

## **Regionalism, Multilateralism, and Globalization**

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### Introduction

Over the past few decades, economic regionalism has been growing rapidly, stimulating a large and influential literature. In this memo, I briefly outline some of the key debates that have emerged in the literature on regionalism and I suggest a number of ways that the cross-national survey being proposed in this project might shed light on some of these debates.

### The Effects of Economic Factors on Support for Regionalism

Much of the existing research on regionalism focuses on the welfare implications of preferential trading arrangements (PTAs), both for members and the world as a whole. Central to these implications are whether a preferential arrangement is “trade creating” rather than “trade diverting,” whether it allows firms in member-states to achieve economies of scale, and whether it helps them to improve their terms of trade (Viner 1950). Regardless of whether the PTAs in which the countries included in this project actually have achieved welfare gains from participation in PTAs, it would be useful to ask respondents to the proposed survey whether they think the PTAs in which their country participates have benefitted them economically and, if so, how much. Equally, it would be useful to try to locate the source of any such benefits. Do individuals feel that PTA membership has fueled rising income, greater job stability, lower prices for the products they consume, etc.? Do these perceived benefits depend on whether the PTA covers the sector in which a respondent is employed? Do legislators identify the same benefits as individuals working in the private sector? Do the benefits identified by people working in the private sector depend on their skill level, educational attainment, or their job? And do individuals feel that they would benefit if their government concluded additional preferential arrangements?

Besides its static welfare effects, economists have devoted considerable attention to whether regionalism will accelerate or inhibit multilateral trade liberalization, an issue that has been referred to as “the dynamic time-path question” (Bhagwati 1993; Bhagwati and Panagariya 1996). Preferential trading arrangements have a two-sided quality, liberalizing commerce among members, while discriminating against third parties. Various studies have shown that these arrangements can bolster multilateral openness, for example, by reducing the number of actors engaged in multilateral negotiations, thereby muting problems of bargaining and collective action that can hamper such negotiations, or by inducing members to undertake and consolidate economic reforms, and that these reforms are likely to promote multilateral openness (for example, Lawrence 1996; Summers 1991). However, clear limits also exist on the ability of preferential agreements to bolster multilateralism.

Again, it would be useful to know whether respondents feel that PTAs will strengthen or undermine multilateral institutions, particularly the World Trade Organization (WTO). Closely related to this issue is whether they feel that PTAs are primarily liberalizing institutions or protectionist devices. Especially important are the views of policy makers and legislators. Do they form PTAs to protect politically sensitive sectors of the economy or do they form them to promote heightened trade openness? While it is likely to be difficult to elicit an honest answer to this question, the question itself is quite important. In a related vein, Anne O. Krueger (1997) maintains that the formation and expansion of PTAs may dampen the support of exporters for broader liberalization. It would be useful to determine whether respondents working in export-oriented firms or sectors support regionalism instead of or in addition to multilateral liberalization.

### Domestic Politics and Regionalism

While it is frequently acknowledged that political factors shape regionalism, surprisingly few systematic attempts have been made to address exactly which ones most heavily influence why states choose to pursue regional trade strategies and the precise nature of their effects. Some of the research that has been conducted on this topic focuses on how the preferences and political influence of domestic groups can affect why regional strategies are selected and their likely economic consequences. However, no survey research that I am aware of has sought to measure these preferences.

Regional trade agreements discriminate against third parties, yielding rents for certain domestic actors who may constitute a potent source of support for a PTA's formation and maintenance (Gunter 1989, 9; Hirschman 1981). Industries that could ward off competitors located in third parties or expand their share of international markets if they were covered by a PTA have obvious reasons to press for its establishment (Haggard 1997). So do export-oriented industries that stand to benefit from the preferential access to foreign markets afforded by a PTA. In addition, while it is all but impossible to construct a PTA that would not adversely affect at least some politically potent sectors, it is often possible to exclude them from the arrangement (Grossman and Helpman 1995; Eichengreen and Frankel 1995).

Regional trade strategies therefore hold some appeal for public officials who need to attract the support of both import-competing and export-oriented sectors. It might be useful, therefore, to address whether legislators that depend on the political support of both types of sectors have a more favorable view of PTAs than other legislators. More generally, greater attention needs to be focused on why state leaders have displayed a particular preference for entering preferential trade arrangements. One possibility is that they do so to liberalize trade when faced with domestic obstacles to reducing trade barriers on a unilateral or multilateral basis. If so, we might expect countries where legislators tend to favor open trade but powerful trade associations and unions seek trade barriers to be more extensively involved in PTAs than other countries, a conjecture that could be addressed in the proposed survey.

The domestic political viability of a prospective PTA, the extent to which it will create or divert trade, and the range of products that it will cover hinge partly on the preferences of and the

influence wielded by key sectors in each country. Public officials must strike a balance between promoting a country's aggregate economic welfare and accommodating interest groups whose support is needed to retain office. Gene M. Grossman and Elhanan Helpman (1995, 668 and 1994) argue that the political viability of a PTA often depends on the amount of discrimination it yields. Agreements that divert trade will benefit certain interest groups, while creating costs borne by the populace at large. If these groups have more political clout than other segments of society, then a PTA that is trade diverting stands a better chance of being established than one that is trade creating (Grossman and Helpman 1995, 681; see also Pomfret 1988, 190). Grossman and Helpman also find that by excluding some sectors from a PTA, governments can increase the domestic support for it, thus helping to explain why many PTAs do not cover politically-sensitive industries. Consistent with earlier research, their results imply that trade-diverting PTAs will face fewer political obstacles than trade-creating ones. To further address this issue in a very rough way, it might be interesting to see whether respondents generally have a more favorable view of PTAs in which their country participates if those arrangements are trade diverting.

Though research stressing the effects of domestic politics on regionalism offers various useful insights, it also suffers from at least two drawbacks. First, there is a lack of empirical evidence indicating which domestic groups support regional trade agreements, whose interests these agreements serve, and why particular groups prefer regional to multilateral liberalization. Second, we know little about whether, once in place, regional arrangements foster domestic support for broader, multilateral trade liberalization or whether they undermine such support. These issues offer promising avenues for cross-national survey research.

A related line of research suggests that the similarity of states' political institutions influences whether they will form a preferential arrangement and its efficacy once established. Many scholars view a region as implying substantial institutional homogeneity among the constituent states. Likewise, some observers maintain that the feasibility of creating a regional agreement depends on prospective members having relatively similar economic or political institutions. If trade liberalization requires harmonization in a broad sense, such as in the Single European Act, then the more homogeneous are members' national institutions the easier it may be for them to agree on common regional policies and institutions. Others point out that countries in close geographic proximity have much less impetus to establish regional arrangements if their political institutions differ significantly. In Asia, for example, the scarcity of regional trade arrangements is partly attributable to the wide variation in the constituent states' political regimes, which range from democracies, like Japan, to autocracies, like Vietnam and China (Katzenstein 1997a).

As the initial differences in states' institutions become more pronounced, so do both the potential gains from and the impediments to concluding a regional agreement. Consequently, the degree of institutional similarity among states and the prospect that membership in a regional arrangement will precipitate institutional change in these states may bear heavily on whether they form a PTA (Hurrell 1995, 68-71). The extant literature, however, provides little guidance about how large institutional differences can be before regional integration becomes politically infeasible. Nor does it indicate whether regional agreements can help members to lock in institutional reforms if there is little preexisting domestic support for these changes. It would be

useful to include survey items designed to assess whether policy makers and legislators pay much attention to domestic institutional similarities within PTAs and, if so, the extent to which this is likely to influence their choice of PTA partners.

### International Politics and Regionalism

In addition to domestic politics, interstate power and security relations, as well as multilateral institutions and strategic interaction among states have played key roles in shaping regionalism. I now turn to a brief discussion of these factors.

#### Political Power, Interstate Conflict, and Regionalism

Central to the relationship between interstate political relations and the formation of PTAs are the effects of trade on states' political-military power. Joanne Gowa (1994; see also Mansfield 1993) points out that the efficiency gains from open trade promote the growth of national income, which can be used to enhance states' political-military capacity. Countries cannot ignore the security externalities stemming from commerce without jeopardizing their political well-being. She maintains that countries can attend to these externalities by trading more freely with their political-military allies than with other states. Since PTAs liberalize trade among members, Gowa's argument suggests that such arrangements are especially likely to form among political allies. In PTAs composed of allies, the gains from liberalizing trade among members bolster the alliance's overall political-military capacity and the common security aims of members attenuate the political risks that states benefitting less from the arrangement might otherwise face from those benefitting more.

Another potential link between preferential arrangements and power relations stems from the economic dependence of members. If states that derive the greatest economic gains from a PTA are more vulnerable to disruptions of commercial relations within the arrangement than other participants, the political leverage of the latter is likely to grow. This point has not been lost on statesmen. Prussia, for example, established the Zollverein largely to increase its political influence over the weaker German states and to minimize Austrian influence in the region (Viner 1950, 98). As a result, it repeatedly opposed Austria's entry into the Zollverein. Similarly, both Great Britain and Prussia objected to the formation of a proposed customs union between France and Belgium during the 1840s on the grounds that it would promote French power and undermine Belgian independence. As Jacob Viner (1950, 87) points out, "Palmerston took the position that every union between two countries in commercial matters must necessarily tend to a community of action in the political field also, but that when such community is established between a great power and a small one, the will of the stronger must prevail, and the real and practical independence of the smaller country will be lost." Furthermore, Albert O. Hirschman and others have described how various major powers used regional arrangements to bolster their political influence during the interwar period and how certain arrangements that seemed likely to bear heavily on the European balance of power (like the proposed Austro-German customs union) were actively opposed (Condcliffe 1940; Hirschman [1945] 1980; Viner 1950, 87-91;

Eichengreen and Frankel 1995, 97).

Since World War II, stronger states have continued to use PTAs as means to consolidate their political influence over weaker counterparts. The CMEA and the many arrangements that the EC established with former colonies of its members are cases in point. The Caribbean Basin initiative launched by the U.S. in 1982 has been described in similar terms (for example, Pomfret 1988, 163). Another view, however, is that regional institutions constrain the ability of members to exercise power. A recent study of the EU, for example, concludes that while Germany's power has enabled it to shape European institutions, Germany's entanglement within these institutions has taken the hard edge off its interstate bargaining and eroded its hegemony in Europe (Katzenstein 1997b).

There has been little survey research focusing on the links between trade and security relations and none that I am aware of that centers on PTAs. But it would be useful to include a set of items on this project's survey to ascertain whether respondents – both in government and industry – believe that countries should choose PTA partners with security considerations in mind and the extent to which they worry about the dependencies that can be fostered within these arrangements.

### Multilateral Institutions, Strategic Interaction, and Regionalism

One of the most distinctive features of the two waves of regionalism occurring since World War II is the multilateral framework in which they arose (Mansfield and Milner 1999). Most contemporary PTAs have been established under the auspices of the GATT/WTO. As I mentioned earlier, parties to the GATT may have established PTAs at such a rapid rate during the past fifty years because they viewed regional liberalization as a stepping stone to multilateral liberalization, a central premise of those who believe that preferential arrangements will serve as building blocks to global openness. Alternatively, GATT members may have formed such arrangements to partially offset progressively deeper cuts in protection made at the multilateral level and protect uncompetitive sectors. A chief fear of those who view PTAs as stumbling blocks to multilateral liberalization is that arrangements formed for these reasons will divert trade and undermine future efforts at multilateral liberalization.

Besides attempting to regulate the formation of PTAs, the GATT has made efforts to manage strategic interdependence among them. It is widely argued that strategic interaction has been a potent force driving the recent proliferation of PTAs (de Melo and Panagariya 1993, 5-6; Fernández 1997; Mansfield 1998; Oye 1992; Pomfret 1988; Yarbrough and Yarbrough 1992). Various studies point out that, for example, that EFTA was created in response to the EEC; the latter also spurred the formation of various regional arrangements among LDCs (Pomfret 1988, 161 and 178). Furthermore, NAFTA has stimulated the establishment of bilateral economic arrangements in the Western Hemisphere and in the Asia-Pacific region, as well as agreements to conclude others (Serra et al. 1997, 8-9)

Among the explanations offered for this recent tendency is that a PTA's establishment can prompt fears by third parties that it will undermine their competitiveness, thereby inducing them to form a rival bloc. Similarly, a state entering an existing PTA may provoke concern on the part of its economic rivals that they will be placed at a competitive disadvantage in

international markets, unless they respond in kind. Even if states are not economic rivals, the perception that a regional economic arrangement is benefitting members can lead other states that are anxious to reap similar gains to join a PTA (Pomfret 1988; Yarbrough and Yarbrough 1992.). In addition, PTAs might form and expand in reaction to one another because they usually have more aggregate market power and thus more bargaining power than their constituent members (Fernández 1997; Mansfield and Reinhardt 2003; Oye 1992). Various Latin American countries, for example, established PTA over the past decade to improve their leverage in negotiations with the U.S. and NAFTA. Likewise, the EEC's original members believed that its creation would enhance their bargaining power in negotiations with the U.S., and participants in the Central European Free Trade Area hoped its formation would bolster their ability to negotiate entrance into the EC/EU (Haggard 1997; Whalley 1998, 72.).

It seems to me that this project could include a variety of survey items to address these issues. Do respondents view PTAs as institutions that support the WTO and serve as building blocks to greater international openness, or do they view these arrangements as a way to side-step the WTO and place limits on such openness? Do respondents – especially policy makers and legislators – feel a greater impetus to enter a PTA if their economic rivals belong to one? Do they think there is a need to enter such an arrangement with their country's or their firm's chief trade partners, thereby ensuring adequate access to crucial overseas markets?

Finally, on a somewhat different topic, it would be useful to assess how much authority over trade policy that respondents feel their state should relinquish to both multilateral and regional institutions. The ability of these institutions to foster an open trading system and promote international cooperation depends on member-states adhering to the rules, norms, and decisions established by these institutions, especially when protectionist pressures arise in member-states. Do respondents believe that their government should comply with regional and multilateral organizations, even when it is not in their country's short-term interest to do so?

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