

Regionalism vs Multilateralism: Does Regionalism challenge Globalization or build upon it?

*Samruddhi Pathak

Master of Arts in Diplomacy, Law and Business, Jindal School of International Affairs, Jindal Global University

ABSTRACT

There is a requirement of equilibrium between regionalism and multilateralism. Regional Trade Agreements (RTA) and Multilateral Trade Systems (MTS) can be complementary or substitutes of each other, depending on the country. This paper evaluates the implications of RTAs on international trade of the Global North and Global South. Also, we will specifically study the North-South RTAs and South-South RTAs. The way in which regionalism enhances or hampers the import and export of countries in the Global South. Research on the effect of RTA on MTS and vice versa holds significance because the lack of synergy in them will result in deteriorating trade of all countries. Both of these types of economic integration have a political economic effect on each other. We will also study the implications of these agreements beyond trade and the necessity of a deeper integration. The paper will conclude with suggestions for developing countries to explore options of prospective development. We will analyze North-North, North-South and South-South agreements. Global South is discussed because these countries possess a lot of untapped potential in international markets. They are yet to make a place for themselves in international trade, they deserve. Since these countries entered the international trade community a few decades after developed countries, they still face a dilemma in prioritizing national development objectives and external commitments (Mashayekhi & Ito, 2004).

Keywords: RTAs, developing countries, multilateralism, integration, trade

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*Author's Correspondence

Samruddhi Pathak

Master of Arts in Diplomacy, Law and Business, Jindal School of International Affairs, Jindal Global University

✉ [sampathak1997\[at\]gmail.com](mailto:sampathak1997[at]gmail.com)

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1. Introduction

Multilateralism advocates Free Trade Agreements, globally. WTO is the primary organization that designs and implements the rules for economic interaction between two countries. Formation of WTO in 1995 and conclusions drawn in the Uruguay Round Table 1994 are the foundations of multilateral trading systems. The principle of MFN (Most Favoured Nation) was expected to be a building block for new generation multilateralism. MFN reduces the need of negotiating and signing bilateral agreements for the ease of trade. The principle of 'single undertaking' was applied through the introduction of MFN. This has the potential to include developing countries into international trade as RTAs sometimes demand infrastructure and efficiency in institutional mechanisms to reduce trade barriers. After the Doha Declaration where all the WTO members emphasized upon the members' commitments to WTO, even RTAs follow the principles set by multilateralism. RTAs are designed in such a way that they don't lessen the global trade with a region. WTO Ministerial Declarations, while extolling the supremacy of multilateralism, also recognizes the role of RTAs well.

Even after these efforts by the international community, RTAs continue to sustain and today every country is a party, or negotiating, at least one RTA. Not only the South countries but also North countries are concluding RTAs today. Inclusion of the US in some RTAs also embarks the significance of regionalism. In 2000, intra-regional trade agreements contributed to nearly 40% of the world trade which increased to 50% by 2005 (Mashayekhi & Ito, 2004). In spite of the problem that RTAs create i.e. overlapping agendas for countries, affects developing countries more due to their limited capital, regionalism is well propagated by countries.

Also, all countries are not liberal economies themselves to participate in multilateral initiatives. Thus, regionalism might gradually lead them to multilateral liberalization. Also, regionalism can lead to interdependence faster and with greater magnitude.

Pacing of regional processes and multilateral liberalization needs to be mutually supportive. Regionalism can either foster international trade or diverge the national efforts from development and narrow down their spectrum for trade. RTAs with potential to enhance global economic processes meanwhile can also undermine the national strategies to exploit international trade. Thus, discuss does not stop at concluding multilateralism based on outward-looking and regionalism on inward-looking principles. The adverse effect of RTAs is termed the “spaghetti-bowl” effect. This reflects the problem arising due to differences in tariffs in RTA member countries and others. The overlapping spaghetti strands are the tariffs going in different directions at once creating a negative effect on the economy (1992).

International discussions held by UNCTAD (United Nations Conference on Trade and Development) have the potential to propose mutually coherent plans. These bodies work on the basis of intergovernmental deliberation, consensus building, technical co-operation, capacity building and, research and analysis, which are pillars of international trade. Thus, interface between multilateralism and regionalism shall be systematically implemented by the United Nations General Assembly.

This paper shall answer the following questions:

- Are RTAs foundations of multilateral liberalization?
- How do regionalism and multilateralism affect the Global South?

2. Methodology

The information in this research paper is mostly drawn from the UNCTAD XI Conference of 2004 and other journals. The data collected is of collective trade between countries taken from the UNCTAD Handbook of statistics, 2004. The period chosen is 1995-2005. During this period, globalization was at its peak and regional trade blocs, too, were starting to form. Thus, the changes brought during this period will be the most apparent effects of globalization of international trade and regional integration.

3. Regionalism: A Treat?

After the WTO Ministerial Declaration and the Doha Declaration, the new generation RTAs are not limited to only trade of goods and services, they also influence other areas such as competition policy, intellectual property rights and environmental policy. For instance, ASEAN Free Trade Agreement (FTA) or SAARC FTA have scope beyond monetary trade since these countries share some similarities in culture, human resources and all of them are in the Global South. Such a broad horizon is beyond the scope of multilateralism and global economic liberalization (Mashayekhi & Ito, 2004). There are examples of regional integration which, later on, assisted in the promotion of multilateralism, for example the European Union and OECD. RTAs demand some infrastructure and services from the members. Thus, this becomes an incentive for small countries to pursue multilateral trade agreements with larger countries. Ultimately, RTAs here foster MTS.

MFN in MTS might also give counter results. If a developed economy abolished tariffs on only one developing country, it would hamper MTS. Thus, the MFN system in the global trade system promotes favouritism. To earn the MFN status, small countries might favour big economies decisions at WTO as well. In this way, developed countries can act as lobbyists of influence at the multilateral level. The MFN concept tends to promote preferential trade. And regionalism makes up for these shortcomings of the MFN system.

Also regionalism, sometimes, can have a ‘domino’ effect. When a RTA is doing well and the contribution of the RTA increases in the world trade share of the country, other countries are attracted to join them. The process of enlargement increases the scope of RTA and also acts as a building block for MTS.

When bilateral RTAs are between two countries with a significant disparity in economy, the agreement increases trade at the expense of third world country producers. RTAs have great dynamic effects on members. They drive the countries, with similar visions, closer and quicker towards free trade. The approaches in RTAs can be adapted or become lessons for future multilateral

associations too. Thus, RTAs become a basis for further negotiations for any country. Since they are consistent with WTO rules, they would not be hampering members' trade with any other country (Mashayekhi & Ito, 2004).

Developing countries have less policy options to resort to due to their limited capital. So, RTAs in the global south can form a nucleus of a bigger economic integration of all countries. Since these countries are birds of the same flock due to their late admission into the international community, they can form multilateral agreements between regional corporations as well. For example, FTAs between Africa and ASEAN can be possible. Although globally, countries of the global north advocate FTAs more.

In the FTAs between the global north-south countries, the developing countries get a liberal access to developed markets. The gains for the global south might be great on a relative scale but on an absolute scale, the barriers are decreased for developing countries to trade with them. North-South Agreements reinforce comparative advantages of the south, such as cheap labour. Thus, this does not let the economy in the south flourish in other sectors. There is job creation in these countries due to low-wages but growth in high-tech sectors is slow. The north-south agreements need to be more dynamic in this area.

4. Regionalism: Rise in Protectionism?

There is a constant fear that RTAs may give rise to inward-looking policies in any country. RTAs might be a way for some countries to gain influence in a region. Region, as a whole, or a trade bloc might seek self-containment and autarky.

RTAs between huge trade blocs might also have adverse effects on non-member countries by creating a trade diversion. RTAs can also cause an increase in external tariffs due to non-cooperative behaviour of a member (2009). Many RTAs become a burden for global south countries due to the administration required and overwork of bureaucracy because of overlapping policies (Mashayekhi & Ito, 2004). Also, RTAs among global north countries makes WTO even more irrelevant since they reduce the incentives for these countries to opt for multilateral approach. The tariff reduction welcomed after a country gets MFN status, by any WTO member, is more beneficial for developing countries i.e. the global south. Thus, developed countries do not have enough benefits from multilateralism. In RTAs between North-South countries, especially bilateral agreements, the developing countries have a weaker hand in bargaining. Developed countries have more leverage at negotiating. Thus, the negotiations and the pressure of attaining a good outcome from the RTA also create a bias at the multilateral level. One suggestion to abate this is to put a moratorium on bilateral and regional negotiations for the duration of multilateral negotiations. This might prevent any prejudice while the multilateral negotiations are going on (Mashayekhi & Ito, 2004). Also, RTAs can be more outward-looking if the external barriers of non-members are lowered. This would result in a more liberal RTA and less trade diversion. The liberalization of RTAs will also reduce the MFN duties.

5. Global South Trade

South-South trade is said to have formidable potential due to the fertile land, abundant resources and great human capital. Integration of developing countries would enhance their inclusion in world trade even more. In 2005, the contribution of south-south trade accounted for around 13% of world trade and had increased with a rate of 8% per annum from 1990-2002 (Mashayekhi & Ito, 2004). Its share in the world trade increased from 9.4% to 12.5% in the same period of time (Mashayekhi & Ito, 2004). Out of the total trade done by the global south, 37% trade is shared by south-south trade. Thus, intraregional trade in the global south was also rising during this period. After decolonization, the importance of south-south trade has increased as it is favourable for a peaceful world order. In spite of many groupings formed already, like ASEAN, SAARC, African Union, the level of integration is not even among them. Thus, these countries are yet to exploit the benefits of RTAs.

Following is the table that depicts evolution of intraregional exports of some south-south RTAs and their in total exports.

(1990-2003, millions of dollars and per cent)

	1990	1995	1999	2000	2001	2002	2003
ANCOM	1 312	4 812	3 929	5 116	5 461	5 070	4 781
CACM	667	1 594	2 175	2 418	2 394	2 598	3 288
CARICOM	456	877	1 146	1 076	1 231	1 252	1 538
MERCOSUR	4 127	14 199	15 313	17 910	15 760	10 573	13 383
COMESA	890	1 027	1 122	1 281	1 385	1 465	1 812
ECCAS	163	163	179	196	217	193	236
ECOWAS	1 532	1 875	2 285	2 811	2 767	3 192	3 541
SADC	1 058	4 124	4 224	4 453	4 122	4 240	5 345
CEMAC	139	120	126	101	119	120	157
UEMOA	621	560	805	741	775	857	1 043
ASEAN	27 365	79 544	77 889	98 060	86 331	91 765	102 281
ECO	1 243	4 746	3 903	4 473	4 505	4 955	6 696
GCC	6 906	6 832	7 306	7 218	6 943	6 905	7 864
SAARC	863	2 024	2 180	2 593	2 827	2 998	3 869
Share (%)							
ANCOM	4.1	12.0	8.8	8.5	10.3	9.5	7.4
CACM	15.2	21.8	13.6	14.8	15.5	11.0	11.9
CARICOM	8.0	12.1	16.3	14.4	13.9	12.5	12.5
MERCOSUR	8.9	20.3	20.6	20.0	16.9	11.3	11.8
COMESA	6.3	6.0	6.3	4.9	6.1	5.4	5.8
ECCAS	1.4	1.5	1.3	1.1	1.3	1.1	1.1
ECOWAS	8.0	9.0	10.3	9.5	9.6	11.5	9.8
SADC	3.1	10.6	11.9	12.0	10.2	9.3	10.0
CEMAC	2.3	2.1	1.7	1.0	1.3	1.4	1.4
UEMOA	13.0	10.3	13.1	13.1	13.6	12.1	12.8
ASEAN	19.0	24.6	21.7	23.0	22.4	22.7	21.2
ECO	3.2	7.9	5.8	5.6	5.6	5.9	6.0
GCC	8.0	6.8	6.7	4.5	4.5	4.6	4.2
SAARC	3.2	4.4	4.0	4.1	4.3	4.2	4.5

Source: UNCTAD Handbook of Statistics 2004.

Evolution of the share of intraregional exports in total exports of EU, NAFTA and FTAA
(1990-2003, per cent)

	1990	1995	1999	2000	2001	2002	2003
European Union (25)	67	66	68	67	67	67	67
NAFTA	41	46	55	56	56	57	56
FTAA	47	53	60	61	61	61	60

Source: UNCTAD Handbook of Statistics 2004.

From these tables, it can be seen that the share of intraregional trade in south-south RTAs is less than in north-north RTAs. Thus, the efforts for regional integration in the global north are more effective than in the global south. Thus, a 'deeper' integration is required in south-south RTAs. For instance, regionalism in Europe, namely the European Union has integrated the region so much that their exports are mostly intraregional. This is lacking in south-south RTAs. 'Deep integration' would result in lowered barriers in trade of goods, trade facilitation and skilled labour. Through this, south-south RTAs can be more capable. Ease of business can be increased by giving certain issues like double taxation, double CSR contributions, regional business visa and promotion of investment need exclusive attention. There is also a "technology gap" between the developed and developing countries. The developing countries are rich in natural resources. Due to a common goal of attaining the same economic setting as developed countries, they tend to ignore the resources and drive the policies towards over exploitation of the environment, unsustainably, for industrialization. The potential of natural resources needs to be re-addressed by these countries (Mashayekhi & Ito, 2004).

6. Conclusion

Developing countries, mostly, seek absolute gains rather than relative gains while dealing with developed countries. As suggested, developing countries have plenty of room left to fill up in the economy. These findings and suggestions of this paper hold importance as a more “open regionalism” would help developing countries grow. Growth of these countries is in the interest of all the countries in the world. Although, intra regional trade is not the only factor to measure the success of an RTA. Other factors like trade facilitation, development of complementary businesses and macroeconomic potential shall also count.

This research paper does not highlight the factors influencing south-south RTAs case by case. The influencing factors of trade in ASEAN countries might be different from Latin America integration. Also, factors influencing the north-south are not highlighted well. The study fails to attend the effects of COVID-19 on regionalism and multilateral trade.

7. Recommendations

For further research on this topic, the effect of COVID-19 is a novel phenomenon that will have a huge impact on the economic processes of all countries. Also, the most important recommendation for this topic would be to liberalize regionalism more. The situation can be improved by a more integrated effort. The effort needs to be towards increasing the trade diversity. Mostly in developing regions, some countries establish south-south RTAs because they seek regional hegemony. While doing so, they eclipse the entire trade of the region. For example, China in Asia and Mexico in Latin America.

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