts for preferential trade arrangements by and among smaller countries in Africa, Latin, South and Central Asia, Central and Eastern Europe. Because preferential trade arrangements are inherently discriminatory, their proliferation has called into question their impact on the multilateral process of trade liberalization.

1.3 Objective

The objective of this study is to determine if evolving major regional blocs are tending towards protectionism or liberalism in their trade policies. It is hoped

such revelation would help in determining whether regionalism is pernicious to global free trade.

1.4 Propositions to Test in the Study

If the multilateral path to global free trade is the ideal, then what factors account for the current upsurge in the formation of regional blocs? Is regionalism complimentary to multilateralism? As Jagdish Bhagwati (1993) puts it are regional blocs building blocs or stumbling blocs towards multilateralism. These are the issues this study wishes to address.

1.5 Significance of the Study

The pernicious effect of protectionism as one of the causes of the Second World War makes the study of protectionism and related issues a desirable undertaking. The study of regionalism in the current context is of great importance to policy makers, especially in the developing countries, who need to foresee the consequences of policies they formulate for their countries. This study will enable them know whether they are inadvently pursuing protectionist policies in recommending regional integration of their economies.

1.6 Methodology

Traditional trade theory has not been able to conclusively resolve the issue of impact of regionalism on trade globalization and as such at the moment there is lack of unanimity. While some authorities believe that regional blocs are complementary to multilateralism (Anderson and Blackhurst, 1993; Summers, 1991), other think it is undermining it (Bhagwati, 1993). In the presence of this ambiguity and inadequacy of theory one wonders if historical experience could not complement theory. This study proposes to examine the institutional, implementation and performance features of EU, NAFTA and APEC to see what impact they have on the process of liberalization.

In the evaluation, the following criteria will be used: -

a. Regional Trading Agreements (RTAs) undermine liberalism when
   i. They create incentives to protect industries
   ii. They manipulate the process through special interest; use scarce negotiating resources and creation of a political dead end.

b. RTAs support liberalization when
   i. They lock in unilateral liberalization
   ii. They create large units that can negotiate more efficiently
   iii. They are able to mobilize regional solidarity
   iv. They build export constituencies to create domestic political momentum.
   v. They encourage competitive liberalization

The thrust of the examination will be based on qualitative analysis of secondary data from books, journals and Internet sources.

1.7 Theoretical Framework

Two related theories of international trade underlie this study. The first concerns free trade and posits that trade liberalization improves economic welfare by enhancing efficiency in the liberalizing economy. The second is the theory of customs union and economic integration. According to this theory some economic gains could be made by a group of countries coming together by raising a common tariff wall against outsiders. While this appears contradictory to trade liberalization, it has been accepted as a second best approach to trade liberalization because regional integration agreements make a valuable contribution by giving early partial delivery of some of the benefits of liberalization. These include productivity gains stimulated by increased competition and exploitation of economies of scale made possible by access to a larger market created by the

integration. However, as Scolley (2000) has emphasized these favorable impacts are subject to the proviso that adequate precautions are taken to ensure that trade diversion effects do not outweigh trade creation effects. Trade diversion occurs when the erection of external trade barriers causes production and consumption of one or more member states of the union to shift from lower cost non-member sources of supply to high cost member producers. There is thus, a reduction in trade between the members and the rest of the world. In such a situation both the world and member states are perceived to be worse off as a result of diversion of production from a more efficient foreign suppliers to less efficient domestic industries of member states. Trade creation occurs when the common external barriers and internal free trade lead to a shift from a high cost to a low cost member states. In this case there is an increase in trade between the members. This is beneficial as it leads to more efficient utilization of resources.

According to the maxims of the classical trade theory, welfare in the global economy is maximized if the number of RTAs is one or the global economy is one big trade bloc. This stands for free global trade. Secondly global welfare is also maximize if the membership of RTA is large. This would stand for zero or near zero optimal tariffs so that the effect is close to free trade. With the increase in the number of RTAs, welfare must first decline, reach a minimum, and then rise again. De Melo and Panagariya (1992) posited that if one starts from one RTA in the world or from a free trade scenario and divides the world into two RTAs, there is trade diversion due to a positive tariff on extra-bloc imports. This would lead to a decline in global welfare. Next, if the world is divided into three RTAs, the optimal tariff declines, however, each bloc becomes smaller. The former leads to trade creation, while the other leads to trade diversion. Thus the net effect would remain somewhat unclear.

1.8 Literature Review

The essence of trade liberalization is to increase welfare gains for the countries concerned and for the world economy at large. Consequently any liberalization process must be viewed in the context of the extent to which it provides welfare gains. On this basis, studies of Regional Trade Agreements (RTAs) have focused on the welfare implications for the partners and the global trading system.

Laird and others have examined the effect on partners and non-members and have concluded that in general RTAs are capable of welfare enhancing. When they are, welfare gains are greater.

i. The higher the trade barriers being reduced
ii. The higher the share of pre-existing trade between the partners
iii. The larger the trade partner
iv. The more diversified the partner countries economies are and
v. The more closely the partners' domestic prices resemble world prices.

The effect on non-members is found to vary for each RTA as it is driven by the level of the common external tariff of the RTA and its structural peculiarities such as size and relative similarities of the members' economies and competitiveness among them. (Laird, 1997; Sciff, 1996; Rutherford and Martinez, 2000).

Other studies also examined the changes in the nature of competition among members due to the creation of RTA. The conclusion show that the immediate effect on an economy, which becomes a member of an RTA, is that it gains from the enhanced market. Its firms become subjected to competition from firms from member countries and this forces a reduction of their hold on the domestic market. (Harris and Cox, 1986; Smith and Venables, 1989).

Foutran (1998) examined the issue of links between a developing country's participation in an effective RTA and the restrictiveness or liberalization of its trade policy. His criterion was that if after-RTA trade data compared with before-RTA trade data of a member of an RTA reveals significant increase in share and intensity of intra-RTA trade, then RTAs lead to liberalization and are building blocs of a liberal global trading system. He examined the trade regimes of 75 countries in the past decade and concluded that countries that became members of effective RTAs had liberalized their trade regimes. Although his study established a link between trade liberalization and RTA membership, it was not however clear if the RTA was causal factor as many of the RTA member economies were liberalizing unilaterally and at the same time they were becoming members of RTAs. The criterion was also judged to be rough because it is believed that the very expectation of a positive trade deal may precipitate a boost in flow of trade between the potential RTA partners.

With regard to how RTAs affect global trading system, studies have produced inconclusive results as opinions among researchers vary. After synthesizing the conflicting viewpoints, Schiff (1996) concluded that the effect on the multilateral system would depend on the terms of the RTA. His conclusion was that whether an RTA facilitate or impedes global free trade would depend on factors such as its structure and design, whether the procedures for joining it are liberal, whether it satisfied WTO regulations and whether it is accompanied by some degree of trade liberalization of member's trade regimes. In short, the effect of an RTA on the global trading system would depend upon the terms of the agreement. The problem however is that clear policy guidelines in this regard are not available because the terms of the agreement. The problem however is that clear policy guidelines in this regard are not available because the terms of every RTA and the rationale behind establishing them have differed throughout history.

After studying the issue, AS and P Bhalla (1997) came out with the conditions under which regional trade blocs can be complementary with the multilateral trading system. Their conditions were that the regional blocs should simultaneously create trade, induce growth and facility global liberalization. Regional blocs would be creating trade if the volume of intra-bloc trade increases so as to induce an increase in extra bloc trade also from which non-members could benefit. Thus if both intra-regional and inter-regional trade expand, the existence of trade blocs would help the growth of global trade. Growth is induced when further investment results form investor confidence as a consequence of increased gains from trade. This would happen if the bloc generates demand for extra-regional exports and imports from the rest of the world. Facilitation of global liberalization implies that the regional arrangements adopt rules that do not conflict with those of multilateral arrangements.

1.9 Scope and Limitations

The study will be restricted to examination of policies and trade practices of the major trade blocs of EU, APEC and NAFTA to the extent that they promote protectionism or liberalism. Their evolution, membership and economic performance would also be examined.

2.0 Organization of Chapters

Chapter 1 deals with Introduction.

Chapter 2 examines the nature and scope of RTAs and deals with the Concept, Evolution, Characteristics and Rationale of RTAs

Chapter 3 examines RTAs within the context of Multilateral Regulations.

Chapter 4 deals with evaluation of the three major Regional Blocs; EU, NAFTA and APEC.

Chapter 5 is on Summary and Conclusion.

REFERNECES

Bhagwati, J. (1993) '*Regional and Multilateralism: An Overview'* in Jaime de melo and Arvin Panagariya (eds), New Dimension in Regional Integration, Cambridge University Press.

Bhalla A., and Bhalla P.: *Regional Blocs, Building Blocks or Stumbling Blocks* (1997), St. Marting's Press, New York and Macmillan Press, Hampshire and London.

De Melo, J. and A. Panagariya 1992: "*The New Regionalism in Trade Policy,"* London, Center for Economic Policy Research.

Laird, S. 1997: *Mercosur: Objectives and Achievements,* Paper presented at the Third Annual World Bank Conference on Development in Latin America and the Caribbean, Montevideo. September

Rutherford, T.F. and J. Martinez, 2000: "Welfare Effects of regional Trade Integration of Central American and Caribbean Nations with NAFTA and MERCOSUR", *The World Economy,* June, Pp. 799 – 825.

Schiff, M. 1996: Small is Beautiful, World Bank, Washington DC, Working Paper No. 1668. Ocotber.

Scollay, R. 2000: *"CER: Future Developments",* in D. Robertson (ed) AFTA-CER: A Way Forward? Melbourne, Melbourne Business School.

CHAPTER TWO

THE NATURE AND SCOPE OF REGIONAL TRADING ARRANGEMENTS

2.1 THE CONCEPT

Regional trading arrangements are concerned with discriminatory trade liberalization by extending preferences in tariffs to trading partners. Sometimes such arrangements are accompanied by agreements in areas other than trade in goods. When they are concerned with coordinating, harmonizing or integrating instruments of economic policy on a regional[1] basis they are said to be regional integration arrangements or regionalism. In general, however, regionalism is used as an embracive term, to mean a political process where a group of countries agree to reduce the barriers of trade between each other to lower levels than exist against the rest of the world.

Depending on the degree of preferences harmonized, five types of regionalism may be distinguished. There are the Preferential Trading Arrangement, the Free Trade Area, the Customs Union, the Common Market and the Economic Union.

Preferential Trade Arrangement: The Preferential trade arrangement is the loosest form of arrangement and is concerned with the granting of **partial** preferences that European countries extend to the African Caribbean and Pacific countries, it is termed a preferential trade arrangement. If the preferences are reciprocal, the term Preferential Trade Area (PTA) is applied to describe the club of countries covered. In other words a Preferential Trade Arrangement is a union

---

1. Regional' in this context does not imply concentration in a specific geographical region of the world but rather that membership is short of all countries of the globe.

between two or more countries in which goods produced within the union are subject to lower trade barriers than the goods produced outside the union.

Free Trade Area: If the members of a preferential trade area decide not to levy any duty on products imported from other members then they form a Free Trade Area (FTA). In this arrangement different rates of duty may be charged by each member on its imports from the rest of the world. This could however lead to a situation where goods destined for higher tariff areas of the union are imported through the lower tariff areas. To prevent this, rules of origin are incorporated in the formation agreement. Thus fro goods to qualify for the preferences, they have to have some value added in the lower tariff country. Rules of origin specify how much value needed to be added before the product is classified as domestically produced.

Customs Union: A Customs Union occurs when free trade among the members of a free trade area is sheltered behind a unified schedule of customs duties charged on imports from the rest of the world. Beyond a common external tariff, it could also entail harmonization of quantitative restrictions, export subsidies and other trade restrictions. It would set all trade policy for its members as a unified whole and engage in any future trade negotiations with other countries with a single voice.

Common Market: A common market is an extension of the customs union concept, the additional feature being that it provides for the free movement of labor and capital among the members.

Economic Union: The term economic union denotes a common market in which the members agree to harmonize their economic policies general. Other policy

areas for harmonization may cover interest rates, stable exchange rates, common policies on inflation and ultimately a single currency.

Unlike the Common Market and Economic Union, which are deemed deep integration, the others are considered to be shallow integration as they only directly and exclusively affect international trade of the members. The economic union may lead to Political Union when the countries agree to common policies in almost every sector including foreign and defense policy.

2.2 EVOLUTION

The current evolution of RTAs has historical antecedents. In Europe, RTAs accounted for the formation of such nation states as United Kingdom established in 1703 through a political and economic union between England and Scotland. It was a custom union which also united all the French provinces in 1789 – 90 and preceded the unification of the eighteen small states of Germany between 1818 and 1834. The Swiss Confederation was established in 1848 as an economic union and Italian states were united as a custom union between 1860 – 66. In the United States, the American colonies maintained separate tariff system until the constitution barred inter state custom duties in 1789 (Machlup, 1997).

In contemporary times there have been two waves of regionalism. The first, which happened in the 1960s, did not amount to much. Earlier examples could be found before the 1960s but those established were nearly all associated with either imperialism or colonialism. Soviet imperialism gave rise to COMECON that was set up in 1949 while British colonialism and French colonialism were separately responsible for creation of a number of African blocs. The first wave started with the European Economic Community (EEC), which was established through the Treaty of Rome in 1957. Following the EEC there was a proliferation of regional agreements in the developing countries of Africa and Latin America but these

were weak and did not go far. Most developing countries were attracted to the concept during the period by the belief that it would help them industrialize. The in fact industries they set up for import substitution failed and by 1970s most had abandoned the policy.

The second wave of regionalism began in the 1990s. Many factors account for the renewed interest and their proliferation. However, the four main ones which seem to have come together in the late 1980s to precipitate the move towards regionalism were the collapse of the Soviet Union, the influence of Europe, the policy change in the US regarding trade agreements, and the liberalized policies in most developing countries.

The Collapse of the Soviet Union: With the collapse of the Soviet Union in the late 1980s, the former satellite states transformed their economies from the planned to market economies. This made them attractive to the EC, which negotiated a series of association agreement with them. The resulting united Europe heightened fears that the whole Europe might turn inwards at the expense of multilateral trade liberalization.

The Influence of Europe: Together with the EC expansion into Eastern Europe and Mediterranean, there were also moves towards deepening its integration into a single market for goods, services, labor and capital. These led to fears that the EU might become less open to trade with outsiders and disinterested in pursuing multilateral trade liberalization. The reaction by other countries was to ask for EC membership if one was an European or to form blocs of their own in order not to find themselves in a disadvantageous access to key trading partners.

The Policy Change in the US: The United States had been hostile to regional initiatives except for the European Community which it supported on political

grounds against the threat of Soviet expansionism during the Cold War period. It considered them as distractions from the multilateral system. But when the multilateral negotiations stalled in the 1980s, out of frustration coupled with the threat posed to her trade from the enlargement of the EC and its deepening moves, there was a change of heart. In reaction the US together with Canada and Mexico established NAFTA. Other initiatives started on the region and this created a "domino effect" worldwide.

The New Liberal Policies in Most Developing Countries: The period witnessed a wave of democratization in most developing countries. This resulted in the convergence of political interests that led to pursuit of similar economic development policies. This was in the main the abandonment of import substitution policies in favour of market liberalization ones and to phase in their economies into the global system they adopted regional integration.

In some cases the new regionalism was a revival of old preferential trade areas, in other cases new ones were formed on old foundations. Between 1995 and 2000, ninety RTAs covering goods and services or both have been notified to the WTO. Currently over 130 agreements are in force (WTO, 2000). During 2000, discussions on approximately twenty-nine new RTAs were in progress, nine African countries and fourteen island states of South Pacific Forum agreed to form free trade areas.

The main regional groups in the 1990s are listed below:-

Andean Pact

Member: Bolivia, Columbia, Ecuador, Peru and Venezuela

Features: Free trade agreement formed in 1969, but largely ineffective in promoting trade until revitalized in 1992.

Asia Pacific Economic Co-operation

Members: Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand, United States.

Features: Aiming to create a free trade area by 2020.

Association of South Asian Nations (ASEAN) Free Trade Area (AFTA)

Members: Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.

Features: ASEAN formed as a security body in 1967, with a free trade agreement inaugurated in 1993 aiming lifting restrictions on intra-regional trade over 15 years.

Caribbean Community (CARICOM)

Members: Bahamas, Jamaica, Belize, Montserrat, St. Kitts and Nevis, Antigua and Barbuda, Dominica, Saint Lucia, Barbados, St. Vincent and the Grenadines, Trinidad and Tobago, Grenada, Guyana and Surinam.

Features: Started as a free trade area became a Customs Union now aims at a Common Market.

Cairns Group

Members: Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

Feature: Formed in 1986 as a negotiating bloc during the Uruguay Round for exporters of agricultural products.

Central European Free Trade Agreement

Members: Poland, Hungary, Czech Republic and Slovakia.

Features: Aims to liberalize trade flows by 2001.

Central American Common Market (CACM)

Members: Costa Rica, El Salvador, Gatemala, Honduras and Nicaragua.

Features: A Free Trade Area with efforts to impose a harmonized common external tariff

Closer Economic Relations Agreement (CERTA)

Members: Australia and New Zealand

Features: Free Trade in almost all goods and services with some regulatory harmonization.

Economic Community of West African States (ECOWAS)

Members: Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea-Bissa, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

Features: Launched a new program in 1990 to implement free trade in all unprocessed products and progressively liberalize industrial products.

European Union (EU)

Members: Austria, Belgium, Denmark, Finland, France, Italy, Ireland, Germany, Greece, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom.

Features: Customs Union with liberal investment flows, regulatory harmonization, free labour movement. Also foreign policy co-operation and strong central institutions advocated. Monetary Union started in 1999.

Franc Zone

Members: France and 14 West and Central African Countries

Features: Exchange rates tied to the French franc.

Gulf Co-operation Council

Members: Saudi Arabia, Kuwait, Qatar, Bahrain, the United Arab Emirates, and Omam.

Features: Aiming to unify tariffs, with eventual free trade agreement.

Magreb Union

Members: Libya, Tunisia, Algeria, Morocco, and Mauritania.

Features: Aim of greater economic co-operation, including a customs union.

Mercado Comun de Cono Sur (MERCOSUR)

Members: Argentina, Brazil, Paraguay and Uruguay,.

Features: Customs Union came into effect in 1995.

North American Free Trade Agreement (NAFTA)

Members: Canada, Mexico and United States.

Features: Free Trade Area came into effect in 1994.

Southern African Development Community (SADC)

Members: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

Features: Aims to promote free trade.

Southern African Customs Union (SACU)

Members: Botswana, Lesotho, Namibia, South Africa and Swaziland.

Features: A Customs Union with a common monetary union except for Botswana.
(Franke, 1997).

2.3 CHARACTERISTICS

A large majority of existing RTAs is free trade with the few customs unions being the South African Customs of the Southern Cone (MERCOSUR) in South America and CARICOM in the Caribbean. The Andean Pact and CACM have partial common tariffs while the European Union is the only economic union.

The new regionalism has several characteristics that distinguish it from the old. It now exhibits cross alliances between developing and industrial economies unlike the old regionalism, which was limited to arrangements between industrial economies or developing economies. Also, while the old regionalism was in the main limited to arrangements between contiguous economies the new one is not limited to neighboring economies and in some instances is even intercontinental. In the new arrangements one country can belong to more than one RTA simultaneously. Another distinctive characteristic is that the new arrangements are more ambitious in the sense that they aspire for deep integration with commitments to harmonization of regulatory measures, free factor movements and other close integrating measures.

Yet, in spite of these common characteristics all the current RTAs are highly dissimilar and each is a sui generic. While some emphasize economic bonds other emphasize political bonds. Some RTAs are simple in structure other complex. Some are part of a process working towards eventual deeper integration; while others are consciously stand – alone. Some result from operation of market forces while others are from the determined actions of states. These differences are reflected in the differences in the objectives of countries forming them and have different implications for the RTAs.

2.4 RATIONALE

Arrangements for economic integration involve acceptance of constraints on national policymaking and the further the integration the greater the constraints become. Various factors and objectives motivate nations to accept such limitations on their policy-making prerogatives. These are political and economic and at times a trade off between the two. But in the main, they are political with economic analysis acting essentially as a tool for identifying the economic effects so as to provide a basis for judging whether and to what extent the economic impacts reinforce or run counter to the political considerations. (Robson, 1998).

Trade theory posits that trade liberalization improves economic welfare by enhancing efficiency in the liberalizing economy. While this can be and is an incentive for lowering trade barriers, domestic political unpopularity of such reforms, because they are perceived as concessions given to the trade partners, act as disincentives for pursuing such policies unilaterally. Under the aegis of an RTA trade liberalization can be made more acceptable to the electorate than unilateral liberalization. Regional trading arrangements also act as "locking in" devices against reversal of economic reforms by protectionist future governments since international treaty with a large and rich neighbor is harder to repudiate than national legislation.

Another major objective of countries joining RTA, especially of the customs union type, is to increase their bargaining power vis-à-vis third countries. It is believed this was one of the reasons that the EEC was formed; to increase the bargaining strength of individual European countries against United States. Some RTA initiatives are also a reaction and counter to other RTAs particularly if the existing RTAs are perceived as becoming inward looking. NAFTA was a reaction to the enlargement and deepening process of EU and the threat it posed to United States' trade.

The economic, benefits that provide the motivation for formulation of RTAs include market expansion and efficient use of resources through specialization on the basis of comparative advantage. For some developing countries, RTAs are their only option of phasing in the integration of their economies into the global market. The underpinning domestic policy reforms, the enlarged market and trade expansion help in attracting partners, the incentives is not only the big market but also the added advantage of selling their products to the partner at the higher tariff price that the partner imposes against goods from outside.

For some countries also, RTAs provide the only way for them to trade in certain goods and services. A good like electricity can only be traced regionally between neighboring countries and so also is the regional development of dams and water resources. (DAS, 2001).

REFERENCES

Dak, D.K. 2001: Regional Trading Arrangements and the Global Economy: An Asian Pacific Perspective.

Frankel, J. (1997): Regional Trading Blocs in the World Economic System, Institute for International Economics, Washington.

Machlup, F. (1977): A History of Thought on Economic Integration, London, Macmillan Press Ltd.

Robson, P. (1998): The Economics of International Integration, London, Routledge.

Todaro, M.P. (1998): Economic Development in the Third World, London, Longman.

WTO (1995): Regional Trading Blocs in the World Economic System, Study Report.

CHAPTER THREE

MULTILATERAL REGULATIONS AND RTAS

The forum for multilateral negotiation of world trade was the General Agreement on Tariffs and Trade (GATT), which was instituted in 1947. It was crafted as an agreement among contracting parties to decrease trade barriers and to place all nations on equal footing in trade relations. In 1995, GATT was transformed into the World Trade Organization (WTO), which embodied the main provisions of GATT.

GATT/WTO was based on several principles designed to foster more liberalized trade. These were the principles of reciprocity, national treatment and most favored nation of which the latter two constitutes the principle of non-discrimination.

Reciprocity: Reciprocity is a necessary feature of any agreement acting as an incentive to negotiate by allowing each party to the agreement to gain at least as much as it loses. Under GATT, the parties make reciprocal concessions to put their trade relations on a basis deemed equitable by each.

National Treatment: The national treatment of non-tariff restrictions clause is meant to prevent domestic regulations and taxes being biased against foreign products. It requires members to treat other nations' industries no less favorably than they do their own domestic industries once foreign goods have entered the domestic market.

The Most Favored Nation: The most favored nation (MFN) principle enjoins the signatory governments to extend unconditionally to all other contracting parties any advantage, favor, privilege or immunity affecting customs duties, charges,

rules and procedures that they give to products originating in or destined to any other country. In other words this principle bounds members not to discriminate between imports from different sources. All trading partners need to be treated equally as "most-favored" sources. Freedom and equality to import from any origin in the global market place ensures purchased from the lowest-cost sellers, which in turn underpins and reinforces the principles of comparative advantage. It promotes competition and minimizes the cost of production, promoting efficiency in the process. This binding stipulation, of treating all WTO members as equal in commercial policy, is an effective restraint on discrimination against imports from a particular source, for any reason. The MFN principle works as an effective guard against playing favorites, and thereby depoliticizes trade. MFN principles help in promoting equal treatment of exports from small and larger trading nation. Therefore, non-discrimination or the MFN principle is said to contribute to the "regularity, orderliness and predictability," which is the essence of a rule – based global trading system. Consequence is promotion of global trade on the basis of comparative advantage rather than political advantage. The MFN principle helps in price mechanism working at the global level. Due to the MFN principle, the additional trading opportunities created by the GATT rounds of multi-national trade negotiations were automatically extended to all its members.

To the extent that members of regional trading groups provide preferences to one another, such groupings as customs unions and free trade associations represent a departure from the most – favored nation treatment. Yet, such groupings are permitted under the WTO regulations.

The provisions, which relate to RTAs are Article XXIV of GATT (as clarified in the Understanding on the Interpretation of Article XXIV of the GATT 1994), and the Enabling Clause Arrangement.

The GATT Article XXIV allows countries to grant special treatment to one another by establishing a customs union or free trade association provided that: -

1. duties and other trade restrictions are 'eliminated' on substantially all the trade among the participants
2. the elimination of internal barriers occurs 'within a reasonable length of time" (commonly taken to be ten years) and
3. duties and other barriers to imports from non-member countries "shall no on the whole be higher or more restrictive" than those preceding the establishment of the customs union or free trade association.

The first condition forbids stopping short at partial preference or excluding major sectors of trade from the RTA. The emphasis on "substantially all" helps in fending off inevitable political pressure to avoid or minimize tariff reduction in inefficient import competing sectors. The substantially – al – trade requirements also ensures that RTAs are not abused as a cover for narrow or sectoral discriminatory arrangements.
The second condition is aimed at eliminating or minimizing the danger of interim agreements, which can be abused by introducing discriminatory preferences for long.

The third condition was explicitly aimed at protecting the rights of outside countries by emphasizing that the integration of economies does not affect the interest of non-member countries.

The Enabling Clause arrangement is "derogation" to the MFN clause is favor of developing countries. Under its provisions, industrial countries were encouraged to allow developing countries to access their markets on a non-reciprocal basis. It also allowed preferential arrangements among developing countries in trade in

goods. The Enabling Clause again allowed special treatment to regional or global arrangement entered into among developing countries for mutual reduction or eliminating of tariffs or non-tariff barriers. This is with some provisions of which one is the requirement that any such arrangement should be designed to facilitate and promote trade of developing countries and not raise barriers to or create undue difficulties for the trade of other contracting parties. It is important to emphasize that the presence of even a single developed country in a PTA imposes an important constraint on the nature of the arrangement: to be GATT consistent, it must satisfy the requirements of Article XXIV which are far more demanding than those of the Enabling Clause. Thus, the exchange of partial tariff preferences among members of APEC would be illegal because of the membership of developed countries. On the other hand, the bulk of PTAs consisting exclusively of developing countries, have been formed or concluded under the Enabling Clause provisions and can thus stop well short of a genuine PTA or customs union if the members so desire.

REFERENCES

Das, D.K. 2001: Regional Trading Arrangements and the Global Economy: An Asian Pacific Perspective.

WTO (1995): Regional Trading Blocs in the World Economic System' Study report World Trade organization: http://www.wto.org/

CHAPTER FOUR

EVALUATION OF THE THREE MAIN REGIONAL BLOCS

4.1 EUROPEAN UNION

The European Union (EU) is the largest trading bloc in the world. Its formation goes back to 1957 when France, Western Germany, Italy, Belgium, the Netherlands and Luxembourg set up the European Economic Community under the treaty of Rome in 1956. The Treaty of Rome sought to establish a common market in the sense of a customs union, coupled with the removal of restrictions on the free movement of labour, on the free movement of capital, on the right to establish enterprises and on the right to provide services – the so called four freedoms.

The Community of the original six members was first enlarged in 1973, (UK, Ireland, and Denmark) then in 1981 by accession of Greece and in 1986 with Portugal and Spain to a membership of twelve. In 1993 the enactment of the Maastricht Treaty changed the name of the European Community to European Union, strengthened cooperation on foreign security policy and in justice and other matters. The Treaty also laid the foundation for economic and monetary union.

The latest enlargement of the EU brought in Finland, Sweden and Austria. The next enlargement is likely to include Hungary, Poland, the Czech Republic and the Mediterranean states of Malta and Cyprus all of which have signed association agreements.

With the fifteen members, the EU encompasses 30% of the world output, 42% of world trade and 6.5% of the world population 275 million). It output in 1994 terms amounted to $71.32 billion with foreign trade (imports plus exports) totaling $3421 billion of which 64% was intra bloc.

4.2 EUROPEAN UNION AND LIBERALISATION

The EU has signed numerous bilateral agreements granting a wide variety of preferences to many nations including Switzerland and the countries of Eastern Europe. Some of the agreements grant access to EU markets on non-reciprocal basis such as the EU-ACP Lome Conventions. Various other trade agreements exist or are being negotiated between the EU and other countries including the cooperation agreement between it an MERCOSUR signed in 1995.

Among its members, the EU conducts a number of common policies and also harmonizes a range of national policies over which member states retain jurisdiction.

With regard to multilateral trade negotiations, the EU helped convened the GATT multilateral trade negotiations and the Kennedy Round (Hufbauer, 1990). It also lowered its tariffs after taking part in the GATT negotiations. In its negotiations with non-European nations, it sends a common trade negotiator to conduct deals for its members.

4.3 EUR AND PROTECTIONISM

The EU has pursued protectionist policies in certain sectors such as textiles, steel and especially agriculture. Its Common Agricultural Policy is an example of protectionism through harmonization of non-market policies. Some of the various agreements have created a hub and spoke free trade areas between it and association countries in which trade among some spokes is not promoted and in some cases actually discouraged (Enders and Wonnacott, 1996). Additionally, the highly technical rules of origin that the EU attaches to all its trade agreements are very restrictive especially for the developing country partners and virtually erode any gains of preferential access.

4.4 EUROPEAN UNION ASSESSMENT

The impact of European regionalism on the multilateral system depends on the nature of policies pursued. When the EU adopted highly interventionist policies like the common Agricultural Policy, it has undermined liberalization. In the same vein the adoption of protectionist non-tariff barriers such as highly technical rules of origin has restrained global trade. Its non-tariff barriers seemed to have increased while tariffs have declined.

On the other hand, the EU is intensely involved in association agreements with countries and blocs outside the union as well as with members of the multilateral trading system. It has also used market-oriented measures such as harmonization and mutual recognition to standards, which have resulted in a more open EU market.

4.5 NORTH AMERICAN FREE TRADE AREA

The North American Free Trade Area (NAFTA) was established in 1993 and came into effect in 1994 between the United States of America (USA), Canada and Mexico. Its formation was motivated by several factors. On the part of the USA it was as a result of the frustration felt with the slow progress of the Uruguay Round of multilateral tariff negotiations coupled with concern for the possible impact of the European Union's single market measures on its trade. On the part of Canada and Mexico it was due to the desire for secure and predictable access to the USA market. Also for Mexico, other motivating factors were the desire to attract inward Foreign Direct Investment (FDI) and to use the agreement as a way of establishing the credibility of domestic reforms.

NAFTA has some characteristic features, which distinguish it from other attempts at regional integration. Its membership includes one dominant economic partner;

two of the members are advanced while the third is a developing country with much lower per capita income. Additionally Canada and Mexico are respectively the first and third trading partners of the US and the US is the largest trading partner of both Canada and Mexico accounting for more than two-thirds of their trade. In 1994 trade among them was 32 per cent of total trade. Thus, the members are natural trading partners. The three partners also have low tariffs among them and as a result trade diversion is expected to be limited.

4.6 NAFTA AND PROTECTIONISM

Because NAFTA is a free trade area and not a Customs Union part of the agreement is concerned with rules of origin. Eligibility normally involves a change of tariff classification and value added rule of 50 percent and 60 percent for regional components. The rules for certain sensitive goods such as automobiles products and textiles and clothing are more complex and even more restrictive and hinder trade. The rules of origin are deemed likely to increase trade diversion, make further accession into the agreement harder and are likely to lead to extensive and expensive customs procedures thereby restricting trade. The agreement also did not eliminate the use of national anti-dumping or countervailing duty actions in the free trade area. Consequently domestic interests have exploited them to restrict market access for competing imports from the rest of the area.

4.7 NAFTA AND LIBERALIZATION

The NAFTA agreement provides for sequential tariff reduction with eventual zero tariff after fifteen years. It provides for tariff levels of zero for 95 per cent of intra NAFTA trade by 2005.

Although, the agreement provides for a less deep form of integration compared with the EU, it contains provisions relating to the reduction of technical barriers to

trade by the harmonization of industrial and sanitary standards, the facilitation of customs clearances and the opening of government procurement. The agreement also has chapters on liberalizing trade in services and provisions on competition policy.

The agreement provides for accession by other countries. The accession clause of the agreement requires the consent of all member countries to enlargement but a country can agree to the accession of another country without allowing the agreement to apply between itself and the acceding country. The lack of explicit accession requirements or rules makes accession easy.

4.8 NAFTA ASSESSMENT

Like in the case of the EU, whether the arrangement has led to more or less global liberalization depends on policies that have been implemented. Lack of agreements on competition policies and its rules of origin respectively foster protection and are discriminatory against outsiders and thus inhibit the flow of trade. Empirical evidence also suggests that because the partners are natural trading partners with current low tariff barriers the scope of trade diversion remains limited. The evidence also does not support the fears of some countries of SE Asia for investment diversion. The accession clause of NAFTA is also against exclusion.

4.9 ASIA – PACIFIC ECONOMIC COMMUNITY

ASIA – PACIFIC ECONOMIC COMMUNITY (APEC) was formed in 1989 by the Asian economies as a reaction to the circumstances of the period. It was the period when the Uruguay round was stumbling and threatening the multilateral system, the EEC was moving towards a single market and US and Canada were considering the formation of NAFTA. APEC was formed to ensure that the Asian economies were not abandoned by the US and shut out of NAFTA market.

Consequently, membership of NAFTA was confined to countries on the rim of the Pacific Ocean and currently included 21 countries. These are Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Singapore, Taiwan, Thailand and United States.

APEC in 2000 incorporates two of the global four trade superpowers – the US and Japan and embraces 40 per cent of the global population, 54 per cent of the global GDP and 42 per cent of its trade.

4.10 APEC AND LIBERALIZATION

APEC was conceived initially as a forum for promoting trade and investment through a mix of policies that deal with trade liberalization and facilitation and economic cooperation and not as an RTA. This was because most Asian economies saw regionalism as an unnecessary dependence on large economies. They owed much of their economic growth to benefits from lowering of trade barriers under the various rounds of multi – national trade negotiations and also the special and differential treatment provided under Part IV of the Articles of Agreement of GATT. Consequently, they had been avid supporters of multilateralism under the aegis of GATT

In 1994 the Forum turned into a free trade agreement with the Bogor Declaration. The cardinal principle of the declaration was open regionalism. By that members committed themselves to free trade as a long term goal and advocated trade liberalization through unilateral action and extension of concessions in terms of lowering trade and non trade barriers to all non-member trading partners. The Bogor plan of action also aimed at elimination of barriers on trade in services and harmonization of rules and standards. Thus the plan advocated a deeper sort of integration characteristics of an economic union than a free trade. The targets of

the Bogor plan included trade liberalization by 2010 for the five industrialized economies and by 2020 by the rest of the APEC members.

4.11 ASSESSMENT

APEC declarations and statements recognized the superiority of the global trading system led by the WTO and emphasized that regional trade liberalization should be implemented within the framework of the WTO. When it changed its stance and called for cooperation on trade liberalization at the regional and multilateral levels it did so on the basis of open regionalism.

The moves harmonized regulations, more efficient customs procedures or increased regulatory transparency would automatically help both insiders and outsiders in APEC by making trade with and entry of non-members easier. This would in turn have trade creating effects.

REFERENCES

Economic Policy Institute: http://tap.epn.org/epi/nafta es.html.
Europa: http://europa.eu.int/index.htm.

APEC Government Procurement:
http://www.apecsec.org.sg/govtproc/gphome.html.

APEC Tariff Database: http://www.apectariff.org.

Asia Pacific Economic Cooperation: United States APEC Index:
http://www.apec.org/.

Asia Pacific Economic Cooperation Project Opportunities System:
http://cher.eda.doc.gov/apec.html.

NAFTA net: http://www.nafta.net/naftagre,htm.

The NAFTA home page: http://iepnt1.itaiep.doc.gov/nafta/nafta2.htm.

World Trade Organization: http://www.wto.org/.

Frankel, J. (1997) Regional Trade Blocs in the World Economic System, Institute for International Economics, Washington.

Hufbauer, G. and J. Schott, 1993: "Regionalism in North America." In K. Ohno, ed., *Regional Integration and Its Impact on Developing Countries,* Tokyo.

Jovanovich, M. (1998):International Economic Integration , Routledge, London and New York.

Lawrence,R. (1995):Regionalism, Multilateralism, and Deeper Integration. Integrating National Economies Series, Washington: Brookings Institution.

OECD Documents (1996): Regionalism and its Place in the Multilateral Trading System, Paris.

Smith, M. (1993): The North American Free Trade Agreement: Global Impacts', in Regional Integration and the Global Trading System, Anderson and Blackhurst (eds), St. Martin's Press.

Winters, A. (1992): "The European Community: A Case of Successful Regional Integration" World Bank and CEPR Conference on New Dimensions in Regional Integration, Washington: World Bank.

Young S. 'East Asia as a Regional Force for Globalism", in Regional Integration and the Global Trading System, Anderson and Blackhurst (eds), St. Martin's Press.

CHAPTER FIVE

SUMMARY AND CONCLUSIONS

The research has revealed that in seeking liberalization countries turn to either their respective geographic regions or the global system as a whole. Both paths can lead to trade expansion. The SE Asian countries provide evidence of the global approach through which they have been able to expand their economies without membership of any regional bloc.

This approach is favored by theory in that it maximizes the number of foreign markets involved and avoids the economic distortions of discrimination among trading partners (Bhagwati, 1992). Yet, it is not easy to achieve because of the problems associated with reaching consensus with a large number of negotiators. The regional approach then becomes more attractive because of the fewer numbers involved. However, its outcomes are not certain; it may or may not be welfare enhancing. It is trade creating and so welfare enhancing when by eliminating barriers among its members it improves efficiency by shifting production form a high cost producer to a lower – cost trading partner. But when it leads to expansion of production of less efficient members at the expense of more efficient outsiders it becomes trade diverting and non-welfare enhancing. To the extent that both trade creation and trade diversion can occur at the same time the outcome then depends on the next effect of the regionalism. This condition makes regionalism not necessarily at conflict with multilateralism and therefore makes it attractive because of the easier and faster path it offers towards global free trade.

In the 1990s the regional approach became infectious because of the conditions created together by the collapse of the Soviet Union, the expansion and deepening

initiatives of the European Community, the change of policy by the United States against regional initiatives and the wave of democratization that swept through the developing world. In the process three dominant and growing economic blocs emerged on the global trading system. These were the EU, NAFTA and APEC. The emergence of these blocs created the anxiety that they may for political or shot term economic needs turn inwards, restrict the trade of third countries and oppose the move towards an open trading system.

The findings of this research do not lend credence to the anxiety. The finding is that in the case of the EU and NAFTA there are instances of both protectionism and liberalization in their policies and policy implementations. The EU has some highly interventionist policies like the Common Agricultural Policy and highly technical rules of origin. Yet, it supports multilateralism in opening up its markets through various association agreements and also supports the reduction of tariffs. The NAFA also has liberal accession requirements and aims at elimination of tariffs despite its protectionist rules of origin and lack of agreements on competition policies. Thus their impact on the multilateral trading system depends on the policies pursued.

The APEC provides an interesting case in that its cardinal principle has been open regionalism in the sense of opening up and sharing the benefits of liberalizing their markets to all outsiders. This policy stems from the experience of the Asian members, which have benefited from the various provisions of the GATT rules and experienced significant economic growth. Consequently, they have been avid supporters of multilateralism and viewed regionalism with suspicion. They took the regional path as an additional path to ensure that they are not left out and excluded from the markets of their major trading partners. So, to them regionalism and multilateralism are alternative paths to globalism.

The research concludes that regionalism is not necessarily harmful to multilateralism. The outcome depends on the net effect of the trade creation and trade deflection associated with it. If the net effect is trade creation and so welfare enhancing then regionalism becomes a "stepping stone" and an alternative path to global free trade otherwise it becomes a "stumbling bloc."

BIBLIOGRAPHY

LINKS

APEC Government Procurement: http://www.apecsec.org.sg/govtproc/gphome.html.

APEC Tariff Database: http://www.apectariff.org.

Asia Pacific Economic Cooperation: United States APEC Index: http://www.apec.org/.

Asia Pacific Economic Cooperation Project Opportunities System: http://cher.eda.doc.gov/apec.html.

Economic Policy Institute: http://tap.epn.org/epi/nafta es.html.

Europa: http://europa.eu.int/index.htm.

NAFTA net: http://www.nafta.net/naftagre,htm.

The NAFTA home page: http://iepnt1.itaiep.doc.gov/nafta/nafta2.htm.

World Trade Organization: http://www.wto.org/.

BOOKS

Bhagwati, J. (1993): '*Regionalism and Multilateralism: An Overniew'* in Jaime de Melo and Arvin Panagariya (eds), New Dimensions in Regional Integration, Cambridge, Cambridge University Press.

Bhalla A, and Bhalla P.: *Regional Blocs, Building Blocks or Stumbling Blocks* (1997), St, Martin's Press, New York and Macmillan Press, Hampshire and London.

Das, D.K. 2001: Regional Trading Arrangements and the Global Economy: An Asian Pacific Perspective.

De Melo, J and A. Panagariya (1992): *"The New Reigonalism in Trade Policy,"* London, Center for Economic Policy Research.

Frankel, J.(1997): Regional Trading Blocs in the World Economic System, Institute for International Economics, Washington.

Forountan, F. 1998. *"Does Membership in a Regional Preferential Trade Arrangement Make a Country More or Less Protectionist? The World Economy, Vol.21, No.3, May Pp. 305-335.*

Harris, R. and D. Cox (1986). *Quantitative Assessment of the Economic Impact on Canada of Sectoral Free Trade with the United States,:* Canadian Journal of Economics, Vol. 19, No.2, Pp. 377-94.

Hufbauer, G. and J. Schott, 1993: "Regionalism in North America." In K. Ohno, ed., *Regional Integration and Its Impact on Developing Countries,* Tokyo.

Jovanovich, M. (1998): International Economic Integration , Routledge, London and New York.

Laird, S. (1997): *Mercosur: Objectives and Achievements,* Paper presented at the Third annual World Bank Conference on Development in Latin America and the Caribbean, Montevideo, September.

Lawrence, R. (1995): Regionalism, Multilateralism, and Deeper Integration. Integrating National Economies Series, Washington: Brookings Institution.

Machlup, F. (1977), A History of Thought on Economic Integration, London, Macmillan Press Ltd.

OECD Documents (1996): Regionalism and its Place in the Multilateral Trading System, Paris.

Robson, P. (1998): The Economics of International Integration, London, Routledge.

Rutherford, T.F. and J. Martinez (2000). "Welfare Effects of Regional Trade Integration of Central American and Caribbean Nations with NAFTA and MERCOSUR," The *World Economy*, June, Pp. 799-825.

Schiff, M. (1996): *Small is Beautiful,* World Bank, Washington DC, Working Paper, No. 1668, October.

Scollay, R. (2000): *"CER: Future Developments,"* in d. Robertson (ed) *AFTA-CER: A Way Forward?,* Melbourne Business School.

Smith, M. (1993): The North American Free Trade Agreement: Global Impacts', in Regional Integration and the Global Trading System, Anderson and Blackhurst (eds), St. Martin's Press.

Smith, M. and A.J. Venables, (1988). "Completing the Internal Market in European Community: Some Industry Simulations," European Economic Review, Vol.32, No.8, Pp.1501-25.

Todaro, M.P. (1998): Economic Development in the Third World, London, Longman.

Winters, A. (1992): "The European Community: A Case of Successful Regional Integration" World Bank and CEPR Conference on New Dimensions in Regional Integration, Washington: World Bank.

WTO (1995): Regional Trading Blocs in the World Economic System, Study Report.

Young S. 'East Asia as a Regional Force for Globalism", in Regional Integration and the Global Trading System, Anderson and Blackhurst (eds), St. Martin's Press.