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REGIONALISM: A POTENTIAL INSTRUMENT FOR PROMOTING MULTILATERALISM

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Introduction: In today's world no nation exists in economic isolation. A nation's economy, its industries, service sectors, levels of income and employment and living standards are largely linked to the economies of its trading partners. The benefits of international trade accrue in the forms of lower domestic prices, development of more efficient methods and new products and a greater range of consumption choices. In an open trading system, a country will import those commodities that it produces relatively at a higher cost. Hence, the need for trading exists due to the variations in availability of resources and comparative advantage.

The International economic environment and the global political balance have undergone revolutionary changes since the beginning of 1980s. The Introduction of this development has consequently led to a continuous erosion of multilateral frame work of trading system: increasing internationalization of production, application of various protective unfair trade policies and comparative disparity on the distribution of benefits from the existing trading system. Further, the formation of regional grouping of organizations has become a trend in the world economies since the post world war-II, not only to strengthen gradual economic integration for overcoming barriers of global trade policies but also to exploit the potential of complementarities for a better allocation of available resources to mutual comparative advantage.

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The dramatic growth of cross-border investment and international trade over the past two decades as given below combined with explosive growth in global communications and technology, are an evident for well being of the nations through open trading system. The FDI flow, which was US$160 billion in 1991, soared to US$1305 billion in 2006. And the volume of international trade also expanded manifold. The world merchandise exports grew from US$59 billion in 1948 to US$ 13.57 trillion in 2007, and imports grew from US$ 62 billion to US$ 13.94 trillion during the same period. The exports of services grew faster than merchandise exports from US$ 390.8 billion in 1980 to US$ 3.26 trillion in 2007 whereas during the same period, imports of services rose to US$ 3.06 trillion in 2007 from US$ 431.8 billion in 1980, However, Although free trade is often strongly advocated, many countries believe that the expansion in trade is best accomplished through the establishment of Regional Economic Association (REA) / Integration (REI). Against this background, the present study attempts to review whether the Regional Economics groups are a threat to Multilateral / open trading system.

1.1 Empirical perspective:

The footage of International trade can be traced back to 1st century CE, wherein there was an extensive trade between Greeks, Romans and the Indians. International Trade has a rich history starting with barter system being replaced by Mercantilism in the 16th and 17th Centuries and later transformed towards Globalization in the 18th Century. All civilizations carried on trade with other parts of the world. Traditionally international trade consisted of traded goods like textile, food items, spices, precious metals, precious stones, and objects of art and various items across the borders. Today's International Trade with the advancement of technology, Communication systems, Transportation methods has many more new dimensions like Intellectual property, Trade in variety of services, Trade related investments(FDI), Bilateral and Multilateral Trade Agreements etc.

2. REGIONAL ECONOMIC FORUMS:

REC is a manifestation of the determination of the people of region to work together towards finding solutions to their common problems in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and shared benefits. The primary objective of any REC is the acceleration of the process of economic and social development in member states, through collective action in agreed areas of co-operation.

Due to the growing protectionist tendencies in the international market and the increasing competition among suppliers, particularly in the developing world, the need to evolve feasible strategies for regional economic co-operation is becoming more and more apparent. This is evidenced by the recent tempo of activities in this regard in the country. Increased regional economic co-operation would help reduce the economic dependence on the developed countries in the future.

Regional economic integration is one of the most important trends in the contemporary world economy. Over the past two decade and a half, the world economy has seen the emergence of many strong regional trading blocs in different parts of the world. These include EU (European Union), NAFTA (North American Free Trade Area), CIS (Commonwealth of Independent States), LAIA (Latin American Integration Association), ASEAN (Association of South East Asian Nations), and OECD (Organization for Economic Co-operation and Development), among others. Countries have responded by forming regional trading blocs to mobilize their resources to strengthen their competitiveness in the world market. Such regional economic co-operation is considered feasible because intra regional, historical, cultural, geographical and developmental commonalities are much stronger than intra regional differences in political and economic structures and perspectives

Since the late 1950s more than forty economic co-operation and association arrangements have been formed among developing countries. Their experience has shown that most of them disintegrate prematurely in an atmosphere of hostility and recrimination or otherwise they became inactive and continue to exist but only on paper. It is possible to assess the success of regional economic co-operation among developing countries only in the longer term i.e., after the development of a productive sector capable of responding to increases in inter regional demand. Further, REA (Regional Economic Association) is necessary among developing countries in order to increase the group's bargaining power in its economic and sometimes political external relations.

2. 1 Forms of Regional Economic Co-operation:

REC (Regional Economic Co-operation) is an evolutionary process, consists of several stages of harmonization of the economic policies of the participating countries, each stage reflects the extent or degree of co-operation between the member countries for the common benefit of the group as a whole.2.1.1 Co-ordination of trade policies:

The basic principle is to avoid discrimination in trade among the member countries. This usually reveals the form of a limited co-operation in terms of preferential tariff arrangements for selected commodities between the member countries.

2.1.2 Free Trade Area:

Havana Charter defines Free Trade Agreement, as "A Free Trade Area shall be understood to mean a group of two or more Customs territories in which the duties and other restrictive regions of commerce are eliminated on substantially all the trade between the consistent territories in products originating in such territories".

Accordingly the main features of FTA can be listed as follows:

- All Tariff and Non-tariff restrictions on commodity trade between Participating countries are eliminated.
- There is no common external tariff, i.e., each country retains its own Tariff against Non-member.

2.1.3 Customs Union:

The main features of Customs Union are "Blocks of countries with free internal trade and with a common tariff for the outside world" should be understood to mean. Besides the suppression of discrimination in the field of commodity movements within the union, the creation of a common tariff wall against non-members.

2.1.4 Common Market:

A common market provides full scope for the operation of competitive market forces. Intra-regional trade within the common market would depend solely on comparative advantage in terms of cost of production based on specially natural resources endowments. The mechanism of a common market eliminates all restrictions on factor movements apart from removal of all barriers in trade in goods and services among the member nations.

2.1.5 Regional Economic Union:

In an Economic Union, there will be great degree of harmonization of economic policies in all areas viz., agriculture, industry, transport, trade, and commerce, fiscal and monetary areas. It is a minor stage of transition before a common market becomes a fully economically integrated community.

2.1.6 Regional Economic Integration:

Regional Economic Integration represents the most advanced and perhaps the ultimate stage of economic Co-operation. At this stage, a regional authority is established which decides on all regional policy issues and also implements them. The member nations are represented in the regional authority and as such they became a party to the decisions on the regional authority. The decisions of the regional authority are binding on all the member nations and this abridges to some extent the sovereign authority of the national governments of the participating nations.

The success or failure of Regional Economic Co-operation depends essentially on the collective action of the member countries in terms co-ordination and harmonization of economic policies. Some countries may have to sacrifice their national sovereignty to some extent for the success of Regional Economic Co-operation.

2.2 Rationale for Regional Economic Co-operation:

Regional Economic Co-operation among developing countries is generally considered to make an essential contribution towards their economic development. The rationale for Regional Economic Co-operation is based on a number of factors, including some, which may not be considered as economic in nature.

- Regional Economic Co-operation enables the participating countries to overcome the small size of their domestic markets, which is particularly important for small economies that are faced with the problem of achieving "threshold" levels in many economic and technological activities.
- Regional co-operation helps the member countries in achieving larger economies of scale in production and attain specialization.
- Regional Economic Co-operation enables the participating countries to make much fuller use of underutilized economic potential in terms of human, natural and technological resources. This helps in industrial diversification and in reducing economic dependence.
- Regional Economic Co-operation enables the participating countries to exploit the potential of complementarities and also to establish strategic alliances between enterprises with a view to improve their competitiveness in global markets.

- Regional Economic Co-operation facilitates increased levels of co-operation among service enterprises, academic and research institutions, professional and technical experts and the common people.

Thus, regional economic co-operation would provide the basis for wider co-operation in many other areas such as arts, culture, sports, education and other related fields, all of which combined together would go to improve the quality of human life in the participating countries.

Regional Economic Co-operation is increasingly being viewed as a vehicle for expediting the process of economic development not because of the problems in global market access and the higher transaction costs of producing for the world market. It is widely believed that the expansion of trade on a regional level yields gains in production specialization, efficiency and improved quality of exports, all of which benefit the countries participating in the regional co-operation initiatives.

3. GLOBALIZATION / MULTILATERAL TRADE:

Globalization is a term which is not only used and heard frequently but also a complex term used in international business in recent decades. Globalization refers to the free cross-border movement of goods, services, Capital, information and people. It intensifies the cross-border economic, political, cultural, social and technological interactions that leads to the establishment of transnational integration of economic, political, cultural, and social processes on a global scale. The explosive growth in information and communication technology and Improved, safe and speedy transportation methods coupled with rapid economic liberalization policies of developing countries have accelerated the process of globalization.

Many economists viewed that the new trend towards excessive regionalization of world markets vis-à-vis the formation of different regional blocks have created a common threat to the prospects of a multilateral trading system and opening door for bilateralism, despite the efforts of WTO to evolve a multilateral free trading system under the frame work of new round of trade negotiations.

3.1 Benefits of Globalization:

Globalization is understood and argued in different ways than one by different people. Opinions vary on its positive and negative impacts on individual countries. However, we try to list some of the arguments in support of globalization.

3.1.1 Optimization of Economic resources:

The globalization leads to a rapid rise in the movement of products, capital and labor across the borders, thereby contributing to the maximization of utilization and allocation of available economic resources such as natural resources i.e., labor, and capital on a global scale, which results in a sharp increase in global cost effective output and economic growth.

3.1.2 Increased Trade and flow of capital:

Globalization across the world has paved the way for large scale movement of capital in the form of FDI (Foreign Direct Investment) even among developing countries. This has thrown up new business opportunities for transnational corporations to expand their operations and also benefited developing countries from increased flow of capital and other forms of finance. This has led to the globalization of manufacturing and fragmentation of the production process into its sub-component parts in multiple countries.

3.1.3 Improves efficiency of Local firms:

The heightened competition by multinationals compels local businesses to adopt measures to cut down costs and improve quality for survival. It throws open many opportunities and challenges to evolve and adopt new methods to improve productivity. As a result business enterprises become more competitive not only domestically but also internationally.

3.1.4 Consumer benefits:

Consumers would have the benefit of increased access to products and services from manufacturers across the world at competitive prices. The advantage of intensified competition among domestic and global companies to woo consumer results in consumer benefiting.

3.1.5 Globalization tends to erode national boundaries and integrate national economies, cultures, technologies, and governance, leading to complex relations of mutual interdependence.

3.2 Negative Impact of Globalization:

Globalization is not free from criticism. There have been number of protests against globalization across the world. Globalization is described as just another term for Americanization or Westernization and promotion of US global imperialism.

3.2.1 Developing and developed countries are unequal partners: Even though developing countries make up three-fourth of WTO membership and can influence entire functioning of WTO. In practice the developing countries have been marginalized. The agenda of the WTO, implementation of its agreements, and the much-praised dispute settlement system (for example Patenting of Basmati rice dispute) all serve to advance the interests of the developed countries. Since most of the developing countries are dependent on developed countries viz., USA, EU, Japan etc., in one way or the other in terms of Imports, exports, aid, security and so on. Any obstructions to the developed countries will eventually end up in threatening of the overall well-being of dissenting countries.

USA has always promoted free trade only in sectors that benefit the US economy. In other sectors like Textiles, Farm, BPO (Business Process Outsourcing) protectionism reigns.

3.2.2 Increases poverty: Noble laureate Joseph Stiglitz observes that globalization is creating rich countries with poor people. Under globalization rich becomes richer and poor becomes poorer. It also adversely hit the wages of semi-skilled and un-skilled labor force. India's over 2 decades of globalization process is an evident that the benefits of globalization have not reached the poorest citizens.

Adverse impact on domestic small and medium scale industries: Trans-national companies with their large scale operations and mighty competitive edge have enormous financial and political muscle to monopolize the markets and even influence government decisions. Globalization often leads to buying up of local industry by Western conglomerates, India's best selling soft-drink brands Thumps Up and Limca, were bought by the global giant Coke. The small and medium scale industry with their limited resources viz., Capital, Technology, R & D etc., are unable to compete with multinationals and eventually shuts down.

3.2.2 Leads to large scale Unemployment: Economists across the world have often noted that higher profits are the results of exploitative efficiency rather than increased opportunities. In the globalization era the term Cost-cutting is synonymously used for cutting man-power cost. The bargaining power of trade unions has considerably declined.

In order to save the workers from job losses and lay offs, trade unions are often forced to accept cuts in various monetary and non-monetary benefits.

3.2.3 Increases volatility in Capital Markets: Globalization and deregulation coupled with remarkable development of technology for transfer of money and information have resulted in the various markets becoming interlinked. Any event occurring in US capital markets would send tremors to the shareholders across the world. Recent debt crisis of European Union has considerably affected the growth of world economy.

4. GLOBALIZATION V/S REGIONALISM:

The important basic concern today amongst the world economists is about the implications of regional trade blocs for global welfare and multilaterality. There are apprehensions in a section, that the formation of big regional economic groups such as the European Common market and the North American Free Trade Area will tilt the balance away from multilateralism and lead to fragmentation of the world trading system.

Some economists view regionalism as a means of achieving locally what seems impossible to attain globally. They even feel, more the regional blocs, more the benefits to members. There must be a healthy competition among different regional economic blocs to attract member countries, so that the member countries will get the most out of a regional bloc. This will naturally enhance and facilitate the multilateralism.

However, most economists would agree that complete free trade in the world is the most desirable objective and that present framework of global trading system is not necessarily the best. Even though there are good reasons to believe that regional economic co-operation and integration, especially among developing countries, can greatly help in expanding world trade. Whether regionalism can even advance the cause of multilateralism are issues that are still being debated.

The raising inspiration for the emergence for new regional trading blocs is the desire on the part of a group of countries to strengthen their national economies by relaxing different kinds of barriers to trade and other related areas. This is based on the perception that it is premature to envisage the removal of trade barriers across all the countries or the introduction of free trade or even that of preferential tariff arrangements among a group of countries can be expected to facilitate the process of industrialization through exploitation of complementarities and strengthening of competitiveness of the economies within the region. Such arrangements would ultimately lead to specialization and regional economic integration based on utilizing economies of scale for producing for the regional market as a whole.

The establishment of new institutional arrangements or strengthening the existing ones for regional economic co-operation among developing countries can also be viewed as their response to the increasing importance of the process of globalization of the world economy. A process that is characterized by features such as the technological paradigm, the new sourcing (Out-sourcing) practices of the global firms, the crucial role of information flows facilitated by the rapid development in global communication networks, global flows of private capital and the growing importance of trade in services.

The formation of regional economic groups does not contradict the principles underlying multilateralism is evident from the fact that the very first United Nations Conference on Trade and Development (UNCTAD) held in the early 1960's envisaged the role of regional economic co-operation as potential instrument for accelerating economic growth in the developing countries. The final act of the first UNCTAD conference held in 1964 stated:

"Regional Economic Groupings, integration or other forms of economic co-operation should be promoted among developing countries as a means of expanding intra-regional and extra-regional trade and encouraging their economic growth and their industrial and agricultural diversification with due regard to the special features of development of the various countries concerned as well as their economic and social systems".

It is also important to note that Article 24 of WTO (GATT) Treaty has the provision that permits the establishment of trading blocs among countries, which grant each other reciprocal trade preferences without requiring that they necessarily be extended to the rest of the countries. The implication of this provision is that the establishment of regional trading arrangements does not negate the spirit of multilaterally enunciated by the WTO Treaty.

In sum, Regionalism helps in stimulating the forces of competition within a regional and the region's competitive edge in global markets. Regionalism can thus be a response to globalization and at the same time stimulate the microeconomic forces that drive globalization.

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