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GLOBALIZATION AND REGIONAL INTEGRATION

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GLOBALIZATION AND REGIONAL INTEGRATION[1]

S. Sideri

ABSTRACT

Globalization affects most capitalist economic and social relations and represents the most significant aspect of current international relations. Yet, increasingly noticeable appears the shift toward regionalism. In order to assess the relevance of these apparently contrasting phenomena and their relationship, the paper considers the impact of globalization on the nation-state, the causes for the emergence of regionalism, and the complications created by the rising demands of devolution emanating from sub-national levels. The review of the various cases of regional integration not only underlines the similarities but also the differences in these variegated processes.

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INTRODUCTION

While the fascination with globalization, and its effects, is fast growing, the shift toward regionalism is also becoming quite clear. It is the intention here to analyze these two apparently contrasting phenomena in order to assess their relevance and the eventual connection between the two processes. In terms of the paper's structure, the first section deals with globalization and its impact, particularly on the nation-state. Section two starts considering the emergence of regionalism, its causes, and the complications created by the rising demand of devolution. Its sub-sections analyze in detail the various cases of regional integration, starting with Europe and then following with North America, Asia, Latin America and the rest of the Third World. Some reflections and rather tentative conclusions are presented in the third section, followed by references.

1. GLOBALIZATION AND ITS IMPACT

Globalization is essentially a process driven by economic forces, whose immediate causes are, in this order, the spatial reorganisation of production, the international trade, and, finally, the integration of financial markets. It affects most capitalist economic and social relations and represents by far the most significant aspect of current international relations. Being largely responsible for the end of the Cold War and therefore of the universalization of the operations of capitalism, although its regional spread is still uneven, globalization is reorganizing power at world level as well as at national or sub-national levels. The apparent universalization of capitalism justifies the contention that there is also a single path of economic, political, and social development for the entire world - free markets and political liberalism[2] - hence

[2] This globalist view satisfies the Right's anti-political liberalism, since trade, trans-national companies and capital markets are freed from the constraints of politics and labour organizations, operations made more secure also by the emergence of a de-militarized world, therefore denying 'both the need for strong international governance and the possibility of national level action'. The globalist view satisfies also the Left, since 'globalization proves the reality of the world capitalist system and the illusory nature of national reformist strategies, even if this intellectual certainty is bought at the price of political impotence'. Both 'can thus mutually celebrate the end of the Kaynesian era' [Hirst and Thompson, 1995: 424 and 414].
A rather different distinction involving globalism sees it either as 'a Kantian-Grotian-Hegelian reasoning that promotes the rule of international law, universal human rights,

Fukuyama's end of history.

By allowing nations to specialize in different branches of manufacturing and even in different stages of production within a specific industry, international trade has contributed to the creation of the present global manufacturing system. This dispersion of production capacity to a wide number of developed as well as developing countries, each performing tasks in which it has a cost advantage[3], has, however, been made possible by both new forms of investment and financing, promoted by specific government policies, and by technological advance. The latter has prompted that 'knowledge era' in which the creation, storage and use of knowledge are becoming the basic economic activity. The result is distinctive patterns of spatial and social

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a global ecological order, and other concerns of a liberal world order' or as reflecting 'Robert Cox's (1987) Gramscian international political economy where a capitalist 'world-hegemony' turns states inside-out ('the internationalizing of the state') to service the needs of international production'. 'Both strands of globalism share a common conviction: international relations is homogenizing...and internationalization ultimately leads to globalization: that is, one world order" which basically is Western-lead [Ling, 1996: 1-2]. The same author instead sustains that internationalization promotes, rather than eliminates, hybridity, and neither 'the 'new world order' of liberal internationalism nor the 'world hegemony' of Gramscian globalism adequately captures the transformative dynamics of our contemporary world political economy' [Ling, 1996: 3].

For Gilpin [1987: 389] instead the growth in global interdependence has undermined 'the postwar 'compromise of embedded liberalism' and the clash between domestic autonomy and international norms reasserted itself in the major economies of the international system'. Among the possible solutions to cope with the problem - increase international policy cooperation, harmonization of domestic structures, greater autonomy and even delinking of national economies - Gilpin does not consider regionalism, although he deals with the phenomenon at the very end of his treatise.

3 The growing practice followed by domestic firms of importing intermediate inputs is called outsourcing, simultaneously an effect and a cause, of globalization. This phenomenon is considered responsible for the reduced demand for less skilled labour as firms respond to import competition from low-wage countries by moving non-skill-intensive activities abroad. As a result trade reduces the wages of less skilled labour and shifts employment towards skilled workers within, rather than across, industries [Feenstra and Hanson, 1996: 240]. The trend toward sourcing from low-wage countries is contrasted by the electronic point of sale (EPO) system adopted by Western retailers. Because it forces manufacturers to seek short delivery times and very responsive production methods and the producers of components to adopt just-in-time strategies, thus imposing short delivery times also to sub-contractors and suppliers, EPO favours sourcing from the advanced countries, and as locally as possible.

organization.

Globalization implies both multilateralism, i.e. mainly multilateral trade liberalization and trade policy, and micro-economic phenomena, particularly firms' competitiveness at the global level and the profound transformation of work organization[4]. In fact, the

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4 Oman [1994: 31-2] indicates three reasons for not accepting the identification of globalization with multilateralism: (i) it clouds the specificity of the current globalization with respect to those that have preceded it; (ii) it makes difficult to analyze the phenomenon of regionalism, which is often driven by other motivations than trade; and (iii) it makes difficult to understand the nature of the interaction between globalization and regionalism. As for the relevance of the micro-economic aspects Oman [1994: 57-8] sustains that the diffusion of the 'flexible production' system and the crisis of 'fordism' are shaping the dynamics of the present wave of regionalism. The 'flexible production' system implies a complete overhaul of the value added chain based on simultaneous engineering, continuous innovation, extensive use of general or multipurpose machinery and skilled workers, team work which closely integrates manual and mental tasks. This allows to produce differentiated products and small batches of production for niche markets. Competition is combined with co-operative links among firms: the horizontal integration of production is based on thick networks among firms and sub-contracting relations: the 'just-in-time' organization. Also very flexible and variegate is the response to falling markets: namely diversification of production, innovation, sub-contracting and lay-offs, while the 'forms of social regulation are mainly established at a local level, with an important role of specific local institutions'[Garofoli, 1992: 3].
The main problem with this new system is that it is less 'robust', or more 'fragile', than the Ford system due to its dependence on the reliability of communication and transportation structures and on the quality of labour. (Fordism concerns mainly mass-production of standard goods in big plants in which economies are obtained through fixed capital and labour productivity increases within the production process. 'The prevailing form of the market is the oligopolistic one and the management of the economy is organized at the national level, especially with the goal to offset the immanent tendency to over-production'. The resulting pattern of production is therefore determined by the combination of Taylorism and Kaynesian state [Garofoli, 1992: 3]). This makes the flexible specialization system less feasible for developing countries and explains the growing structural unemployment of the developed ones. Furthermore, since the 'flexible production' system tends to reduce the importance of the cost of labour - its share of variable production cost declining - the need to move production into developing countries in order to exploit their comparative advantage becomes less pressing - see also footnote 3. Much more relevant becomes instead proximity, due to the synergic character of the relationship between firms and their suppliers and their clients, hence the creation of production networks in each of the regional market, that 'global localisation' which contributes to current regionalism. Which also explains why often MNCs are more interested in regional integration and less worried about the commercial obstacles to inter-regional exchanges [Oman: 86-91]. Flexible production is also identify with global capitalism, a capitalism that is no

creation of a world market for labour and production has been made possible by the segmentation of the manufacturing process into multiple partial operations which, combined with the development of cheap transportation and communications networks, has brought the increasing division of production into separate stages carried out in different locations. This massive industrial de-location or redeployment of productive activities ('global localization' is the expression created by Sony's boss Akio Morita), supported by direct foreign investment, has then made possible 'to explode the value-added chain' and the creation of the multinational corporation (MNC), causing, in turn, large-scale migratory flows and the feminisation of labour. As domestic industries transfer abroad a growing amount of their production, land becomes less valuable than technology, knowledge, and direct investment, and 'the function of the state is being further redefined' [Rosecrance, 1996: 46].

Clearly, globalization is affecting the class structure, the labour process, the application of technology, the structure and organization of capital, the family life, the organization of cities and the use of space. The spatial reorganization of production[5] has been also enhanced by the need to cope with the exchange rate fluctuations brought about by the financial deregulation. The world economy is therefore characterized by a growing share of its GDP depending directly from international trade (the share of trade in world output has increased from 7% to 20% between 1950 and 1995 [Boltho, 1996: Table 2, 256] and foreign capital and globalization indicates

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longer nationally based but has been deterritorialized and instead is located in the narrative of MNCs.

5 Concerning the spatial reorganization of production, the traditional theory of division of labour 'has focused on efficiency stemming from specialisation, with implications for developing particular products for trade and thus deriving comparative advantages on the international level' and positing the nation-state as the unit of production and exchange. The 'new international division of labour' emerged in the 1960s 'to explain the shift of manufacturing from advanced capitalist to developing countries... process driven by declining profits in industrial centres'. Looking beyond this logic of capital, and the 'new international division of labour', its seems rather that engineering changes and pervasive computer applications have made possible the decomposition of manufacturing operations, the 'technological devolution to the NICs in crucial sectors linked to transport and communications', the industrialised countries' shift to more technology-intensive lines and their conversion to services, and, finally, the 'formation and expansion of a world market for both labour and industrial sites' [Mittelman: 1994; 438-9 and 429].

the integration of free markets, financial flows, trade and information[6].

The quickening of international competition and the transformation of production systems (industry is now based on a 'flexible production' system, see footnote 4) are fast creating a truly international labour market 'and workers are more likely to be in the service sector, working part-time or engaged in informal sector activities' [UNRISD, 1995: 9]. Hence the risk that globalization and technological change penalize and marginalize the less educated and less skilled labour - those left-behinds who are the poor in the US and the unemployed in Europe - while economic growth and expansion of firms do not any more imply an increase of employment. Having established a very powerful set of rules and standards for how countries have to behave if they are to attract investment capital, thus grow, globalization causes higher remuneration of capital because of its greater global mobility[7] compared with that of labour.

To the higher remuneration of capital contribute also the labour reductions made possible by technological and organizational changes[8]. Clearly productivity increases do not any more necessarily translate into more jobs and higher wages. If in the past 'higher profits meant more job security and better wages', global competition 'tends to delink the fate of the corporation from the fate of its employees' [Schwab and

6 Over the past decade international trade has grown twice as fast as output, presently more than $4 trillion per year, while foreign direct investment has risen three times as fast. International capital markets' turn over is now close to $100 trillion and foreign exchange transactions to approximately $1.3 trillion per day.

7 Not everybody is pleased with the mobility achieved by capital and the World Bank [1989: 4] warns that excessively unregulated markets 'can be unstable and susceptible to fraud', which justifies the call for 'a greater degree of control by international agencies and governments than the financial liberalization literature suggests' [Collier and Mayer, 1989: 11]. Some emphasise the need that capital once again becomes socially rooted, because 'only when those who allocate a society's investible resources are full and responsible members of that society is possible to strike a reasonable balance between politics and economics' [Bienefeld, 1994: 39]. Furthermore, *The Economist* [07.10.1995: 14] holds that 'the international competition for capital is fiercer, and this is exercising a new influence (or should be) on the design of all manner of government policy'.

8 A reaction to this internal marginalization is the populism of P. Buchanan in the USA, the Communists in Russia, the Welfare Party in Turkey and Rifondazione Comunista in Italy, all intended to defy globalization or ease its pain.

Smadja, 1996]. Nor is any longer possible to assume that the jobs that are eliminated within the advanced economies end up in the developing countries, since their opening up to world commerce - synonymous with integration - attracts investment, but also world-competitive imports that destroy local manufactures[9]. Contrary to what is happening in the traditional industrial countries, in Asia, particularly Asia Pacific, the linkage between growth of real output and employment and labour income remains an important aspect of the pattern of development and industrialization.

The emergence of a global economy entails the diffusion to distant countries of identical consumer goods, including consumerism, patterns of demand and the homogenization of markets' rules and structures. It also entails the spread of values, such as the dominance of market forces, and of the preference for liberal democracy, even though this is a more contentious point than the preeminence of the market. The growing exchange of goods across frontiers also involves that of 'bads' such as narcotic drugs, pollution, etc. [Griffin and Khan, 1992: 63]. And although the phenomenon of globalization is necessarily a 'totalising or homogenising force', its scope extends beyond the realm of economics to embrace science, politics, culture and life styles. If it 'articulates with local structures in diverse ways' and allows 'distinct regional divisions of labour', yet globalization makes it possible for 'the economy, politics, culture and ideology of one country to penetrate another', while the distinct regional divisions of labour are 'ultimately subordinate to the globalization process' [Mittelman, 1994: 428 and 430][10].

The analysis of the effects of globalization is much helped by the discussion relative

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9 Developing countries' concern that globalization may actually worsen their economic perspectives, or at least that of some of them, has been followed by the fear that trading with the developing countries will impoverish the developed countries, since it depresses the latter's wages, hence their standard of living - for the most relevant literature see footnote 32.

10 'In a post-Westphalian and post-Cold War world', continues Mittelman [1994: 440] 'there is one and only one, metastructure - capitalism - establishing the rules for mobility, whether upward or downward'. But, since 'the capitalist world is no longer just a 'world economy': it is also a space of unified and monopolized world communications in which, potentially, all populations are somehow immediately 'visible' to, and in contact with, one another', Balibar [1991: 14] can rightly point out that 'such a world has never before existed in history', he then argues that to the old xenophobia or fear of foreigners it has now been added 'also racism as fear and hatred of *neighbours* who are near and different at the same time'.

to whether growing globalization leads to an international economy or to a really global one[11]. According to Hirst and Thompson [1992: 358-30] world-wide international economy is one centred on national states, their growing strategic interdependence built first around international trade's importance (the volume of world trade continues to expand at roughly twice the rate of growth of world production), but progressively replaced by foreign investment's. In this system the 'international and domestic policy fields either remain separated as distinct levels of governance or, allegedly, they work 'automatically'', i.e. under the impact of unorganized or spontaneous market forces, like with the Gold Standard with its overt domestic policy interventions. The development of the current system is largely the result of the absence of a global hegemony[12] and of the political resistance to delegate authority to a supranational authority capable of generating a more disciplined order.

It is within this world-wide international economic system that has risen and matured the MNC which, like most companies trading from their bases in distinct national economies, has not necessarily lost a national identity - which also explain why it seems inappropriate to call it Transnational Company (TNC)[13]. Since 'national policies remain viable, indeed, essential in order to preserve the distinct styles and strengths of the national economy base and the companies that trade from it', so the

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11 One of the most prominent sociologist to deal with globalization maintains that 'what has come to be called globalization is...best understood as indicating the problem of *the forms* in terms of which the world becomes 'united', but by no means integrated in naive functionalist mode'. As a concept globalization 'should be applied to a particular series of developments concerning *the concrete structuration of the world as a whole*', an 'entry to the problem of world order in the most general sense... a phenomenon which clearly requires what is conventionally called interdisciplinary treatment'. Therefore, the problem of globality 'is very likely to become a basis of major ideological and analytical cleavages of the twenty-first century' [Robertson, 1990: 18, 20 and 22].

12 Notwithstanding the exceptionally favourable conditions prevailing at Bretton Woods the resulting system has not proved to be an enlightened world financial government, but an extension of the US domestic financial system to the world [Panic, 1995].

13 'Beneath the surface, many multinationals remain stubbornly monocultural. The proportion of foreign-born board members of America's 500 leading companies in 1991 was 2.1%, the same as ten years earlier'. Even fewer the foreigners in Japanese companies [*The Economist*, 24.05.1995: 'Survey Multinationals', 14].

nation-state's regulation of business and negotiation of trade agreements provides some governance to the international economy [Hirst and Thompson, 1995: 424 and 408; 1992: 393]. An important characteristic of the current international economic system, which moreover is not entirely a new phenomenon[14], is the bias to disinflationary macroeconomic policies that international capital market entails [Hutton, 1995: 306]. On the whole, against the thesis of a truly globalized economy the following arguments can be listed: (i) the number of genuine TNCs is small, most of what appears as supra-national is due to the rapid growth in inter-firm partnerships and joint-ventures; (ii) both foreign trade flows and patterns of foreign direct investment are highly concentrated and overwhelming among developed economies and few NICs; (iii) financial markets are not necessarily beyond regulation, as demonstrated by the success of the Plaza and Louvre accords; and (iv) even the rapid development of some areas of the Third World is not unprecedented and often depends on authoritarian governments' ability to repress political protests.

The world-wide economy is instead 'an aggregate of nationally-located functions' of truly global markets and production, as 'distinct national economies are subsumed and rearticulated into the system by essentially international processes and transactions'[15] dominated by international financial markets and trans-national companies. National policies become then 'futile, since economic outcomes are determined wholly by world market forces and by internal decisions of trans-national companies'. The transformation of the MNC into the TNC makes it a major player in the world economy, a player that, no longer based on one predominant national location, the policies of particular national states cannot control or constrain in any way [Hirst and Thompson, 1992: 360-2 and 1995: 414].

Even if the globalization observable today is considered still quite limited, nevertheless the scope for state autonomy is certainly reduced since its control over economic and

14 Among those who maintain that the present international system has been around much longer, see Thomson and Krasner [1989].

15 Trans-national or trans-social processes are those that take place not only on an inter-state level but transcend the state-society unit. The emerging of trans-societal cultural processes, in a variety of forms, makes possible to conceive sets of 'third cultures' and, tentatively, even a global culture. It is in fact sustained that 'the intensity and rapidity of today's global cultural flows have contributed to the sense that the world is a singular place which entails the proliferation of new cultural forms for encounters' [Featherstone, 1990: 10].

social processes within its territory has become less exclusive, and its ability to maintain national distinctiveness and cultural homogeneity has been curtailed. Once considered the basic units of geopolitics, nation-states' dominant role and independence are being undermined by different challenges, all connected to the process of globalization. According to *The Economist* [23.12.1995-05.01.1996: 17] these challenges come from: (i) the transportation revolution which has 'demolished any lingering belief in national self-sufficiency'; (ii) the materialization of the third dimension - the air - in the use of force which has changed the nature of war and left countries naked to air attacks; and (iii) the information revolution and the globalization of knowledge which are 'blurring the sense of national separateness'. By loosening the state's exclusiveness of control of its territory, the communications and information technologies are 'reducing its capacity for cultural control and homogenization', thus making exclusion more difficult [Hirst and Thompson, 1995: 419][16]. In the case of the European Union's (EU), its direct involvement in the liberalization of infrastructure and telecommunication services represents both the logical consequence of the completion of the single market and the EU's answer to the emergence of the global market for information. Furthermore, as Griffin and Khan [1992: 63] rightly observe, the arms technology and the militarization of the oceans and the outer space have made political boundaries largely irrelevant in most of the world. With the absence of and immediate enemy - like after the end of the Cold War when the Western countries lost the common purpose under which they had co-operated for so many years - the nation-state becomes less significant to the citizen.

It seems then that the diminished role of the state is accompanied by, and is the result of, the emergence of a multi-layered and overlapping system of governance by often competing institutions, agencies and centres of power. This complex system entails different levels and functions which vary from the global level, to the regional, the statal, sub-national, industrial district, and 'entity' level. There is also another possible level, the trans-regional one made up by agreement between different regional groupings, e.g. APEC, the US-EU bilateral agreement reconciling different approaches to competition policy, and, even more appropriately, the proposed Transatlantic Free

16 Even though the state remains a controller of its borders and the movement of people across them, the advanced countries seeking 'to police the movement of the world's poor and exclude them,... will not be able effectively to use as principle of exclusion the claim to cultural homogeneity - for they are ethnically and culturally pluralistic' [Hirst and Thompson, 1995: 420-21].

Trade Area between NAFTA (Northern American Free Trade Area) and the EU[17].

Once it becomes apparent that 'the state no longer serves primarily as a buffer or shield against the world economy' but, instead, has become an agent in the process of globalization [Mittelman, 1994: 431], reactions develop in opposite directions: the emergence, or re-emergence, of local movements aiming at gaining autonomy or even independence from present nation-states and a rush towards regionalism[18], within which the latter's sovereignty will be curtailed. One manifestation of the conflict between the fragmentation and the unification generated by the globalization, a conflict that is shaping the world order, is the rapid homogenization of markets and the rise of ethnic, cultural and regional identities. In general, the conflict is then between economic integration and political separatism. Among these fragmenting tensions must be included the emergence of 'entities', such as the Palestinian Authority or the Bosnian accord. These are newly formed polity - non-quite nations, often the remnants of old nations - created by nationalist forces liberated at the end of the Cold War. A phenomenon often identified with 'overlapping sovereignty', its most immediate task

17 Given that 'politics is about rule' and any system of rule comprises 'legitimate dominion over a spatial extension' hence the territorial state is not the only form politics takes. Since 'systems of rule need not be territorial at all', they 'need not be territorially fixed' and 'need not entail mutual exclusion', it is likely that 'the modern system of states may be yielding in some instances to postmodern forms of configuring political space', the best example of which is the EU. This 'may constitute nothing less than the emergence of the first truly postmodern international political form', somewhat similar to the situation prevailing in its medieval past when a 'patchwork of overlapping and incomplete rights of government which were intrinsically superimposed and tangled' [Ruggie, 1993: 144, 148-9 and 140].

18 Broadly defined, regionalism refers to preferential trade agreements among a subset of nations [Bhagwati, 1993: 22]. Lorenz [1992: 84] distinguishes, however, between regionalization, i.e. 'the outcome of a natural location phenomenon leading to close economic ties within a region' and regionalism which instead refers to 'the creation of preferential-trading arrangements'. He also considers regionalization a more 'neutral' and adequate term for focusing 'on the rising intra-regional interdependence (cluster) of trade and other economic activities such as direct investment etc., as the *natural* outcome of the regional development process' without government-initiated RTAs [Lorenz, 1993: 256]. The present continent-wide regionalization needs, however, 'a broader framework of analysis and reference than traditional reallocation analysis: it must include a broader perspective that encompasses geography and social values' [Lorenz, 1992: 87]. Nevertheless regionalism is used throughout the paper in the probably mistaken hope that the utilization of this more common term might make the text clearer and shorter. As for 'natural' arrangements see later under section 2.

is to avoid further fragmentation and/or killing on large scale [Dickey, 1995: 22 and 25]. It is also argued that the world becomes more democratic, so it splits into smaller political jurisdictions which from an economic point of view tends also to be too small. If 'democratization leads to secessions' - i.e. 'too many nation may emerge as democracy spreads' and separation 'is to produce government policies that are 'closer to the people'' [Bolton *et al.* 1996: 701] - also economic integration tends to encourage smaller entities to go it alone, thus 'political separatism should go hand in hand with economic integration' [Alesina and Spolaore, 1995: 2-3 and 22]. Since national self-determination derives its legitimacy from the notions of democracy and cultural homogeneity, when the state pushes its rights to the limits, devolution is no longer consider sufficient and it is secession that becomes associated with freedom and democracy.

The various governing powers 'need to be tied together'. If this does not happen then 'gaps' between different agencies and dimensions of governance must be closed, by what Hirst and Thompson [1995: 423] aptly call a process of 'suturing', a process to which regionalization may effectively contribute. The more extreme globalization theorists, like Ohmae [1993] (see also Jean-Marie Guéhenno's *The End of the Nation-State)* consider, however, unnecessary any attempt at an institutional architecture to govern this complex system either because they believe it ungovernable, or because they see the market as a satisfactory mode of gover*nance*[19]. Yet, markets and companies cannot exist without the protection of the public power (even deregulation requires the active intervention of the state), just as 'the open international economy depends ultimately on Western (particularly US) force and upon active public regulation backed by legal enforcement', i.e. by nation-states [Hirst and Thompson, 1995: 427]. Like the national market, the international one must be 'embedded' in a context of non-market social institutions and regulatory mechanisms, least instability and inefficiency prevail [Polanyi, 1957: Chapter 5 and 6]. Only the most extreme advocates of economic liberalism, or 'global neoclassicism' - see later - deny that a free market is not a state of nature, but it must be produces and regulated, just as property rights, without which there is no market, are not endowed by nature.

While international markets have eroded the political sovereignty, the state is

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19 Most international investment houses bond dealers and MNC treasurers are not easily persuaded that the current financial order is either unstable or economically inefficient [Hutton, 305].

increasingly unable to act unilaterally on economic matters and achieve its objective. In fact, the globalization of currency markets has made it more difficult for central banks to control the money supply; that of bond markets has made it more difficult for the state to determine nominal rates of interest; transfer pricing by MNCs has made it easier for them to shift their profit tax liabilities from high to low taxation countries; and the ability of large firms to locate their fixed investment almost anywhere in the world has reduced the power of the state not only to regulate industry through taxation, but also to impose minimum wages, environmental controls, health and safety standards, or anything else [Griffin and Khan, 1992: 61]. The size and behaviour of MNCs[20] have radically undermined conventional approaches to industrial theory and policy, while their rising importance has enhanced their influence over governments and their action in defence of the global market, making them into formidable obstacles to the protection of sectors less able to cope with global competition.

The erosion of national borders is being accelerated by the emergence of global collaborative R&D programmes, including Europe's supra-national research schemes. The globalization of R&D facilities is expected to continue at a fast pace for three main reasons [Sigurdson, 1996: 25]: (i) the ongoing process of mergers and acquisitions naturally leads to more and more R&D facilities being controlled by companies with their manufacturing and/or headquarters in another country; (ii) the need to adapt more and more sophisticated products and systems to local conditions requires the localization of R&D; and (iii) more and more companies are sourcing their knowledge generation in countries and regions where such resources can more easily be obtained and where the costs may be considered lower.

If there has been a strengthening of the government's influence on the location of economic activity by international companies, the emphasis in the government's

[20] The total value of MNC production started exceeding the total value of world trade since the late 1970s; in 1992 the sales of MNCs' foreign affiliates was $5.8 trillion against $3.7 trillion of world trade. Meanwhile the share of intra-firm trade in world trade has increased from 20% in the early 1970s to more than one third in the early 1990s. Since the late 1960s the number of the world's MNCs is estimated to have increased from 7,000 to some 40,000, with 250,000 foreign affiliates. On the whole they employ 12 million workers in the developing countries and 61 million in the developed ones [UNCTAD, 1995: xx-xxi]. The combined global employment of the top 200 firms is estimated at 18.8 million, whereas their total sales add up to more than a quarter of the world's output, an amount larger than the combined economies of all countries minus the biggest nine [Anderson and Kavanagh, 1996].

actions has changed from removing structural distortions in domestic markets to facilitating the supply capabilities of their own firms 'by lowering transaction-related barriers, and by fostering the upgrading and structural redeployment of the assets within their jurisdiction' [Dunning, 1993: 10-11 and 345].

Leaving aside the survival of the nation-state, its legitimacy, relevance and effectiveness are seriously challenged by the growing need to establish some form of governance of the globalized economy[21]. This governance, however, cannot be assured by the existing set of international institutions which, being mostly intergovernmental rather than supranational agencies, are being rendered ineffective and obsolete by the weakening of the state caused by the process of globalization. The task of global governance is, however, complicated by the realization of the difficulties inherent in any attempt to regulate global markets and that growing interdependence might even cause disintegration[22]. Besides there is the problem posed by the diseconomies of scale that certainly would affect the management structure required by such a task, and this while the demand for more citizen participation keeps growing, thus requiring some decentralization of the decision-making process [Arndt, 1993: 280-1]. Furthermore,

> there is now no doctrinally grounded and technically effective regime of macro-economic management that can produce sustained expansionary effects,

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21 The term global governance has not yet a fixed meaning. To define it one can use either the Gramscian or the Weberian approach. For the first, global governance consists of the creation of ideological consensus and its propagation by international organizations so as to secure the reproduction and worldwide extension of industrial capitalism. From the few Weberian definitions existing, the most recent is that adopted by the Carlsson-Ramphal's 'Commission on Global Governance' where global governance is the outcome of a partnership between the agencies of the UN system and the network of worldwide civil society. For an extensive discussion of the problems see C.N. Murphy's *International Organizations and Industrial Change: Global Governance since 1850* (Polity Press, Cambridge, 1994) and J.N. Rosenau's 'Governance, order, and change in world politics', in J.N. Rosenau and E-O. Czempiel (eds), *Governance without Government: Order and Change in World Politics* (Cambridge U.P., Cambridge, 1992)).

22 Although economic integration, to the extent that it occurs, brings greater economic interdependence, it is possible that the two do not coincide, i.e. two or more countries reach a high degree of integration and, simultaneously, a low level of interdependence (e.g. Australia and New Zealand) and vice versa (e.g. the European countries before the development of EU) [ADB, 1996: 209].

since

> neither the financial markets not the Brussels bureaucracy... can impose or secure the forms of social cohesion and the policies that follow from them that national governments can [Hirst and Thompson, 1992: 371-2].

Meanwhile the growing degree of internationalization of business forces governments as well as firms, particularly in industries dominated by MNCs, to adopt globally oriented macro-organizational strategies and micro-economic policies, respectively, which, in turn, requires a reappraisal of the available policies [Dunning, 1993: 9].

There is, however, no doubt that the growing globalization is going to make the issue of international governance likely to command increasing attention in the coming years [Griffin and Khan, 1992: 83][23] for the good reason that global integration has seriously changed the rules of macroeconomic policy, or better 'the timing and the severity of the consequences' if the constraints underlying these policies are ignored [*The Economist*, 07.10 1996: 14].

The demise of the Bretton Woods system and the shift to floating exchange rates has accelerated the internationalization of capital markets, the expansion of international lending and security dealing, and the development of several new instruments to cope with the associated risk. This has caused a shift of power from policy makers to financial markets, weakening both the policy choices available to governments and the effectiveness of the instruments they can use[24]. But globalization has also made

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23 For the global economic management three broad possibilities are considered by Griffin and Khan [1992: 84-6]: (i) given its reduced domination of the world scene, the USA could continue to withdraw gradually its financial and political support from the existing international organizations causing the disintegration of the present system of international governance; (ii) the major powers could tacitly agree to by-pass the established institutions and attempt to resolve problems as they arise on an *ad hoc* basis. This is the 'international governance by plutocracy' which considerable evidence indicate has been happening; and (iii) the emergence of a consensus in favour of reforming the existing institutions, and if necessary creating new ones, in order to strengthen the multilateral approach to international governance.

24 The fierce international competition for capital has made financial markets judge and jury of economic policy-making, making it much more difficult for governments to determine interest rates and exchange rates or even tax rates. To assuage bond holders, inflation must be check at any cost, including excessive deflationary policies. At the same time, changes in interest rates or government

financial markets much more volatile and local capital vulnerable to the strategies of corporate raiders, hence the need of new norms for this market, or even an institutional framework[25]. This need derives from an imbalance between the global dimension of the problems and the national dimension of the government structure of each economy, and it has remained unsatisfied yet because it requires co-operation among the principal governments.

Yet, although many governments insist in merely addressing national political agendas, it is 'the present urge to deregulate the state out of existence' that is threatening international co-operation in many areas of macroeconomic policy [Boltho, 1996: 259]. This significant change in the regulatory climate, with emphasis on competition and internationalization, reflects a distinctly anti-Kaynesian view (namely that governments had the duty and the power to enhance national welfare through discretionary policy action) which Schor [1992] aptly refers to as 'global neoclassicism'. The same change in the regulatory climate militates against the institutionalization of international co-operation thus making it more difficult and less effective[26].

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borrowing have a smaller impact on the economy since firms have access to a global financial market and to the vast array of new financial instruments - see the excellent Survey 'The world economy' (*The Economist*, 07.10.1995) which holds that 'on the whole, markets take power away from governments that do the wrong things: borrow recklessly, run inflationary policies or try to defend unsustainable exchange rates'. As for the developing countries, 'the basis for supporting financial liberalization is weak' and its 'benefits.. can at best be described as unproven... The case for controls on capital inflows comes from the fact that the first stage of development involves governments in establishing reputation for pursuing sound growth strategies' [Collier and Mayer, 1989: 10]. Regional integration can help by enhancing the credibility of the member countries' financial systems.

25 It is rightly sustained that 'the emergence of global financial markets has fundamentally altered the reality that the IMF was intended to manage. Promoting exchange rate stability and adjustment is still the IMF's mandate, but the institution no longer has the power to pursue such goals on a global scale' [Padoa-Schioppa and Saccomanni, 1994: 236].

26 Whereas Bretton Woods established a system - the government-led international monetary system (G-IMS) - 'with a built-in asymmetry between an integrating world market for goods and commodities and domestically insulated, government-regulated financial markets', the rise of international financial markets brought the current market-led international monetary system (M-IMS) which is 'the converse of the preceding one'. Since 'the M-IMS has eroded the power of national central banks and the effectiveness of their instruments', to ensure monetary and financial stability it is required 'a more complete set of policy functions' and some institutional requirements

A similar process of deregulation and globalization occurred within related professional activities. More competition in these services brought the creation of new categories of specialists, such as the 'design professionals' and the emergence of 'mega firms' and 'factories', while in the field of law globalization is also stimulating a process of homogenization and interconnection between national legal systems. Together with the necessary technical communication infrastructure, particularly the global mass media, all these developments have raised 'the spectre of cultural homogenization often in the form of 'cultural imperialism' or 'Americanization'' [Featherstone, 1990: 10].

In the present context of internationalization of economic activities[27], companies strive for improving their overall competition in major global and regional markets. The need to share high risks and costs, reduce time in research and development for product development, and gain access to markets, drives then into finding global partners to mesh industries into networks which have both strategic and long-term nature. Consequently,

> the modern globalising company has more and more taken on the character of a network or set of networks in which different types of co-operation, and forms of agreement, have become an integral part of the company itself [Sigurdson, 1996: 3-4][28].

Since even the largest MNCs find it increasingly difficult to remain sufficiently

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that may 'tend to resemble more the framework applying *within* a single nation-state that to the loose arrangements applying today *among* nation-states' [Padoa-Schioppa and Saccomanni, 1994: 264, 237, 240-1, 263, 262].

27 The role of technology is crucially important in fostering the internationalization of economic activity because of four reasons: technology is generally internationally mobile; the escalation of costs of product or process innovation force firms to seek world markets to sell their products and to form strategic alliances with other firms; the rapid increase of intra-industry trade among industrial countries, so that no nation has a technological hegemony; and, such technology has pushed further the geographical boundaries of both firms and markets [Dunning, 1993: 11].

28 These 'network enterprises' utilising the 'flexible production' system can be divided in two large categories: (i) the Northern German big enterprises or the Japanese *keiretsu*, which does its networking internally; and (ii) the 'industrial district' of Northern Italy, Southern Germany and Denmark, i.e. a large number of interconnected small enterprises [Oman, 1994: 94-5].

competitive in all parts of the value-added chain, strategic alliances offer the option to concentrate on core competencies and to access the remaining inputs from partners. The expansion of strategic alliances, a transborder corporate superstructure which mix and match nationalities, erodes the possibility of controlling the national system of innovation[29].

Because the 'economic globalization both changes the spatial dimension of MNCs and creates a need for more flexible production and marketing systems, and new forms of organization' [Dunning, 1993: 202], the global MNC is becoming a down-sized, outsourced and largely stateless web of cross-border corporate alliances, spanning different industries and countries. The companies entering these strategic alliances, held together by common goals, act almost as a single firm, the so-called 'relationship-enterprise'. Such an arrangement is also useful for firms to side-step the controls, like anti-trust laws, that governments tend to place on companies, controls which even MNCs have not yet been able to escape since the home base most of them maintain makes them less global than one might like to believe [*The Economist*, 06.02.1993: 65]. By the same token, however, the globalization of markets mainly takes place within a market structure which on the one hand presents clear oligopolistic features such as high concentration, instability and asymmetry, while on the other is characterized by the convergence of consumer needs and preferences' at similar income levels [Dunning, 1993: 202].

If the process of globalization has surely quickened the pace of changes, economically as well as politically, the speed and complexity by which capital, goods, services and people are moving around is making difficult to predict even the immediate future, hence the prevailing sense of a 'great global uncertainty' [Robertson, 1990: 16]. The uncertainty is further fuelled by the fact that 'political maps are being drawn and redrawn as myriad ethnic or political groups emerge to make new claims and stake out new territory. These changes have generated enormous social tensions that development policies have failed to tackle head-on', while 'power has been transferred

29 In the case of the EU, its member countries' ability to design and implement effective science and technology policy or industrial policy is seriously undermined by the rapid expansion of strategic alliances, as companies seek to reduce their financial and technological risks, and, simultaneously, by the emergence of the Community's initiatives for global science and technology programmes. As a result while the national economies', or what is referred to by this expression, competitiveness is enhanced, national policies and controls become obsolete.

to institutions that have consistently ignored the social implications of their actions' [UNRISD, 1995: 8]. One of the most dangerous temptations of globalization has been correctly identified by Griffin and Khan [1992: 66] in the tendency 'to skimp on higher education in order not to lose resources through brain drain and to run a low wage, low human development economy in order to keep costs low and international competition at bay'[30].

In support of the recurrent suggestion that globalization fosters inequality among countries and affects some countries' ability to obtain higher incomes, Krugman and Venables [1994] have developed a formal model that explains how the differentiation of countries into a rich core and a poor periphery takes place only after the world economy has reached a certain critical level of integration. Afterwards the rise of the core's income is partly at the expense of the periphery - the 'unequal development' of the 1960s and 1970s. Only when the process of integration has proceeded enough, so as to have eroded the advantages of the core, does the periphery's income start to rise 'may be partly at the core's expense'.

Besides, two issues are contributing to fuel increasing hostility to globalization: (i) the cultural diversity, outside the Western world; and (ii) fears for a loss of social cohesion and economic well-being in the Western countries. Differences in cultural preferences are brought to the forum by the acceleration of globalization and the inclusion into the process of former Socialist countries and larger Asian economies. The danger of 'cultural pollution' has been attributed to audio-visuals and foreign companies' access to the print and film media, including conditions for television transmissions, and also to advertising, retailing and banking. Even the harmonization

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30 Globalization makes markets 'less responsive to political pressure seeking to curb today's excessive, almost unlimited emphasis on competitiveness and cost reduction. This is partly because accumulated debts (public and private) ensure that policy choices are made under financial (and fiscal) distress; partly because, in a labour surplus world, economic liberalisation has unleashed a fierce competitive struggle in which the need for economic survival overrides other concerns; partly because further financial deregulation has made the international market even more volatile and unpredictable, and has forced policy makers everywhere to adjust their priorities to the expectations and fancies of international fund managers and speculators; and partly because the absence of a rival hegemonic power has simply reduced the need to make concessions to any demands reflecting a different set of social and economic priorities' [Bienefeld, 1994: 38]. The education policy followed by The Netherlands since the early 1970s offers a clear example of such an attitude.

of standards, which certainly facilitates international exchange and renders products and services cheaper, become objectionable when one considers that it also erodes many of the distinctions between different societies. The cry of clash of values or ethics become then unavoidable when attempting to build mechanisms for pressuring countries to comply with labour practices, human rights or environmental protection, by means of measures such as sanctions.

To accommodate different business practices among countries whose approach to environmental protection and restrictions on child labour are sharply at odds is not only an intrinsically hard task, but a very conflictive one which may create a backlash against the process of trade liberalization. Even defining minimum international standards relating to both terms and conditions of employment, and the environment[31], generates resistances and requires interventionist measures that contradict the process of globalization. The West's fears relate to the depressing effect that international trade may have on the real wages of unskilled workers[32]. Hence the demand for restrictions on 'unfair trade'[33], while a populist hostility has begun to materialize against globalization, but also against regional agreements with less

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31 Lal [1993: 356] worries that 'there is a contemporary movement in the West - the global environmentalists - who might trigger another round of imperialism in the name of saving Spaceship Earth', since 'ominous is the Greens' desire to dictate environmental policy to the rest of the world' .

32 Worries about the negative effect of trade liberalization on wages in the industrial world have been expressed not only by R. Perot, P. Buchanan and J. Goldsmith, but more authoritatively by M Allais, Nobel prize-winner in economics in 1988. On this topic, however, see A. Wood's *North-South Trade, Employment and Inequalities* (Oxford U.P., Oxford, 1994); P. Minford, J. Riley and E. Newell's *The Elixir of Growth: Trade, Non-trade Goods and Development* (Discussion Paper no. 1165, CEPR, London, 1995); R. Lawrence's *Trade, Multinationals and Labour* (Working Paper no. 4836, NBER, Cambridge, Mass., 1994); M. Slaufhter's 'The impact of international trade on US income distribution' (in R. O'Brien (ed.), *Finance and the International Economy*, Oxford U.P., Oxford, 1994); and *The Economist*'s Survey 'The Global Economy' (01.10.1994). Finally, see P. Krugman's 'Does Third World Growth Hurt First World Prosperity?' (*Harvard Business Review*, July/August 1994) and his response ('First, Do No Harm', *Foreign Affairs*, 75, 4, July/August 1966), with that of others, on the same journal, to E.B. Kapstein ('Workers and the World Economy', *Foreign Affairs*, 75, 3, May/June 1996).

33 Insisting that free trade require that countries have similar labour and environmental standards is like to asking for all comparative advantages to be eliminated before international trade begins.

developed economies, e.g. American opposition to NAFTA and European dissatisfaction with EU's eventual inclusion of Eastern European countries, and international agencies like WTO. Hence the preference for regional arrangements among rather similar economies which, able to compete constructively, could avoid the destructive social consequences caused by a global system of unrestrained competition, largely influenced by the MNCs' increasingly warlike fashion behaviour, which 'leads to winner take-all situations': those who come out on top win big, the losers risking to become the left-behinds [Schwab and Smadja, 1996]. Therefore, if competition between firms in different countries can never be 'fair', it may be so when taking place in the same country or within a regional bloc. In the last case, the integration of different economies into one market makes international trade merely a domestic exchange.

Notwithstanding the fact that 'the politics of managing globalization will not be easy' [Cable, 1996: 246], clearly globalization is here to stay and it is going to exercise an increasing influence on the pace and pattern of growth of the world economy and hence on the distribution of income and wealth. The large-scale disruptions that the process of globalization is thus causing, are, in turn, generating sustained pressure for self-protection, a contradiction that clearly characterizes a process as complex as globalization, and which certainly produce at the same time opportunities and challenges.

In fact, an important phenomenon that accompanies, or is caused by, the process of globalization, is the formation of regional trading blocs[34], the rise of which poses a special challenge to the multilateral system, hence to the global economy. This does not imply, however, that the trade blocs are necessarily going to reverse the globalization, but they may, ultimately, contribute to its development. In both developed and developing countries regionalism appears as the response to the

34 The term 'trade bloc', or 'trading bloc', is not only ill-defined [Henderson, 1994: 183], but its definition is 'problematic' [Bliss, 1994: 1] as 'ambivalent has been economists' attitude to this phenomenon [Lal, 1993: 349]. So, while the latter author considers all common markets and regional FTAs as trade blocs, for Wolf (1994: 13, quoted by Henderson) there are only two trade blocs: EU and NAFTA. Bliss [1994, 6] thinks that 'the evidence in favour of widespread block formation among the world's trading nations is not as impressive as many accounts would lead one to expect', but in the end recognizes that 'trading blocks have come into being and are being developed and extended' [Bliss, 1994: 136], while Henderson [1994: 184] admits that 'the significance of regional agreements has increased in recent years'.

declining effectiveness of the state and the need to shield some sectors and some areas from the less desirable effects of growing global competitiveness among nations. Hence, states try to control at the regional level what they find increasingly difficult to manage at the national level (by, for instance, industrial policy) and impossible at the global level (notwithstanding the efforts to promote international co-operation based on home country control of MNCs).

It so appears that despite the claims of the globalization enthusiasts, nation-states and, increasingly, trade blocs remain the dominant players in a fragmented and unstable world characterised by free trade within each of these blocs and managed trade between them and other countries [Sideri, 1993]. And while the end of the bipolarism, following the dismissal of the Cold War, heightens the danger of continuous frictions and tensions[35], 'paradoxically, globalisation engenders the regionalisation of conflict' [Mittelman. 1994: 440], even though it does not seem very likely that regional arrangements could spark a global trade war [Perroni and Whalley, 1996]. Undoubtedly, integration of nations has ambiguous economic benefits and certainly carries political costs, both largely related to the level of development of the countries considered.

2. THE RESPONSE OF REGIONALISM

In general, the need to adapt to the evolution of the world economic and political system explains the renewed interest in the potential of intra-regional co-operation through formal regional integration agreements (RIA), both multilateral and bilateral,

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35 A recent contribution to the international relations literature warns, however, that models of multipolarity as a substitute for bipolarity are both empirically and conceptually too narrow to provide comprehensive and compelling account of the disparity of power in the contemporary international order. In fact, while bipolarity rested on a relative cohesion between the capacity to define purpose and generate military and economic power, the end of bipolarity and the consequent 'loosening' of world order has seen the decoupling of purpose and power. This divergence between purpose and power finds its strongest and most visible expression in the contrast between the rapid globalization of markets and the rise of ethnic, cultural and regional identities [Laïdi. 1995]. The essential characteristic of the present system has been effectively rendered by a Japanese diplomat: 'The multilateral trade system is really the trilateral trade system'. From which follows a simple negotiating dynamic 'If you can get an ally on an issue, you win 2-1' [*IHT*, 1996].

or different kinds of informal arrangements[36]. For most developed countries the aim of regionalism is 'to recapture collective autonomy in relation to the United States, and to begin to organize a competitive response to the Japanese challenge' [Streeck and Schmitter, 1991: 149]. In the case of many developing countries the need to adapting to the globalization is complemented by the fact that the previous industrialization strategy, namely import substitution, has come to be considered inadequate, replaced by a new one centred on exporting finished products and international competitiveness[37].

Naturally, the constraints imposed by the process of globalization matter much more for the medium and smaller countries than for the major powers[38], since in the global, multilateral, economy the market size strongly defines a country's negotiating power, thus the potential contribution of regional groupings [Oman, 1994: 29] in order to overcome the limitations faced by each country separately. Furthermore, since it is now widely recognized that economies of scale and the need to limit international labour mobility imply large nations (even though from the benefits of large size must be detracted the costs of heterogeneity of a large population), it is clear that regional integration makes possible to obtain both objectives, while allowing greater autonomy to sub-national entities (and so reducing the costs of heterogeneity).

The proliferation of RIAs which started in the early 1980s represents the third wave of regionalism in this century, following those of the 1930s and of the 1950-1960s. However, while the RIAs of the 1930s aimed mainly at helping countries to withdraw

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36 The other two possible trade policy regimes are the global arrangement governed by an international institution like the GATT or unilateral non-cooperative arrangements.

37 Another reasons for developing countries' revived interest for regional integration is to establish 'a defence mechanism to offset some of the costs of even greater isolation resulting from any increase in protectionism in the developed countries' [ECLAC, 1994: 11]. Finally, a reasons that applies to both developed and developing countries is the frustration caused by the slow progress of multilateral trade negotiations under GATT, although the creation of the WTO may ease this problem, although the creation of WTO may improve the situation.

38 According to Kapstein [1994: 20] the major powers may view globalization 'as being in their national interest'. Yet 'small country firms will see a decline in their relative cost disadvantage and will be the main beneficiaries of the enlargement of the trade bloc', and 'neither the theory nor the data indicate any asymmetric economic gain in favour of large countries as such' [Casella, 1996: 412].

from the world economy, and those of the second wave among developing countries were closely related to import-substitution strategies[39], the present wave is driven by the desire to facilitate participation in the world economy, hence the declared aim of these arrangements to pursue liberalization and export- and foreign investment-led strategies. This means that while the second wave of regional integration represented an attempt by the developing countries to find an alternative to closer links with the industrial world, the present wave is seen as an attempt to strengthen the vertical as well as the horizontal links. Furthermore, present RIAs are characterised by broader scope and tend to involve North and South economies. At any rate, more than 60% of world trade now takes place within regional integration schemes.

Since the overall objective of all these RIAs is to enhancing the possibility of good and factor mobility while at the same time limiting the threat to territorially defined markets, most of them embody principles of managed as opposed to totally free trade. Hence the problem how they can represent a route to multilateral free trade and WTO's ultimate objective, i.e. whether regionalism ultimately complements the process of trade liberalization or instead causes the fragmentation of the world economy into feuding trading blocs[40]. A real paradox being that while finally the developing countries have come to accept the case for free trade, the developed countries have been gradually turning away from it through various forms of creeping administrative protection. The current movement towards regional trading blocs is a culmination of this trend towards the so-called managed trade [Lal, 1993: 352][41].

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39 During the 1960s neo-functionalism's interest in regional integration in Latin America, Africa and South-East Asia reflected the American government's expectation that regional integration could provide a non-interventionist model for the containment of communism in the Third World.

40 See the various contributions in de Melo and Panagariya [1993]. The World Bank estimated that in case the Uruguay Round would have collapsed the losses of the trade war between rival trading blocs would have amounted to 3-4% of world output [WB, 1991: 29].

41 Among the initiatives that have contributed to the fragmentation of the world market and the movement towards regionalism Langhammer includes also (i) the Global System of Trade Preferences (GSTP) established since the early 1970s in order to facilitate trade among the developing countries, an arrangement that 'has all the flows of regional integration schemes plus those of ineffectiveness due to a large membership and problems of 'balancing' the concessions in a group of heterogeneous economies'; and (ii) the trade preferences unilaterally offered to developing countries by OECD countries, including several General System of Preferences (GSP)

Yet, such fragmentation may reduce, but not necessarily stop the process of globalization, because important progress in liberalizing world trade has been made through unilateral actions and bilateral and regional agreements, particularly in the EC and the NAFTA [Boltho, 1996: 250][42]. If bilateral and regional agreements are potentially useful means for reducing trade barriers, regional blocs' competition may, however, increases the danger of global conflict, at the origin of which there could easily be the instability in the marginalised Third World (hence Mittelman's [1994: 441] 'truncated globalisation'), instability caused by poverty and undemocratic rule, but also deeper cultural and political prejudices in antagonistic blocs.

By eroding national sovereignty, growing globalization and interdependence help to unleash the demands emerging, or re-emerging, from below[43]. The forces of cultural pluralism and of the so-called 'sub-nationalism' [Mittelman: 1994: 432], grow stronger with the weakening of the state, but also in reaction to the homogenization accompanying globalization. Although it takes many forms, at the most general level sub-nationalism 'can be seen as manifestation of a search for community or identity different from the community or identity offered by shared citizenship of an existing state' [Griffin and Khan, 1992: 75]. Yet, the search is sometimes accompanied by intolerance since these movements, when carried to excess, become 'narrow and exclusive, socially divisive and sources of communal strife' [Griffin and Khan, 1992: 77]. This means that while globalization is accompanied by wide-spread acceptance of the forms of democracy, the resistance to globalization by the growing number of left-behinds, who experience the broadening of the distance between them and the force thy are ruled by, may turn rather undemocratic. In fact, as widening globalization cause growing internal marginalization, widening democratization offers

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[Langhammer, 1992 : 217-23].

42 Boltho [1996: 256] argues that 'regional trading blocs, and most notably the European Community, have also played a constructive role on the more recent occasion. The protectionism of the 1970s and 1980s may have been limited in part because it was unable to attack intra-regional trade head-on'.

43 More than two decades ago Huntington [1973: 365] identified this phenomenon and so described it: 'while functional imperatives seem to be making transnational organizations bigger and bigger, cultural and communal imperatives deem to be encouraging political units to become smaller and smaller. 'Tribalism' in politics contrasts with 'transnationalism' in economics'. That the nation-state and the transnational organization coexist confirms that 'the existence of one not only implies but requires the existence of the other'.

undemocratic and/or religious parties the means to exploit this coincidence to take power. This allows governments to justify their authoritarian rule in order to maintain their countries' competitiveness within a global system.

The devolution of power - i.e. the assignment of the responsibility for governing - towards emerging sub-national entities may result easier within the context of a regional scheme than within a single nation-state. Furthermore, the negative impact of the various types of diseconomies of scale that accompany the creation of smaller organizational units may be limited or eliminated by the liberalization and the availability of a wider regional market, and by the transfer to the regional power of part of the administrative tasks and responsibilities. Channelled in a constructive direction, the forces driving sub-nationalism can obtain the community and identity they seek, while enriching the region too.

In Europe it is being discussed the possibility that geographical area, currently part of the territory of member states of the EU, could become politically independent regions within the EU framework, their citizens being citizens of Europe. The main advantages of what Drèze has called a 'Europe of regions' are that (i) more autonomy may lead to efficiency gains; and (ii) this arrangement may provide a more efficient framework for the exercise of regional autonomy than the alternatives of political independence or greater autonomy within the existing nation-state [Drèze, 1993: 266]. The standardization process implicit in regional integration brings to the forum the differences between the regions, or sub-national units, creating new opportunities for the latter's independence under the umbrella of the supranational unit. Since regional integration facilitates sub-national movements because it tends to reduce the cost of secession, the transformation of these movements into autonomous entities functioning within the regional scheme could be partially or totally financed, depending on whether the countries of which they were formerly part are willing or not to contribute to such an arrangement, by the supra-national government.

At the same time, the loss of sovereignty in favour of supra-regional institutions seems more acceptable than that in favour of remote international agencies in which the weight of most countries is practically nil. Considering the difficulties of creating institutionalized governance mechanisms for the world economy and the limitations of the national policies, sidelined by the world market forces, for many countries to turn to regionalism. The latter appears in fact useful for managing both the loss of control generated by the process of globalization and the pressures for the devolution of power and diversification emanating from below. The sharing of common rules and institutions with other nation-states allows the concession of more autonomy to sub-national entities, while regional governance may also compensate for the ineffectiveness of national policies.

Also important for resorting to regionalism is the need felt, yet rarely openly stated, by countries in Europe and elsewhere to curtail the US' temptation to seeks the establishment of a liberalised global economy in which, being the single hegemonic power, it maintains the right to make exceptions in the pursuit of its own interests [Bienefeld, 1994: 45]. Such a focus may serve to strengthen the regional group's unity, but it is also less useful for promoting international governance, including the re-regulation of the international economy.

Yet, even Ohmae [1993: 78 and 81], who considers the nation-state as 'an unnatural, even dysfunctional, unit for organizing human activity and managing economic endeavour in a borderless world'[44], theorizes the relevance of 'region states' as natural economic zones of between 5 to 20 million people, defined less by their economies of scale in production, but rather by their having reached efficient economies of scale in their consumption, infrastructure and professional services. Being shaped by modern marketing techniques and technologies, these 'region states' are a far cry from present conception of the nation-state as embodiment of common history, values and culture. What instead is more interesting about these 'region states' is the possibility that they represent a stepping stone not so much to globalization but rather to trade bloc formation or, alternatively, the outcome of the breaking of a trade bloc or something in between the latter and the return to nation-states.

If national protection, especially in small countries, entails high costs in terms of economies of scale forgone, a generally inefficient cost structure, absence of competition, and a lower and more unequally distributed income, these negative effects are lessened in regional trading blocs which become even more useful when the expansion of the world economy proceeds only slowly[45]. This entails that 'the

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44 It is, however, only in Western Europe that there is a seriously conceived plan to dissolve existing nation-states into something bigger [*The Economist*, 1995-96: 18].

45 Slow growth in the developed countries may in fact causes '(a) a deceleration of growth of production and trade worldwide; (b) depressed levels of output, capacity utilization, investment and employment in a great many parts of the world; (c) a

macro-economic policies in the OECD countries are likely to determine the relative strength of the forces of globalization and regionalization' [Griffin and Khan, 1992: 68-69].

Considering that regionalism seems to grow together with the spreading of globalization it is also plausible to link these two phenomena[46] and view regionalism as an attempt either to reduce the pace of globalization and/or minimize the cost and pain of the latter. Which does not imply that steps towards greater regional integration are always defensive in nature, they can also be stepping stones to a more open world economy. Regionalism is not a process with uniform characteristics, coming instead in many shapes and sizes and responding to a variety of forces, yet it is going to depend largely on it whether or not globalization continues and, if does, how will develop. There are those fearing that 'the world trading system is currently in danger of entering the zone of excessive regionalization' already [Frankel *et al.*, 1995: 92].

As to the effects of preferential trading arrangements (PTA) on the level of welfare and on the drive toward multilateral liberalization, the traditional theory, based on the second best approach, provides no definite answers. The net effect of the reduction or removal of trade barriers due to PTAs on member countries' welfare is an empirical problem whose solution depends on the relative size of 'trade creation' and 'trade diversion', the two main static effects recognised to these agreements. At any rate, when less efficient producers within PTAs replace more efficient ones outside it, world welfare declines.

Only with the addition of dynamic effects [Baldwin, 1989] is possible to argue that the increase of member countries' income could more than offset trade diversion, hence raising outside welfare. Therefore, PTAs' impact on multilateral liberalization, it largely depends on the rules governing their formation. It has been shown [Kemp

further decline in the commodity terms of trade of primary products; and (d) extraordinary high real rates of interest, a level of indebtedness in a score of countries that clearly is beyond their capacity to repay and a continuation of the large net transfer of resources from poor countries to rich' [Griffin and Khan, 1992: 68].

46 According to Oman [1994: 11 and 14], his contribution represents a rather exhaustive analysis of the linkages that run between these two phenomena since the micro-economic forces that are the engine of globalization (even though the financial globalization implies the macro-economic level) often encourage both de facto regional integration and de jure regional agreement between governments.

and Wan, 1976] that to improve external welfare is sufficient that any potential trade diversion created by a PTA is offset by the reduction of external tariffs. This can be considered as an incentive to keep expanding its membership, until, eventually, is reached multilateral free trade, the first best that maximises global welfare. Yet the rules of the General Agreement on Tariffs and Trade (GATT) 'ignore the issue of trade diversion and make no attempt to implement rules based on the Kemp/Wan insights' [Lawrence, 1994: 369]. GATT article 24 allows the formation of PTAs provided only that external tariffs are not raised and barriers are removed to substantially all trade between member countries, i.e. no selective liberalization. The possibility that trade diversion be larger than trade creation has been consider nil when the prospective members of a free trade area (FTA)[47] are close geographically [Wonnacott and Lutz, 1989: 69]. In this case, of which the EU is the perfect example at least as far as manufactured goods are concerned [Jacquemin and Sapir, 1991: 169], integration is 'natural': since its members already trade a lot between them and therefore it can neither cause much diversion nor penalize third parties [Krugman, 1991], unless trade creation is curbed by too strict rules of origin[48].

Yet the effects of lowering border barriers to trade clearly fails to capture the full implications of the current regional initiatives aiming also at reconciling or harmonizing different national policies, i.e. the deepening of the process of regional integration (see footnote 50), which impinges also on the role of the state *vis-à-vis* that of regional institutions. In fact, since 'not all states are effective at meeting and mediating international competitive pressures through national policy resources' [Hirst and Thompson, 1992: 393-4][49]. The governance of large economic areas by trade

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47 PTAs and FTAs refer to different kinds of 'partial regionalization': the first reduce the tariff level among partners without necessarily eliminating them as instead happens with FTAs.

48 Krugman [1991a] has also demonstrated that world welfare is lower with a few trading blocs than with the extremes or one or many, three being the worst possible number of blocs to have as they would be protectionist. An attempt to reconcile Krugman's two propositions has been made by Frankel *et al.* [1995] introducing different assumptions relative to inter-continental transport costs.

49 'The emerging forms of governance of international markets and other economic processes involve the major national governments but in a new role: states will come to function less as 'sovereign' entities and more as the components of an international 'polity' - that among the central functions of the nation state will be those of providing legitimacy for and ensuring the accountability of supra- and sub-

blocs allows the member countries to stand against global pressures on specific policy issues and to pursue objectives, particularly social and environmental ones, that they could not attempt independently [Hirst and Thompson, 1995: 430]. Furthermore, the creation of regional schemes may help to lessen the effect of the marginalization - by neglect or exclusion -that globalization apparently implies for the less developed parts of the world economy [Sideri, 1993]. In fact, since the benefits of global growth do not necessary spread automatically to the poorest countries or to the poorest people, the expansion of the global economy does not translate automatically into human development for the world's poor [Griffin and Khan, 1992: 7], as particularly illustrated by the case of Africa (where the percentage of poor in Sub-Saharan Africa is expected to increase from 16 to 32% by the year 2000 [WB, 1990: 139]) and many enclaves in other regions of the Third World.

If regionalism seems a more potent force among the developed countries, this is due to their greater diversity of trade, payments and investment regimes, plus a more pronounced tendency to use protectionist measures and closer control over trade transactions, in general, with few exception unilaterally decided and put into effect. Only from the mid-1980s, together with the developing countries' further integration in to the world economy, i.e. under the influence of globalization, has this trend been reversed and regionalism started to take hold in the developing world too. Consequently, new and enlarged regional agreements are emerging from the process of continuing liberalization not necessarily to halt it, but certainly to make more tolerable its negative impact and reduce the risks implicit in the process of globalization.

2.1. The European Union

The European Community (EC) (1957) is deepening[50] the relationships among its

national governance mechanisms'. If sovereign power within a territory is the essence of the notion of a nation, nationalism, and to that effect democracy as well, imply that 'political power should reflect *cultural* homogeneity'; hence nationalism cannot but render international co-operation more difficult [Hirst and Thompson, 1995: 409 and 411].

50 'Deep integration', as opposed to 'shallow integration', refers to an integration process that goes beyond a concern with tariffs to tackle non-tariff barriers to access: it involves a comprehensive, all-embracing, approach to liberalization: and it forces

members by means of completing the construction of the internal market following its 'Europe 1992' initiative and of moving to the EU - including the introduction of the single currency - according to the Maastricht Treaty (1992). At the same time, the EU has been widening its relationship by first creating the European Economic Area and then admitting most of the nations of EFTA (formed in 1959 by the UK, the Scandinavian countries, Switzerland, Austria and Portugal, and partly reflecting 'Britain's attempt to weaken the process of EC integration' [Boltho, 1996: 250]). EU has also concluded association agreements with Eastern European countries[51], potentially expanding the bloc size from 370 million to more than 500 million people. These agreements are bound, however, to have a significant negative impact on exports of manufactured goods from some developing countries since both groups of countries produce and export low and medium technology products [Sideri, 1992].

The search for the European unity seems driven by two competing visions 'both of

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governments to surrender more sovereignty, both in terms of national norms and procedures and of dispute settlement, to move its institutions to a supranational level, i.e. institutional integration. Monetary union is required more for political union than for economic integration, as also demonstrated by Asia's various processes of integration, even deep integration like in 'Greater China' and the Singapore-Johr-Riau 'growth triangle' (see later), and no plan to move towards a monetary union because there is no desire to achieve political unity [Arndt, 1993: 276].

51 Quite interesting the thesis expounded by C.M. Santoro [1995], according to which it is the end of the bipolar system, and the German reunification, that have made possible the 'reconstruction' of Europe as the West's 'heart', after its destruction in 1945, at the end of the European civil war ignited by WWI. This Europe is based on the essential distinction between it and the others. The European identity is born in contrast with the East that keeps threatening what actually is not a continent, but a mere appendix of a huge landmass. Given the defensive position of Europe with respect to the East - it is in this sense that Europe *is* the West - being a 'Fortress' is the traditional situation of Europe and the EU, even though weakens the national identity of its members states, enhances its internal cohesion against the outside world with which its relations have been hierarchically ordered. The end of the Cold War presents Europe with two alternatives: (i) The West absorbs the Central European states, thus contributing to accelerate the fragmentation of the Russian federation; or (ii) the East retakes its 'Euroasiatic' stance, thus 'injecting into the process of European integration the germs of sub-nationalism, ethno-politics, migration and, ultimately, self-determination'. Either way, the widening of the EU, i.e. the Westernization of Europe, is bound to clash with the parallel process of deepening. Since the 'Fortress Europe' is not fully immunized from 'ethno-nationalist' viruses, even the suggestion of coping with these centrifugal forces by creating 'macro-regions' does not seem very effective.

which are based on the notion that competitiveness requires constant-wide approaches', but entail rather opposite results. The first holds that market forces should operate on a continental basis, hence the process of European integration should likely provide greater access to third parties. The second vision, by insisting that also 'intervention and rules, the social dimension, should be likewise', could instead result in a Europe more protectionist and closer to outsiders[52] [Lawrence, 1994: 377 and 385].

Anyway not only has Europe become an 'outpost in changing globalization trends to which other regions of the world will have to react', but does also present an 'actual examples of economic integration beyond what we are used to consider an ideal' [Bressand, 1990: 47 and 63]. For the first point, the presence of the EC has forced the rest of the world to conform increasingly to its standards, to reduce their barriers to EC exports, and to seek lower barriers for their products in the EC market by concluding special association agreements with it, or even, when possible, to join it. As for the second point, the European integration, the best example of continental economic governance, shows that trade represents only one of the dimensions of a much more complex and dynamic economic system centred on services, technology, advanced and integrated public infrastructures and corporate cross-border networking strategies. In other words, European-based companies 'rather than simply seeking exports and economies of scale, are developing Euro-wide delivery systems, corporate alliances, production networks and electronic marketplaces'. The profound restructuring they are carrying out involves 'seeking customized, in-depth interactions with clients, suppliers and partners, through an expanding gamut of networking strategies, many of which have a strong information and advanced communication content'. In this they are strongly supported by Community's programmes like RACE, ESPRIT, EUREKA, and also Erasmus and Comet, and institutions like ETSI (European Telecommunications Standardization Institute) [Bressand, 1990: 58-9]. Furthermore, the EC has not hesitated to use sectoral protectionism, particularly toward Japan which seems to resent less this measure than the US' 'attempt to force

52 Theoretically, the main reason why blocs may be expected to be more protectionist is that their larger size allows them a higher level of optimal tariff, i.e. to turn the terms of trade to their advantage, although Whalley [1985: 173, Table 9.6] has estimated that the optimal tariff for the USA, the EU and Japan, assuming no retaliation, is 160%, 150% and 1755, respectively. That FTAs may not be necessarily inferior second-best, that depending much more on their design, rests on the demonstration that large-scale economies 'may improve efficiency even if it [the FTA] is predominantly trade diverting' [Wonnacott and Lutz, 1989: 63].

open' its economy [Gilpin, 1987: 405].

The source of the renewed attempt at integration in the mid-198s is in the convergence of two broad interests: the European firms' need to regain some of the competitiveness lost to American and Japanese producers, and the state elites' desire to recapture collectively some of their national sovereignties, particularly over economic policy, eroded by the growing international interdependence.

Meanwhile, the ambitious social programme involving regional harmonization and social homogeneity implies serious redistribution of revenue within the EU. Although this can only be done at the Community level, the member states, at least the larger ones, remain crucial for the construction of the *political* basis of consent necessary for the redistribution as well as for the other macro-economic policies of the Community, including the fiscal, regulatory and industrial policies. Nation-states are, however, going to play a substantial role also for the effective establishment of sub-national governments and rules.

Since 'the concept of the nation-state shakes hands with the concept of government by consent' and 'only the nation-state possesses the necessary sense of identity'[53] [*The Economist*, 1995-96: 20], the subsidiarity principle has been introduced to officially defend the identity of the member nations. Using this principle at the Europe's Council in Lisbon the national states have even started re-appropriating for themselves a substantial part of the common policies where strongest are their conflicting interests. Yet the same principle can be used also by sub-national movements. Actually the principles of subsidiarity has inspired most of the Constitutions of the federal type that have been written during this century, starting with Germany's *Grundgesetz*.

The system of governance that is emerging in Europe is 'unique and uniquely complex' - see before and footnote 17 - since the Community's supranational institutions will have to share power with national - the constituting nation-states will not disappear, although they are becoming 'semisovereign' - as well as with international and transnational institutions, and eventually with sub-national ones. The main problem of this systems is 'a profound *absence of hierarchy and monopoly*

[53] Furthermore, the nation-state still controls the army and, through taxation, a large share of the GDP.

among a *wide variety of players of different but uncertain status*'. The inclusion of sub-national units among the already recognized players in European politics like nations, classes, sectors, and firms - the 'regionalization of Europe'- would heightens the complexity of the system while further eroding the domestic sovereignty of nation-states [Streeck and Schmitter, 1991: 151, 154, 156 and 159] or forcing them to bargain with the MNCs.

Having come very close to the line that separates the pooling of their economic life from the merging of their politics, the member countries of the EU will soon have to decide whether or not they want to cross that line.

2.2. The case of NAFTA

Also the US, reversing 'its historic antagonism toward regional arrangements' [Lawrence, 1994: 366] concluded FTA agreements with Canada (1988) and Israel (1989), and negotiated the NAFTA with both Canada and Mexico (1992). In June 1990 it proposed a broader network of FTAs with the nations of Latin America under the 'Enterprise for the Americas Initiative', which, based on Reagan's 'Caribbean Basin Initiative'[54], should provide a framework within which to create a series of FTAs (a system of 'hub-and-spoke' RIAs[55] according to which a large economy is supplemented by smaller satellite economies) for an eventual Western Hemisphere FTA (WHFTA) from Alaska to Tierra del Fuego. Since the negotiations with the US are going to be based on bilateral reciprocity, the 'Enterprise' should facilitate the proliferation of sub-regional groupings. Along the same line Clinton proposed in 1994 a Free Trade Area of the Americas (FTAA).

Aside from stabilising the economic and political situation in Mexico, with NAFTA the US was interested to demonstrate the feasibility of the regional option - *vis-à-vis*

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54 The Caribbean Basin Initiative (1983) allows US apparel manufacturers to ship fabric for sewing to low-wage factories in the islands and reimport the finished goods with substantial tax breaks. The *maquiladora* factories in Mexico have a similar preferred status.

55 Hub and spoke arrangements 'are worse than is often recognized' because 'each spoke thinks it is participating in regional trade liberalization - and it is, but only with the hub...facing damaged trade with all other spokes' [Wonnacott, 1996: 65].

stagnating multilateral negotiations - and to create, together with the 'Enterprise', a show-model for the rest of Latin America and other developing countries [Oman, 1994: 71-29]. Canada and Mexico, aside from other reasons, were both eager to join having already been exposed to the US unilateral measures in the 1980s.

While the Canada-US FTA 'provides a vivid example of the sometimes tortuous trade-offs that the partners made between achieving their goals while simultaneously retaining their sovereignty' [Lawrence, 1994: 377], the NAFTA is a unique achievement because it contemplates virtually complete free trade - in 10 to 15 years - between two highly developed economies and a developing country which nevertheless receives no special and differentiated treatment, except differentiated time-frames for the implementation of some measures[56]. Being the first reciprocal FTA concluded by developed countries with a developing one, does only underline that the very profound differences characterizing these partners may make difficult to achieve free trade and investment between them[57]. At the same time, the heralded openness of the arrangement to other partners is less certain given the vagueness of the accession clause, and the contrarian mood of the US Congress. Yet, the overall effect of NAFTA will greatly depend on whether it is going to be a closed or open arrangement and whether or not it will permit admission to sub-regional groupings.

Besides the gradual reduction of tariff and non-tariff barriers, NAFTA commits all three countries to providing national treatment to investment from other members, except in a few sectors. The national treatment is extended to the field of intellectual property, while their financial sectors are opened to enterprises from member countries. Like other regional trade blocs, NAFTA has a foreign investment code of its own. This code improves on the WTO's rules because (i) it liberalizes service trade

56 Yet the rules of origin applicable to goods benefitting from free trade, especially textiles, apparel and automotive products, could even be contrary to the spirit of GATT [Hufbauer and Schott, 1993: 5-6 and 11].

57 Robson [1993: 340] rightly points out that one of the most important potential advantages of such an arrangement is the boost in credibility that developing member countries derive from it. More critical is instead Langhammer's [1992: 213] view of the FTAs negotiated by industrialized countries with some developing countries, a sort of 'minilateralism' (Yarbrough and Yarbrough (1987) quoted by Langhammer) with danger of trade-diverting effects. For an analysis of the prerequisites required for free trade arrangements between developed and developing countries see Langhammer [1992: 223-5]

between its three members, except for specifically excluded sectors; and (ii) it allows companies, not only states, to bring cases against their host governments under the NAFTA's dispute-settlement system.

Although it is rather difficult to determine the NAFTA's potential for diverting trade and investment into Mexico and away from the rest of Latin America and the Caribbean area, it is argued that 'the risk of trade diversion is limited given that Mexico already enjoys a rather free access to the American market' and no much more significant should be investment diversion [Oman, 1994: 73-5] [ECLAC, 1994: 29]. Finally, NAFTA has also created supraregional institutions with respect of settlement procedure, environment, and labour issues.

2.3. Asia's own informal regionalism cum corporatism

The evolution of Southern and South-East Asia emphasises two quite different, but not necessarily opposing, trends: the intensification of both globalization and regional integration. In fact, developing Asia's average share of world trade increased from 7.3% over the decade 1971-80 to 16.2% over the period 1991-94 [ADB, 1996: 183], while Asia-Pacific's share of the world production has increased from 5% in 1960 to the current 25%. In addition, developing Asia's intra-trade absorbed 41% of their total exports in 1994, from 22.3% in 1980 [ADB, 1996: 186-7, Table 3.1 and 3.2] [WTO, 1995: 11, Chart 1.5], official figures probably underestimating the real size of the flow).

It also appears that the vertical division of labour that had characterized the region - Japan imported primary products from and exported semi-manufactured products to developing Asia which then re-exported many of the finished products outside the region - is being replaced by an horizontal one. This means an upswing in manufactured exports from Asia of slightly differentiated finished products together with the incorporation of China into the region's manufacturing trade. Meanwhile, the markets outside the region keep absorbing a large share of Asia's growing export of manufactured goods. Since three quarters of Asian Newly Industrialised Countries' (NIC) exports of finished goods are directed to the US and EU, the region's penetration of, and dependence on, these two markets is quite evident (see also Yoshida et al. [1994: 61-66 and 104]). Yet the trade barriers of the East-Asian developing countries remain high, so further intra-regional trade and investment liberalization is needed. Asia's restructuring is aided by intra-regional foreign direct investment. In fact in 1993 over 50% of the total value of the stock of foreign direct capital in East and South-East Asia originated from within the Asian region, the largest source being the Asian NICs, followed by Japan, an important shift of these flows over time [ADB, 1996: 196 and 198-9, Figure 3.5] (see also Yoshida [*et al.*, 1994: 71-5 and 81-9]).

Together with the expansion of trade, there has been a fast growth of services and their exchange - 90% of the total exports of commercial services from the region being provided by Asian NICs [ADB, 1996: 184]. Also intra-Asian labour movements have increased, while the pattern of migration has changed with Asian migration having become chiefly intra-regional and some countries having switched from a position of net emigration to one of net immigration.

The various groupings created in South-East Asia with the purpose of integration are: ASEAN, the Association of South-East Asian Nations, established in 1967 which now includes Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, and since 1995, Vietnam; ASEAN's FTA (AFTA), a 1992 proposal which is to take full effect in 2003 with a common external preferential tariff[58], and the ASEAN Regional Forum (ARF) concerned with security matters; SAARC (South Asian Association for Regional Co-operation) established in 1985 by Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka and now moving toward the establishment of a South Asian PTA (SAPTA); APEC (Asia-Pacific Economic Cooperation) established in 1989 - on the intellectual foundations laid by the non official forum PECC (Pacific Economic Cooperation Conference (1980)) and its Pacific Business Forum - with a membership of 18 Asian and Pacific countries; and EAEC (East Asia Economic Caucus) which emerged in 1992 from the AEG (Asian Economic Group (1990)) and is formed exclusively by ASEAN, China, Hong Kong, Japan, South Korea and Taiwan; and ANZCERTA (Australia and New Zealand Closer Economic Relations Trade Agreement) founded in 1983.

The regionalism emerging in East Asia as been presented as a 'market-led' integration,

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58 The common effective preferential tariff initially was restricted to manufactured and processed agricultural products, but in 1995 it was agreed to reduce the exclusions, to extend the commodity coverage to services, and to accelerate the timetable. Furthermore, earlier ASEAN-4 agreements concerned the distribution of investment in specific sectors.

against the 'policy-driven' and discriminatory type represented by the EU. Yet the fact that Asian regionalism is market-driven does not deny the crucial role played by the national governments, as best exemplified by the creation of Special Economic Zones and open areas in China and of 'growth triangles' all over Asia's Pacific Rim [Arndt, 1993: 277]. The inception of the intergovernmental arrangement known as APEC represents another example of how Asian national governments intervene in, and attempt to guide, the economic process. Equally misleading is the label 'open regionalism'[59] attached by Drysdale and Garnaut [1993] to this phenomenon, or that of a 'negotiating framework consistent with and complementary to GATT' [Yoshida *et al.*, 1994: 105], since this integration process without a formal trade agreement is assumed to be promoted if, and only if, it is consistent with GATT and if not detrimental to other economies.

Given that the successful conclusion of the Uruguay Round does protect the extra-regional interests of the region, particularly those of the NICs, Asian regionalism should not be suspected of aiming at building an 'Asian Fortress' that would damage the world trade system as well as Asia's own interest [Tang, 1995, 18]. More importantly, it has been suastained that Japan does not seem too interested in forming a trade bloc in Asia because [Langhammer, 1992: 225-6]: (i) it would not be able 'to cope with the subtle ways of sheltering the Japanese market (e.g. the distribution system'); (ii) the protectionist lobby 'is still stronger than that of consumer protection in basic agricultural items'; and (iii) 'there are more efficient ways for Japanese

59 According to the 1994 report of the Eminent Persons Group to APEC, open regionalism is a process of regional co-operation the outcome of which is not only the actual reduction of intra-regional barriers, but also the actual reduction of external barriers to economies that are not part of the regional arrangements. In this sense, open regionalism is consistent with and fundamentally equivalent to multilateralism and the GATT agreement. To pursue open regionalism it has been proposed member states (i) unilaterally reduce trade and investment barriers; (ii) reduce barriers to non-member countries; (iii) extend the benefits of regional liberalisation to non-members who are willing to accept similar obligations towards the members of the regional scheme; and (iv) are allowed to extend the benefits of their own liberalisations to non-members on either a conditional or unconditional most-favoured-nation basis. Drysdale and Garnaut [1993: 188] hope that through open regionalism national governments, rather than being caught in the prisoner's dilemma of negotiated concessions, may instead move into the 'prisoner's delight' of experiencing the beneficial effects of each country's liberalisation on its own trade expansion. Yet since any form of regionalism cannot but discriminate in favour of its members and at the expense of non-members, open regionalism remains a contradiction in terms.

exports to enter the market of neighbouring countries'. Furthermore, until recently Japanese economic and security interests did largely coincide with the US'. More recently, however, the interests of these two countries may be leading them in different, not to say conflicting, directions and the 'region is emerging as a battleground for supremacy between the yen and the dollar' [Stokes, 1996: 285]. Hence Japan may be reappraising the project of building an Asian bloc and start pushing for it, even if it means to tackle the difficult problem of China's role in it.

The East Asian experiment is also presented as a clear example of 'natural' regionalism, in the sense that the expansion on intra-regional trade and investment is 'a natural result of geographical and cultural proximity, not the outcome of political negotiations' [Thomsen, 1994: 109]. Also for M.E. Kreinin and M.G. Plummer (1992: 9-10, as quoted by [Lorenz, 1993: 238-9]) an economic grouping consisting of ASEAN and the Asian NICs, and certainly one consisting of them plus Japan, is a 'natural' bloc, since it would not greatly distort its comparative advantage. In fact, East Asia's share of intra-regional trade over the region's total trade has risen from 19.0% in 1965 to 29.3% in 1990, an increase of almost fifty per cent, even higher than EC's 32% [Frankel *et al.*, 1995: Table 1, 63].

Considered by far the most successful Asian integration and co-operation scheme, ASEAN remains basically a PTA with limited industry co-operation, so much so that the level of its intra-regional trade has remained quite stable around 17% of total trade during the whole period from 1970 to 1992. More relevant appear instead ASEAN's following features: (i) formulation and representation of common interest of its members in foreign affairs; (ii) shared common 'perception of market forces as the driving element of development'; (iii) creation of a strong internal network of consultation and software co-operation; and (iv) permanent dialogue with the major OECD countries [Langhammer and Hiemenz, 1990: 54-7].

The other major regional initiative in the Pacific, APEC, is potentially the most sweeping trade agreement in history since it involves economies that produce half the world's output. At Bogor summit of 1994, the then 18 members - another ten applications for membership have been submitted since - have agreed to 'achieve free and open trade and investment in the region' by 2010 for industrial members and 2020 for the others. Even without a formal institutional framework trade within the area covered by APEC have grown from 57% of its total trade to 69% between 1980 and 1992.

Although one of the main advantages of APEC is the inclusion of the US, seen as a counterweight to the Japanese preeminence, the advancement of APEC towards a FTA remains not likely, since the sole elimination of tariffs does not guarantee to the US that they would be able to penetrate more some Asian economies, particularly Japan - see later under 3. Moreover, APEC's investment code is 'flimsy and not binding' [*The Economist*, 16,09.96: 33]. Yet it does not appear very convincing Bergsten's [1996: 107] contention that 'APEC has eliminated any possibility of the three-bloc world that was so widely feared a few years ago'.

Meanwhile South- and North-East Asia that is actually involved in a strong and informal process of regionalism through the various 'growth triangles'[60] identified along the Pacific coasts, the peculiar characteristics of which distinguish this process from other attempts and makes it 'a distinctly Asian form of regional co-operation which has evolved from the area's experience with export processing zones, industrial and technological parks and other subnational zones' [ADB, 1996: 179]. These 'growth triangles', of which 'Greater China' is the most prominent and earlier example (see also Sideri [1994]), are localized economic cooperation zones that 'exploit complementarities between geographically contiguous areas of different countries to gain a competitive edge in export promotion'. They are more export oriented than trade blocs, can be established at relatively low cost and within a short period of time, and can be expanded incrementally. Aside from allowing to increase exports despite rising labour costs, 'growth triangles' may also serve as a means of protecting

60 Several 'growth triangles', aside from the more formal groupings, are emerging within the region. Particularly suited for countries in transition from a closed and rigid economic system to an open and market-oriented economic system, a 'growth triangle' is a scheme to promote and rationalise direct investment as well as to build up infrastructure linkages within the area. Although it presents an export-oriented structure, it is not a mechanism solely to promote free trade and it does not imply discrimination as far as a third party is concerned [Tang, 1995: 19-20].
The most important of these triangles are 'Greater China' (starting to emerge since the early 1980s) (Southern China, Taiwan and Hong Kong), 'Northeast Asia' (Japan, South and North Korea, Northeast China and Far East Russia), 'Greater Mekong' (established in 1991) (Cambodia, Laos, Myanmar, Thailand, Viet Nam and China's Yunnan Province) and some 'growth triangles' involving localised arrangements including only selected areas of a few countries, like the 'Singapore-Johor-Riau Growth Triangle' (1989) between Singapore and Malaysia's and Indonesia's provinces; the 'Tumen River Area Development' (established in 1991) between North Korea, China and Russia; the 'East ASEAN Growth Area' (established in 1994) between Brunei, Indonesia, Malaysia and the Philippines; and 'Indonesia, Malaysia-Thailand Growth Triangle' (established in 1993).

themselves from trade blocs and increasing protectionism in other parts of the world [Tang and Thant, 1994: 1 and 23-4]. More than on trade in goods and services, they are mainly focused on the transnational movement of capital, labour, technology, and information and on the inter-country provision of infrastructure. The 'growth triangles' 'emphasize the complementarities of the actual or potential resource bases of the constituent areas which arise from major differences in the supply and prices of factors' [ADB, 1996: 179][61]. The informality of these *de facto* arrangements enhances their flexibility, even though the presence of an international treaty or agreement, for all to read and more difficult to modify, would also enhance their credibility and stability and consequently attracts more foreign investment [Oman, 1994: 16].

This rapid intensification of regional trade and investment is more the result of the need to compete globally and to take advantage of the various economies' complementarities and different factor availabilities rather than to pursue self-sufficiency. For most South-East Asia countries the opening up to the world economy by means of export-oriented policies is still accompanied by a definite policy aimed at nurturing domestic infant industries. It is difficult, therefore, to reconcile this approach to that 'open regionalism' which implies the willingness to extend to all trading partners, on a most-favoured-nation (mfn) basis, regionally negotiated tariff reductions. Such an arrangement differs from both the discriminatory GATT-notified regional integration scheme or the non-discriminatory exchange of tariff reductions in the multilateral negotiations under the GATT [ADB, 1996, 181].

Furthermore, South-East Asia's *de facto* regional integration represents also a response to the EU and to the creation of NAFTA: the more these two regional groupings become, or are perceived to become, trading blocs the stronger the pressure on South-East Asian economies to follow suit and formalize their regional arrangement. Since their regionalism is a strategy to better participate in the ongoing globalization, they may try to resist to engage in preferential arrangements for as long as US' and EU's behaviour makes it feasible. The 'growth triangles' are rather dynamic institutions since both the intensity of cooperation as well as the areas included in the triangle can

[61] For the establishment a successful 'growth triangle' Tang and Thant [1994: 9-14] identify the following conditions that have to be met: (i) existence of economic complementarity; (ii) differential in factor endowments; (iii) geographical proximity; (iv) political commitment and willingness to forgo some measure of sovereignty; (v) sufficient physical infrastructure; and (vi) rather equitable distribution of benefits.

be adjusted and changed, which contributes to making them also a new and potentially powerful tool of economic development. Yet, the continuous inflow of foreign direct investment, including intra-Asian investment, is crucial for the future of Asian 'growth triangles', inflow which, in turn, requires the maintenance of a reasonably open global trading system and political stability. The majority of strategic alliances entered into by Western companies, mostly American, have, until recently, been with Japanese, Korean and Taiwanese firms. Meanwhile, in order to cope with the yen's overvaluation, the Japanese firms have started to relocate their manufacturing activities, a deployment which is estimated to involve, since the end of the 1980s, one quarter of that country's industrial production [Sigurdson, 1996: 3]. It remains to be seen, however, whether the industrialization and the regional division of labour emerging in Asia-Pacific, under Japan's guidance, are being shaped by the pattern of cooperation and economic growth evokated by the poetic image of the 'flying geese'[62].

The emergence of 'Greater China', the growing economic and financial integration of China's Southern provinces Guandong and Fujian with Hong Kong and Taiwan, has been largely driven by the private sector, particularly foreign investment, seeking to exploit factor price differentials, although there has also been some government support. The result is such that the economic integration within the triangle is mainly a vertical one as the exchange of intra-industrial products and commodity is larger than that of final goods produced by the member economies themselves. Because the demand and supply of 'Greater China' are both generated externally, its considerable vulnerability to market conditions in the outside world justifies its being labelled the 'outward-dependent growth triangle' [Chen and Ho, 1994: 67], although this arrangement has provided major net benefits to all participants. Finally, to obtain a more complete picture the triangle should be seen within the context of a larger global relationship which includes the technology of Japan and the markets of the US and

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62 The 'flying geese' hypothesis of development and industrialization of Japan, the Asian NICs, the largest ASEAN economies and China, reflects the apparent complementarity of their terms of factor endowments, technological capabilities and wage and salary levels. Although it comes handy in explaining the spectacular growth of trade, it has also been pointed out that (i) most of this increase is due to China's exports to Hong Kong, which in turn re-exports most of them outside the region; (ii) the exchange among the Asian NICs and among the largest ASEAN economies and between these two groups remain modest compared to their extra-regional trade. Hence, contrary to the hypothesis, the region's economic growth, excluding Japan, continues to dependent on outside markets like US and EU [Oman: 1994: 79-80].

other industrial countries [Pochih Chen, 1994: 91].

As for Asia's preference for this informal type of regional integration, it may be due to the following characteristics prevailing in the region: (i) still relative low volume of intra-regional trade; (ii) little homogeneity of laws and regulations governing trade and investment; (iii) large difference of per capita income levels; (iv) wide geographical dispersion and often poor transportation and communication networks; and (v) very diverse political, social and economic systems [Tang and Thant, 1994: 7-8]. It is even maintained [Mittelman, 1994: 434] that the Asian regionalism 'paradoxically both shields the domestic society from and integrates it into the global division of labour'. Although the process of regional economic integration seems firmly establish, and the phenomenon could be even more consistent than the indication derived from aggregate trade trends, the most significant obstacles to the creation of and East Asian bloc are (i) the difficulty of harmonizing the interventionist policies that all these countries, except Hong Kong, have used in order to promote export-led development; (ii) the general desire of avoiding Japanese preeminence, but also (iii) the impossibility of reconciling the presence of two hegemonic powers like China and Japan.

Even though transnational production networks tend to weaken the role of individual governments in the formulation of national development policies, and in determining how these economies are going to be linked to the global economic system [Gereffi, 1993: 53], the problem of the role of the state involves another important aspect of Asia's evolution, an aspect which strongly impinges on both national economic development and regional co-operation, the so-called 'Asian corporatism'. In the literature referred to also as 'neo-authoritarianism', it indicate the attempt to 'reconcile two apparently contradictory demands in the process of internationalization: internal political control and external economic integration' [Ling, 1996: 10]. Asian corporatism, based on Confucian tradition and reflecting the developmental experiences of, first, Meiji Japan and later Singapore, South Korea and Taiwan, offers the following alternative set of developmental rationalizations for economic growth: (i) collective individualism, the no-classical individual is placed within some social collective; (ii) utilitarian personalism, economic individuals apply a neo-classical utilitarian logic to hierarchically-structured, historically-conditioned, family- or clan-based personal connections; (iii) *patria economicus*, Confucian family-state; and (iv) state-mobilized learning, economic development as a form of patriotism. The existence of this Asian corporatism (see particularly the case of China which presently represents its best example) 'signals the rise of an alternative, regional hegemonic order to liberal capitalism', from which, however, Asian corporatism partly stems, so that it has also been considered 'another kind of capitalism' [Ling, 1996: 14-5 and 19][63]. Furthermore, the insistence on 'Asian values', allegedly to avoid that Asia succumbs under too much Western individualism and other Western excesses, qualifies the acceptance of democracy and reflects the intention of the elites in power in the various countries to continue running them like a family business. From which it follows that the applicability of the Asian model to other parts of the world results seriously curtailed.

Finally, there remains the problem of whether or not the differences in the capitalist structures between East Asia, Europe and North America are so profound as to hinder the consolidation of the global economy and harden it into regional blocs - what Gilpin refers to as 'the Japan problem', but involves the Asian NICs. At issue is the resistance caused by their insertion into the world economy. In fact, compared to that of other developed countries the Japanese economy shows 'extraordinary low inward-direct-investment ratios and import penetration' which explains why 'it has hardly shared in the internationalization of the world economy over the last decade'. Combined with a highly competitive export sector, Japan's trade surplus was assured. The export of capital, buying US debt during the 1980s, offset the trade surpluses and checked the upward movement of the yen. Yet, the net capital inflow in the US contributes to the trade deficit since it pushes up the exchange rate of the dollar and thereby reduces American competitiveness in world market. As soon as the financial outflow declines, the US can no longer accept the trade imbalance, even though the rise in the yen reduces the competitiveness of Japanese exports. Similar asymmetric trade relations characterize most of East Asia: higher investment allow the region to obtain 'a rate of productivity and innovation with which European and American producers cannot compete, but access to the region's markets 'remain structurally difficult even while their one economies remain open [Hutton, 1995: 306-7], due also to the fact that these economies tend to be highly regulated, compartmentalized, and segmented. Actually, more than trade barriers the real obstacle is their firms' anticompetitive behaviour, with their exclusive supplier or distributor arrangements

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63 On the question of one capitalism or more capitalisms, see also A.H. Amsden's *Asia's Next Giant: South Korea and Late Industralization* (Oxford U.P., New York, 1992), M. Albert's *Capitalism contre capitalisme* (Editions du Seuil, Paris, 1991), and L. Thurow's *Head to Head: The Coming Economic Battle Among Japan, Europe and America* (William Murrow, New York, 1992).

(vertical *keiretsu* in Japan) and domination of particular markets. Hence the problem crystallizes around the meaning given to liberalization: given the nature of the Japanese economy, and that of other East Asian countries, liberalization cannot mean 'simply the removal of formal, external trade restrictions and, under certain circumstances, giving foreign firms 'National Treatment'', but must go deeper thus challenging 'inherent and crucial features of Japanese culture, social relations, and political structure'. In effect, unless Japan - and the other Eastern Asian countries - 'becomes a liberal society in the Western sense', Europe and North America will find it increasingly difficult maintaining economic relations with them. Hence the crucial question 'can a liberal international economy long survive if it is not composed primarily of liberal societies as defined in the West..?' [Gilpin, 1987: 390-3]. The reaction against the homogenization implied by the international liberal order is the rise of economic nationalism and the refuge into regionalism; in Gilpin's [1987:395] formulation: autonomy tends to gain over interdependence in order to minimize the latter's costs. If Japan does not decide to open its market to the region's growing manufacturing production and does not export its capital surplus to the same, the chances of further integration in East and Southeast Asia would be strongly reduced and the confrontation with China may become unavoidable.

2.4. Mercosur and other regional arrangements in Latin America

Attempt at regional integration are not new to Latin American. Following the failure of the 1960 Latin American Free Trade Association (LAFTA or ALALC), in 1969 the Andean Pact was signed by an allegedly more homogeneous group of smaller countries, and in 1980 was created the Latin American Integration Association (LAIA or ALADI), aimed principally at consolidating and promoting the existing bilateral trade relations. 1960 saw also the launching of the Central American Common Market (CACM or MCCA) which at the beginning seemed more promising than it resulted later on. Nor has progressed much the trade integration aimed at by the Caribbean Community (CARICOM) which succeeded in 1973 the Caribbean Free Trade Association (CARIFTA) founded in 1965. That CACM and the Andean Group were specifically designed to facilitate import substitution, clear-cut examples of 'closed regionalism', has been construed as the main cause of their failure [Cable, 1994: 9], and in reality none of these different schemes has come to much.

An important initiative is represented by the creation of the *Mercado Común del Sur*

(Mercosur) in 1991. Its founding members are Argentina, Brazil, Paraguay, and Uruguay in 1991. Associate status has been granted to Chile (after the latter found it increasingly difficult to be accepted into the NAFTA) in June 1996 and the same will happen soon with Bolivia, while talks the Andean Group are approaching. At the beginning of 1995 Mercosur became a customs union and promptly signed an inter-regional Co-operation Agreement with the EU aiming at the establishment of a free trade association between the two groups (the EU a hub of a Mercosur spoke!). Mercosur can been viewed either as a rival bloc to North America or as a step toward hemisphere-wide integration consistent with Clinton's FTAA.

The desire to revive the Andean Pact has finally brought the member countries to sign the *Acta de la Paz* for the implementation of a FTA - four of them had already attained free trade for most of their exchange -, the creation of a common external tariff (which became effective in February 1995), the liberalization of maritime and air transportation, and facilitating foreign investment and capital mobility within the Andean Group, plus agreement was reached for the re-organization of the Pact's institutions.

Meanwhile LAIA continues to provide the institutional and legal framework for all regional activities, including the many bilateral agreements signed lately, the so-called 'second generation' economic complementarity agreements, with the ultimate objective of concluding a free trade agreement between the Andean Pact and Mercosur. Since 1991 Colombia and Venezuela have engaged in free trade and together with Mexico they have agreed to establishing a free trade zone by the year 2005.

A customs union has come into operation between Guatemala, Honduras, El Salvador and Nicaragua in 1993. By mid-1995 CARICOM had largely achieved the elimination of barriers to mutual trade, more than half of the members were applying the revised common external tariff, and the introduction of free movement of capital and of some labour, plus the free convertibility of currencies and the abolition of exchange controls were close to be agreed upon. In August 1995 25 countries and 12 territories established the Association of Caribbean States (ACS) with the secretariat's headquarter in Trinidad and Tobago.

As a result of all these efforts, between 1990 and 1994 the Latin American and Caribbean share of intra-regional trade grew from 16.8 to 19.2% (from 1990 to 1995 Mercosur's increased from 8.9 to 22.0%, Andean Pact's from 4.1 to 11.7%, LAIA's from 10.8 to 17.5%) faster than that relative to its exports to the rest of the world. This growth was also accompanied by the flow of intra-regional direct and indirect investment, while closer relations and linkages, both vertically and horizontally, are being developed between sectors or groups of companies (informal conglomerates) and within associations of companies and agencies of various kinds [CEPAL 1995: 33 Table 7] [ECLAC, 1994: 51 Table II-9 and 64].

The present wave of Latin American regionalism is different from the previous ones and reflects a substantial change in the role that is assigned to it. No longer seen as an extension of domestic import substitution strategy to a regional level, commercial integration is currently conceived as complementing the outward orientation now largely accepted by all countries, and uniting forces for better competing internationally and rapidly expanding exports. Yet even though regional integration does not 'attempt to insulate vulnerable economies to shocks and unfavourable trends originating in the rest of the world', nevertheless its success has come to depend in part on the rapid rate of growth of the global economy [Griffin and Khan, 1992: 72-3].

In Latin America and the Caribbean is also prospering the phenomenon of *de facto* integration. Increased interdependence in the region is furthered not only by preferential agreements (24 bilateral agreements were concluded between 1982 and 1993) but also by a series of macroeconomic and trade polices which, although non-discriminatory with respect to trade with third countries, have had the effect of creating similar conditions in a growing number (now a majority) of countries in the region, and have thereby fostered reciprocal trade and investment. As a result the MNCs' 'position as suppliers of highly protected local markets is being threatened by the prospect of international competition on both national and foreign markets', prompting the same MNCs to change their integration strategies [ECLAC, 1994: 12, 43 Table II-5 and 33]. Yet serious doubts have been raised recently as to the effectiveness of regional free-trade agreements in promoting member countries' international competitiveness. In fact according to an unpublished study prepared by A. Yeats, of the World Bank, while Mercosur intra-trade has certainly increased dramatically, it has kept out imports from other countries and its exports have remained uncompetitive outside the regional area [Dale, 1996].

2.5. The rest of the developing world and the risk of its marginalisation

The difficulties encountered by many developing countries to create their own regional schemes largely reflect the simple fact that the process of globalization does not really involve them, or it does only marginally, as large parts of the Third World remains outside the global economy. In fact, while Africa's experience with integration schemes is no less rich than Latin America's, the degree of failure is probably higher.

Historically, three roots of integration have been identified in Africa [Langhammer and Hiemenz, 1990: 34-5]: (i) groupings that represented the remnants of large colonial entities, such as the 1966 Custom Union of West African States (CUWAS, later WAEC), the 1959 Equatorial Customs Union (ECU, later CACEU), and the 1967 East African Community (EAC); (ii) various post-independence groupings, such as the 1974 West African Economic Community (WAEC/CEAO, 1973), and the 1975 Economic Community of Western African States (ECOWAS/CEDEAO, 1975); and (iii) new integration initiatives which emerged in Southern Africa with the aim of loosening the commercial ties to South Africa, such as the Southern African Development Coordination Conference (SADCC) and with its PTA for Eastern and Southern African States, founded in 1981, and the Southern Africa Customs Union (SACU), founded in 1969. Then there is the Mano River Union (MRU, 1973), the UDEAC (Union Duanière et Economique de l'Afrique Centrale, 1976) and the UMOA (Union Monétaire Ouest Africaine). Most of the expectations created by these various schemes did not materialise and as a result no meaningful trade integration has taken place in Africa.

Compared to other parts of the developing world, regional integration schemes have never attracted much interest in the Middle East and none of the various attempts made to create co-operation and integration schemes among the Arab countries has lasted long enough or has had much impact: the Council for Arab Economic Unity (CAEU), formed in 1957: the Arab Common Market (ACM), founded in 1964 between Egypt, Iraq, Jordan and Syria; the Gulf Co-operation Council (GCC), founded in 1981 by all the Gulf Arab countries. So far nothing concrete has come out of two new schemes formed in 1989: the Arab Co-operation Council (ACC) which comprises Egypt, Iran, Iraq, Jordan and the Yemen Arab Republic; and the Arab Maghreb Union (AMU) between Algeria, Lybia, Mauritania, Morocco and Tunisia.

Iran, Turkey and Pakistan founded in 1964 the Regional Co-operation for Development (RCD) - in 1984 reactivated under a new heading called Economic Co-operation Organization (ECO) - for promoting trade among themselves on a bilateral level and in sectors where common interest could be defined. The impact of RCD has been nil until the Gulf War and Turkey's intensification of trade with Iran.

Comparing developing countries' regional initiatives in the 1960s and 1970s with the more recent ones, Langhammer and Hiemenz [1990: 57-73] point out that the main differences concern (i) the shift in emphasis from more formal types of internal integration to less binding project-oriented co-operation schemes; (ii) the greater scope allowed for pursuing trade liberation at different speeds; and (iii) the lower priority assigned to regional industrialization planning or programming compared to co-operation in providing public goods, i.e. building of physical infrastructure, communication, transport, and creation of software, namely training, research and technology. One important implication of these developments is that the role of supra-national authorities in the decision-making process has been curtailed as national authorities have regained or maintained their rights to decide.

The same authors [Langhammer and Hiemenz, 1990: 57-73] insist also in explaining that the reasons for the failure that so far has characterized many regional initiatives by developing countries are internal rather than external, even though the negative impact of a deteriorating external economic environment is not excluded. As for those internal reasons, including those essentially political, the most relevant ones are (i) the resistance to reduce barriers to trade and factor mobility, (ii) the macro-economic policies pursued; (iii) the fear of economic domination by a large or more advanced partner country; (iv) the problems inherent to any international co-ordination, particularly when no common threat exists; and (v) the influence of vested interests. Yet the negative outcome 'did not so much result from a misperception of the potential embodied in regional integration, but from the lack of incentives to implement integration policies in the given situation'.

Furthermore, since the attraction of low wages is no longer sufficient to prompt MNCs' to locate labour-intensive production in countries that do not present adequate infrastructure and the human capital required by the system of 'flexible production' (see footnote 4), these countries have also failed to attract direct foreign investment, except in some primary products. For the MNCs the trend is in fact to neglect the productions in low-wage goods for the world market and concentrate on creating production and sourcing networks at the regional level [Oman, 1994: 93]. The lack of progress in regional integration compounds the problems of poor infrastructure and human capital, rendering more likely the risk of marginalization for several developing countries and large sections of some continent[64].

What emerges is that although globalization tend to marginalize the less developed parts of the Third World, their capacity to react by forming regional groupings of their own appears rather limited, mainly because the central institutions of government are crumbling as most of these countries are essentially what are referred to as 'failed states'. Their prospects are no better if the world economy comes to be dominated by trade blocs [Gilpin, 1987: 400] [Sideri, 1993]. Although their chances of obtaining some economic support may be better in the latter case, it would entail a deeper dependence on one of the trade bloc. Whereas globalization implies their marginalization with neglect, a system of trade blocs means total dependence: in both cases not an enviable predicament.

3. CONCLUDING REMARKS

The globalization process is creating a world economic system which is mainly private, it is fast-paced and it is, by and large, averse to government action, particularly when perceived as an interference. Only to few it appears as a reversible phenomenon.

The existence of the world market renders the nation-state no longer able to deliver many of the benefits its citizens most value, notably job security and rising living standards. Neither can necessarily do so regional integration, yet it may be more apt at helping reconciling global competitiveness with a heightened sense of social solidarity, and possibly also of democratic legitimacy. National sovereignty is no longer the valuable commodity it once was, as capital markets increasingly exercise their veto power over the economic decisions of all states. If political independence does actually offer people less control over decisions that crucially affect them, the

64 More recently, another view (against that of the World Bank, forcefully presented in de Melo and Panagariya [1993]) is emerging with respect to the possibility of implanting regional integration even in Africa and the least developed countries, using even structural adjustment programmes (SAP) to facilitate the pursuit of integration. Only by reducing its own costs from non-integration, can Africa hope to attract the inflows of foreign investment and technology and cross-border investment on which its development will continue to heavily depend [Robson: 1993: 340].

search for protection from globalization becomes unarresting. This explains why in many countries deregulation often stimulates increased protection of domestic markets [Gilpin, 1987: 407].

Economic globalization is entering a critical phase as a mounting backlash against its effects is materializing, primarily in the developed countries. This is forcing them - also under the pressure of the new brand of populism that globalization is generating - to look for alternative solutions that while maintaining most of the achievements of globalization, minimize its disruptive impact on economic activity and social stability.

For the most advanced countries, regionalism appears as the instrument for protecting them from the risk of de-industrialization in favour of the countries with the lowest costs of labour. Even more important appears regional integration for slowing down and reducing the impact of political or cultural globalization, both still less advanced than the economic one, but certainly no less threatening. Yet it must be recognized that the forces opposing the process of globalization, namely nationalism and powerful sectional interests, are the same that regionalism must overcome, while the end of the Cold War has further contributed to the fragmentation of people's horizons [Bliss, 1994: 134].

Also the developing countries look at regional integration as a useful instrument for achieving those economies of scale necessary for keeping increasing their participation in international trade [Krugman, 1988: 42]. As for the least developed countries, it is however doubtful that regional integration is a viable option, mainly because their state machinery is unable to provide the necessary backing for the establishment and functioning of a regional scheme. At any rate, many developing countries have started to reconsidered regional integration which, coupled with a significant degree of trade liberalization, as normally required by structural adjustment programmes, may help to test their firms' competitiveness regionally before being fully exposed to the more taxing global environment.

The rather negative experience so far obtained by many developing countries with regional integration contrasts rather sharply with that of developed countries, notably the EU, and even with that of some groupings in the developing world, namely ASEAN, 'Greater China', and Asian 'growth triangles'. The more positive results presented by the last examples could imply that less traditional forms of integration work better. As the European Coal and Steel Community (ECSC) proved for Europe, the choice of specific areas of common interest among partner countries and/or the shared perception of an external threat have been crucial to the success of regional co-operation, if not regional integration. Many developing countries, and particularly the least developed ones, lack, however, most of the essential ingredients for the successful formation of a trade bloc or even a trade interest group, such as the Cairns group. For the first they lack the impetus of shared political objectives and, for the second, their interests start to diverge as soon as one gets down to details. In more general terms, not only the great variability of their economic situations militates against their forming a united front, but they often lack the cultural, political and historical closeness that is essential for carrying on any common endeavour. For large sections of the developing world the road to liberalization passes necessarily through that of regionalism, i.e. if they could 'regionalize regionalism' this would help to strengthen their state's effectiveness and credibility and therefore enable them to 'globalize globalization', to follow Oman's expression.

Returning to the general level, more complex are the contradictions between on one side the multipolar political framework and the new power equilibrium and, on the other side, the economic globalization, also because of the different pace of decision-making in economics and politics and the fact that the latter's culture is anachronistic with respect to the global dimension of the first. Furthermore, because the stronger the external pressures, the more pressing is felt the need to redefine one's identity, it seems that economic globalization has been developing hand in hand with political nationalism - probably the ideology that is the easiest to transplant globally. To check the growing forces of disintegration a structure must be built in between national and sub-national levels and the world system. Without denying that the regional framework tends to foster movements towards autonomy, even secession to achieve full independence, it appears as the only instrument to take away most of destabilizing and destructive charges emanating from both globalization and nationalism. Besides, regional integration agreements, even the most open and liberal with respect to trade and investment, may enable groups of countries that have close political and cultural ties to establish free movements of, and equal opportunities for, people within the region, while restricting rights of entry, residence, and citizenship for outsiders.

Of course, in this way regionalism assumes two quite different meanings: on the one hand it protects against the worse effects of globalization and unites countries, on the other hand it favours the prospering of sub-national movements, hence heightening the dangers of national divisiveness[65].

No doubt, however, that regionalism has become the stronger and more pervasive influence on the course of international policies. Particularly in Europe after Maastricht, regionalism is re-centralizing state power at the regional level and is breaking down economic nationalism and increasing awareness of economic interdependence; it has become a useful laboratory for new approaches to deeper integration which can be applied multilaterally; it makes negotiations easier by reducing the number of players; it encourages the codification and formalization of rules and regulations affecting trade, making them more transparent and less discretionary [Cable, 1994: 12].

Also the MNCs, particularly those most competitive globally, are much more interested in intra-regional rather than inter-regional trade liberalization. In fact when MNCs invest in other regions, they organize their activities on a regional and fairly autonomous basis, regardless of the existence of a regional integration scheme. Since 'in those sectors in which MNCs are important, intra-firm trade[66] already appears to be a regional affair' [Thomsen, 1994: 123-5], MNCs would really object only to any increase of the barriers to inter-regional investment, an eventuality considered unlikely even in case the world economy would become fragmented into a series of trading blocs. At any rate the big MNCs from the OECD area are relatively sheltered from such a fragmentation since the redeployment of labour-intensive production to low wages countries has become less relevant (see footnote 4). Furthermore, by multiplying international joint ventures, encouraging linkages among MNCs of different nationalities, and strengthening crosscutting interests, sectoral protectionism may help reducing the risk of destabilizing conflict inherent in a system of regional blocs [Gilpin, 1987: 404].

Meanwhile it has become apparent that the traditional analysis of RIAs which focused

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65 Gilpin [1987: 404] distinguishes between benign and malevolent mercantilism - the first being defensive at aiming at safeguarding the values and interests of a society, the second representing instead 'the conduct of interstate warfare by economic means'. Once developed, a similar distinction could also apply to different forms of regionalism.

66 Intra-firm trade represent no less than 40% of US total trade, a percentage that may rise to 2/3 when the term 'related party' is more loosely defined [Ruggie, 1993: fn 14, 149].

on the effect of lowering border barriers to trade, fails to capture all the implications of current regional initiatives which aim at achieving deeper integration by means of the harmonization and reconciliation of domestic policies among the member countries.

Since it is the pressure caused by growing globalization that forces countries into regionalization, it is also the latter that makes necessary to deal with the complex problems relating to different regulatory policies, reducing their differences by means of mutual recognition[67] and supra-national mechanism for implementing common policies. The level of policy decision and implementation can, however, vary and can move to the regional level but also to the sub-national level. Hence the problem of the assignment of the authority for different levels of the policy-making spectrum, i.e. subsidiarity in general and fiscal federalism in this specific sector, with which to keep together the centrifugal forces and an overall identity is maintained against the enveloping globalization. The latter involves the continuous extension of consumer choices, or wild consumerism, but also the volatility of markets, the enormous concentration of power in private hands and the deflationary bias - monetarist preferences - generated by the current international financial and trading system. In general, the prevalence of the values of finance over those of production and employment, as underlined by too many observers.

As regionalism mitigates the negative effects of unfettered globalization, similarly the system of small and medium enterprises (SME) can help re-asserting the value of co-operation, whithout reducing efficiency. The success of SMEs and the growth of sub-regional economies is connected to the overall process of globalization since they are better at coping with shifting and volatile patterns of international demand through their diversified and flexible production[68]. By clustering together, by sharing work,

[67] The adoption of mutual recognition, which amounts to a subtle form of deregulation, has been interpreted as signalling that the Community's sovereignty is to be used for external rather than internal intervention, and as an example of negative integration, i.e. preemption of national regulatory regimes without simultaneously restoring the regulatory capacity at the supranational level [Streeck and Schmitter, 1991: 149].

[68] The literature relative to experience of the 'industrial districts' underlines the potential importance of the regional level for the emerging politics of Europe and other areas. See G. Becattini (ed.), *Mercato e forze locali: il distretto industriale* (Il Mulino, Bologna, 1987); M. Mistri, *Distretti industriali e mercato unico europeo*

expertise, collective services, and risk, and by inter-firm SMEs have demonstrated their ability to resist market shocks and adapt to rapid changes more than large firms hierarchically organized. SME inter-firm relationships are typified by a mixture of competition and co-operation, where the co-operative aspects help to minimize the disadvantages of small size, while the competitive aspects, along with the specialization, convey the dynamism and flexibility that are often lacking in large, integrated firms. SMEs' flexibility and strength is greatly enhanced by the development of a low-cost financial sector closely connected to the local economy and the sub-national governance. Being so sheltered from some of the negative effects of globalization, SMEs would supporting international openness while helping retaining some manufacturing activities. By allowing sub-national areas enough autonomy the system of SMEs may develop and prosper reducing both separatist pressures and tensions between the national level and the global one. Grafted into the soil of the economic, political and social system, likely through decentralization, federalism or even the recognition of sub-national entities' role and place, the system is 'embedded' in rules, norms conventions established and maintained, according to the case, by trade unions, the state, political parties, religious affiliations and more informal community-based institutions. The result is a 'social market' which rests as much on economic forces as on solidarity.

If globalization has costs and dangers that countries try to avoid or minimize through regional integration, an essential role of development assistance to less developed economies could then become that of helping them to build up their regional defence. Such a regional dimension would allow a better co-ordination of the assistance provided by the various 'donors', thus making it more effective. The support given to the regional integration efforts of developing countries does not need to be much different than that offered to the emerging autonomous entities within developed countries' regional schemes, namely the establishment of the infrastructure - in terms

(Angeli, Milan, 1993); F. Pyke and W. Sengenberger (eds), *Industrial Districts and Local Economic Generation* (ILO, Geneva, 1992); M. Porter, *The Competitive Advantage of Nations* (Macmillan, London, 1990); C.F Sabel, 'Flexible Specialisation and the Re-emergence of Regional Economies',in P. Hirst and J. Zeitlin (eds), *Industrial Structure and Policy in Britain and Her Competitors* (Berg, Oxford, 1989); P. Krugman and A.J. Venables, 'Integration, specialization and adjustment'(*European Economic Review*, 40, 3-5, April 1996); and Jong-JI You, 'Competition and co-operation: toward understanding industrial districts' (*Review of Political Economy*, 6, 3, 1994).

of both physical and human capital - required for creating and sustaining systems of SMEs closely connected among themselves on which the development of relatively small economies must rest.

Their endogenous and autonomous, but outward-oriented development requires certain conditions to prosper. Among them is certainly not the large enterprise and the huge infrastructure on which so much foreign aid has been wasted in the past. Besides a minimum of infrastructure to enable the firms to function, the infrastructure 'more appropriate', as Mistri [1996] remarks, to the needs of developed countries' smaller sub-regional entities as well as those of less developed countries is mainly that which favours the emergence of the entrepreneur. This involves education and training, but also social approval, favourable legislation, and certainly close co-operation with the enterprises of neighbour countries, to which should provide regional integration, and of more advance countries, together with access to larger markets, both of which should be facilitated by globalization.

Alternatives to a globalization mitigated by regionalism and devolution are either 'global neoclassicism' or feuding regional blocs. None will be able to provide a stable, secure and environment friendly world order. Both will represent a cause of more marginalization for the developing world but also for various economic sector and social groups in the developed countries.

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