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REGIONAL INTEGRATION AND THE NEW TYPE OF COMMERCIAL WARFARE

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Abstract: The lowest the number of the regional integration areas, the higher the propensity for protectionism (Krugman). The revival of regional protectionism measures meets the case of a commercial warfare. In the largest integrated market, investors must “play” by strict rules, so that a balance between productivity and risk should be kept. The elasticity in replacing the goods interchanged across local areas commensurate with the frequency of intra-regional and extra-regional goods replacement by consumers, depending on how prices evolve. The challenge of cross-area regional integration commercial warfare might lessen to the extent that these few areas are strong enough to build their global commercial relationships upon cooperative arrangements rather than conflict-wise solutions.

Keywords: regional integration, protectionism, commercial warfare, elasticity, global cooperation, Romania’s commercial security.

1. Introduction

No country is immune to the effects of regional commercial agreements because they are more and more a part of the present configuration of global economy. Probably at a given moment in time, questions over the potential partners and the measures that should be implemented are raised in every country. The answers to these questions cannot be found easily because the states are different one from the other through structure as well as politic and economic goals. Nevertheless, it is certain that preferential agreements stimulate trade between Member States due to the elimination of barriers regarding interregional flows. The question is whether this increase of interregional trade is positive for each Member State, entire commercial block and/or entire world.

Economic integration is a dynamic, multidimensional, complex process, which became an important issue of international economy, especially in the last decades. When we speak about economic integration, we consider three aspects:

- regional integration
- preferential trade arrangements
- commercial blocks

This integration supposes, in its simplest form, the discriminatory elimination of all commercial barriers of flows between at least two countries and the establishment of some coordination and cooperation elements between them.

The economic integration is the result of an action made by a complex of factors of which the most significant parts are estimated to be the economic and political factors. One the one hand, the economic disparity between western European countries affected by World War II and USA – whose place have been grounded significantly in the global economy – was one of the *main economic reasons* that generated the idea of a tighter cooperation in Western Europe. On the other hand, the avoidance of some possible future conflicts between France and Germany, which were already having tense relationships from the end of the 19th century, bringing back Western Europe to its status of global power and stopping USSR’s expansion are mentioned frequently as *politic reasons* that caused the integration process in Europe.

No matter the nature of the most important reasons, the political and economic factors are interdependent. The integration supposes the need of cooperation and coordination that powerfully reproduces in the more advanced stages of this process. Besides economic and politic premises, geographical and cultural factors had been brought into discussion.

Paul Krugman states that geographic neighboring causes the existence of some “natural” commercial blocks created between partners who exchange a significant part of their commercial flows between them.

Samuel Huntington presents the culture as a force that establishes and divides at the same time. Therefore, the states with cultural affinities cooperate economically and politically and international organizations like the EU, formed by states with mutual cultural features are more successful than those that try to transcend the cultures.

The economic integration determines the transformation of the present international system and somehow alternates the classic vision over the suzerainty and country’s role.

The tendency of some regional commercial blocks’ appearance is caused by the influence of some factors:

- endogen
- hexogen

Endogen factors are the result of the evolutions that took place inside of a country already developed.

- Fundamental options of similar economic politics and therefore mutual conception over development
- Trade liberalization politics promoted by multiple developing countries, process which will ease the increased liberalization in the view of a future integration with more developed countries
- Economic barriers with which the states have been confronted with, as a result of the energetic crisis which had as an effect the awareness of the fact that there is a development potential which hasn’t been exploited enough.

Among hexogen factors, there are:

- The assuring way of the potential risks caused by regional events or events that are far away
- Attempts to compensate possible losses caused by the decrease of some external markets with an increase of group exchanges, as a result of some integration processes as well
- The desire of political balance and consolidation of democratic systems

2. Regional integration and the new type of commercial wars

2.1 Trade’s freedom and economic welfare

Nowadays is admitted that the idea of a world where dominates the exchanges’ freedom is more profitable than that in terms of the tariff and non-tariff barriers in trade’s way.

Nevertheless, in reality, the possibility of organizing trade’s freedom on a local scale is more probable than on a global scale. Therefore, after the end of World War II, a series of regional integration area began to appear.

If global free exchange seems hard to be achieved, at least now, it is possible to consider, at least as a transitory idea, the creation of regional integration area as a second best choice.

After World War II, we can observe a more regional than global orientation of international trade.

The most powerful regionalization of trade is made in Europe, the most significant example being given by the EU. The tendency of regionalization had been present especially since the 80’s. The intra-European underlining of exchanges followed a trade’s stagnation period during the 70’s while for Asia the 8th decade of the past century is related to one of the highest period of economic increase despite the inter-Asian exchanges have not been so outlined.

If we analyze interregional trade’s dynamics in relation to GDP, interregional trade’s side appears to be sensitively increased than global trade in general²⁰³.

In 1987, the report for USA was 11.4%, 21.8% for Japan and South-East Asia and 13% for Western Europe.

²⁰³ R.C. Hine, “Regionalism and the integration of the World Economy”, Journal of Common Market Studies no 2, 1992

2.2 The development of the regional integration areas

P. R. Krugman shows that the tendency towards protectionism gets higher as the number of the regional integration areas decreases.²⁰⁴ Its empirical tests highlight that areas' number which could minimize world welfare is three, which corresponds to the present case (European area – around the EU, Asian area – around Japan and American area – around USA).

R.C. Fenstra studied also this matter. Starting from GATT²⁰⁵ Member States, he established a global standard of exchanges according to the three blocks: North and South America, Europe and Africa, Asia and the Oceans. The analysis made considering the regional income spent for importations from other regions from 1988 show that more than a half of international trade is interregional. More precisely, total trade represents almost 20% of global income and the exchanges between regional areas raise up to approximately 8% of world income (see 2nd column of Table no 1). There had been made forecasts regarding two different hypotheses:

- A trade's decrease to half between regions because of the reappearance regional protectionist measures, which means a state of commercial war
- The variables' values of substitution resiliencies of goods exchanged between regional areas (substitution values' variability of goods exchanged between regional areas)

These resiliencies measure the intensity of which consumers operate (make) a substitution between local goods and those which are from outside the area, depending on their prices' evolution. R.F. Fenstra mentions three values of the substitution resilience: 1,5; 2; 3.

These values correspond to: low value – 1.5; average value – 2; high value – 3 in comparison with the usual values obtained by empirical tests.

Regional Areas	Trade with other groups of regional	Substitution resilience		
		1,5	2	3
North and South America	2,1	7,2	3,6	1,8
Europe and Africa	6,4	6,4	3,2	1,6
Asia and the Oceans	14,7	11,7	5,8	2,9
World Average	8	8	4	2

Table 1: Percentages in world trade of regions and costs of a commercial war

(Source: R.C. Fenstra, 1992)

According to substitution resilience's value, world welfare will be more or less affected as a consequence of exchanges' decrease. Extra-regional trade's part would remain constant at 2% of world income if trade between regional integration areas would decrease to half and if substitution resilience's value would be 3. Trade would remain constant at 8%, with a substitution resilience of 1.5. Nevertheless, commercial wars' risk of regional integration internal areas could be reduced if these areas are few and have a sufficiently important economic percentage in order to incite them to better look for resolutions by cooperating than to remain in conflict when it comes to international commercial relationships.

It is also possible the idea according to which a very fragmented world would allow a higher welfare than a world in which there would be just a couple of regional groups. In absence's case of regional integration

²⁰⁴ P.R. Krugman, "Is Bilateralism Bad?" in Helpman, Ehlman and Raniz Eds. *International trade and trade policy*, Cambridge, 1955, republished 1991

²⁰⁵ **General Agreement on Tariffs and Trade** created in 1947 is the institution, which arbitrates commercial conflicts. 123 states joined GATT agreement, number that represents 90% of world trade. After the meeting in Tokyo (Tokyo round) non-tariff barriers have been eliminated. In 1986, the negotiations during Uruguay round led to the elimination of commercial barriers and discrepancies by extending the protection and services of intellectual property. On April 12 – 15th 1994 the Ministerial Conference of GATT in Marrakech had marked the end of GATT so that from 1995 all aspects related to international trade to be solved by Trade World Organization.

areas, the risk of non-tariff markets' occurrence for the tertian states would be more indicated but would affect less the countries than a case in which a single group (EU for example) would form its own market in relation with one or more of its activities. Such discrimination would seem suddenly dangerous given the importance of the European market and would imply permanent negotiations for the attempt to balance the interests of the multiple parts. With a fragmented market obstructioned by non-tariff barriers, global loss of welfare might be bigger as every country could be affected differently (the existence of a commercial prejudices atomicity), their individual reaction might be less efficient in the fight for exchange barriers' elimination. Globally speaking, it can be concluded that regional agreements doesn't appear as obstacles in world trade's development, but represent in Pareto optimum terms a second best resolution in comparison with free world trade because they introduce a new type of protectionism and begin some new commercial wars which are more destructive for most of world's countries.

A significant part of observers and theoreticians of contemporary globalization almost unanimously focus on the aspect of interstate and inter-firm competition and less on the concept of economic war, which is considered to be exaggerated and therefore inadequate to the present context.

Some authors consider that we are finding ourselves inside of an economic war led at different levels by enterprises and states looking for supremacy as they noticed that globalization doesn't have a peaceful character and it's effects are ill-fated for some countries and regions,.

3. Conclusions

Economic war is rarely treated seriously, even in the media, where some titles as "textiles' war", "shoes' war", have more purpose to get the attention than to explain it. The followers of the idea that free capital and merchandise circulation is a pacifying way for the countries have doubted themselves. According to them, competition is the key aspect, and some of them – like Elie Cohen – even minimized the competitive side of globalization's circle: "Starting with Paul Krugman it is known the fact that nations' problem isn't competitiveness, that to do better what the neighbor had done, but winning segments of the market. The main issue is efficiency or a country's capacity to produce better and more efficiently using its own physical and human capital and within the technological and scientific resources." Getting out of the context the economic war to make it unique and analyze its implications in globalization's context may seem inadequate considering the fact that most of the times wars which human kind had known have had an economic side permanently. Except the campaigns in Iraq and Afghanistan, the last World War is a part of a long series of major conflicts marked by the destruction of human lives and material goods, where economic interests have played a key part.

War implies a violent action and from here the indecision to extend its meanings towards present international economic space where competitiveness concept, even if implies the existence of winners and losers, distances itself from the destructive effects of a "real" war. The fact that economic wars have mixed with military wars led to believing that they will disappear in peaceful times. Nevertheless, countries' interests did not harmonize through large-scale commercial exchanges caused by globalization as shows the neo-liberal speech focused on the idea of the pacifying market.

Christian Harbulot, an expert of the economic war notices that, from the nationalist point of view, economic war begins to make a meaning hidden not only by liberalism but also by Marxism. While it was focusing on the imperialism as a supreme stage of capitalism, Marxism was omitting the "un-ideological" analysis of the confrontations between national economies. Ideology war's disappearance did not lead for now to economic confrontations' disappearance. Globalization, within its rivalries, which is inducing to the international actors, leads to economic conflicts, which, in certain terms, can jeopardize national safety. That is especially why Harbulot was warning, "It is urgent for us to establish very clear distinctions between national interest and over-national interest, between enterprises' competitive objectives and those of national economies."

In theory, world economic competition implies the participation of the countries and enterprises in the race for the maximum benefits' achievement for consumers and stockholders so that it can be stated that the main reason for these actors of globalization is the destruction of the enemies.

Such a vision does not take actually into consideration the existence of some complex politic and economic connections between the states of the world. The interests and rivalries among the great powers continue to exist even when ideologies stop to divide the two sides. China, a special "capitalist - communist" hybrid case, is not unanimously seen as a potential violent "enemy" by politicians and businessmen.

In the same time, powers' distribution at the global scale has met important changes during communism, materialized in the highlighting from multilateralism to American unilateralism of whose motivations are obviously found not only in wishing to guarantee planet's safety. What globalization and geo-political interests are creating today is a war that cannot be defined easily. It is more about a complex use of economic weapons at different levels where the politics is involved or not, acts from the shadows or relatively up front.

Human kind has a long way to take until that global perfect "game" where everyone is winning. That is especially why the definition of state's role in market's economy and in its connections with the national private firms is a matter that deserves to be analyzed in order to clarify the ambiguities.

The dynamics of the connections between national state and firms has met an historical evolution filled with its local culture, influenced by groups of interests, ideologies and external events. These facts are making us today to be the witnesses not only of a new global unique capitalism but also of an entire series of variations on the same subject distributed in the entire world.

The difference between competition, economic war and economic weapon is not always clear. The interests of the states of the world still remains in the center of the policies promoted by these even when they sign integration agreements, which leads to ambiguities and confusions as so-called the "economic patriotism". On long term, the effects of the accelerated economic competition between enterprises and states can be disastrous for environment and irreplaceable natural resources as the "winners" could be on a first level those territories poor in resources, which ended this way to depend on the "relationships" given by the "protectors".

Albert Hirschman noticed that it could not be spoken of equity when it comes to commercial exchanges between a powerful country and a weak one because the strongest always will impose the commercial terms that are most advantageous to it. It can be easily deduced, when is the case that a great power could block the importations of some merchandise from countries, which wishes to undermine politically and economically.

But even dumping policies, commercial barriers, licenses' administration, brains and labor force's migration, the increase of petroleum's price, financial crises can, in certain terms, produce the undermining of a national economy.