

Multilateralism vs. Regionalism: The Yin and Yang of Globalization

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BURNISHED LAW JOURNAL

Abstract:

The establishment of the General Agreement on Tariffs and Trade in 1947 paved way for multilateral promotion and growth of international trade via multiple negotiation rounds- a key institution to prevent commercial international disputes; to avoid trade wars and depression that the world witnessed after World War II. GATT was eventually replaced by the World Trade Organization, a strong world advocate of multilateralism where multiple countries work coherently on economic and commercial issues. Regionalism, in contrast, encourages its parties to extend more favourable treatment to each other as opposed to the rest of the world.

In this research paper, we would attempt to understand the intricacies of regionalism and multilateralism, to assess the impact of both approaches towards international trade and on the larger picture of globalization. Although regionalism carries a tinge of controversy due to its trade diverting nature, the effect of regionalism on global trade is no longer considered to be a threat to multilateralism, by many advocates of regionalism.

Keywords: WTO, RTA's, Multilateralism, MTS, Regionalism, Trade, Globalized, Economy

Introduction:

The idea of globalization can be defined as “an emerging new reality based on the advancements in technology-in particular, in sectors of communication and transport- a global trend of standardization, which induces multinational economic actors to transform into global ones” (Levitt, 1983). The interaction of Multilateral Trading System (MTS) and Regional Trade Agreements (RTA's) demands a synergy between development objectives of nations and the commitments to their foreign counterparts. The cohesion of MTS and RTA's has crucial implications on international trade and development aspirations of developing countries. Regional Trade Agreements can be an auxiliary to the Multilateral Trading System to facilitate and enhance trade and development. However, if RTA's are divergent from MTS, it can cripple the national objectives and disrupt the lubrication required for growth and development.

The number of member countries within the World Trade Organization has grown considerably, reaching 164 members since July 2016 (plus 24 observer governments) which is a tremendous shift from almost 80 GATT partners, after the Uruguay Round Agreements have been ratified. In stark contrast, there has been an explosion of preferential trade agreements (RTA's) since the last two decades. In 1990, there were only fifty trade agreements imposed. The number has gone up to

280 in 2017 (World Bank Group). This process of offering preferential treatment to few countries is considered discriminatory and violates the concept of the Most Favoured Nation principle, undermining liberalization of trade and globalization. The history of RTA's can be traced back to the establishment of *Deutscher Zollverein*, the German Customs Union in 1834. Regionalism was prominent in Europe since the Benelux Customs, which came into force in 1948. Mongolia and Japan enforced an RTA between the two countries in June 2016, after which all WTO members have RTA's in place. There exist 306 RTA's as of 20th September 2020, corresponding to 496 notifications from the WTO members, "counting goods, services and accessions separately."

The interface between MTS, favoured by WTO and RTA's, preferred by developing countries, require an in-depth analysis to comprehend the complementary essence of both processes, vis-à-vis developing nations to assure positive benefits for developing countries from international trade and agreements that ultimately lead to globalization. Through this research, we seek to answer the complex question of a possible mutual existence and linkages between RTA's and Multilateralism, whether RTA's are complementary to globalization or it diminishes the validity and vitality of multilateral negotiating efforts. More particularly, we would focus on the role of RTA's, MTS's nature and character on developing countries.

Research Methodology:

This research paper would rely on quantitative and qualitative data from the period ranging from 1950 to 2018. Quantitative data would include statistics pertaining to number of RTA's currently in force, notifications made to WTO, and share in world exports. Qualitative data includes literature review of similar works and case study approach of European Union, with specific emphasis on developing countries.

I. Yin and Yang of Global Economy: Multilateralism versus. Regionalism

There exists abundant literature on various processes of economic integration globally. In this particular section, we focus on the contributions of regional and multilateral agreements.

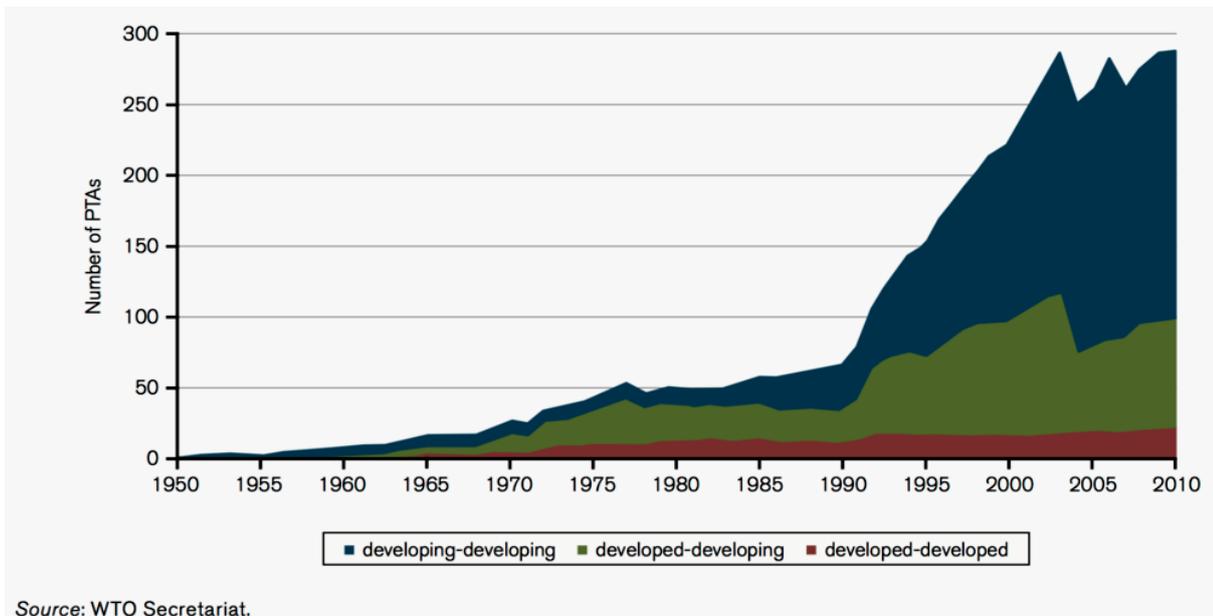
Multilateralism is a process to unify several attempts undertaken towards liberalization of trade, globalization and international relations, in general. GATT's successor, WTO's Multilateral Trade Agreements embrace the fundamental obligations with respect to trade policy which all WTO members have abided by. This falls under the "single undertaking" applied in the Uruguay Round, meaning, all agreements form one single "package" that was accepted by all the members as a

whole (Goel & Handa, 2018). Multilateralism is defined as “a deep organizing principle of post war international trade, with three defining characteristics; indivisibility, generalised rules of conduct and diffused reciprocity”, (Ruggie, 1992). This indivisible system as advocated by the author refers to the vast network of trade relations among countries that are in contrast to individual links between nations. It is asserted that the Most Favoured Nation principle is non-discriminatory in nature; reciprocity automatically extends to all nations as they will collectively gain from the multilateral system (Goel & Handa, 2018).

On the contrary, Regional Trade Agreements oppose the MFN principle by extending more preferential treatment with each other pertaining to trade related issues in stark juxtapose to the rest of the world. They are economic agreements where two or more nations sign an agreement to lower or eliminate barriers between them; using tools such as Free Trade Agreements or Customs Unions. There is a general notion that trading blocs are assigned the crucial task of promoting mutual economic prosperity while safeguarding domestic markets from external competition via the RTA route (Bhagwati, 1992). RTA's or trading blocs are an open challenge to the Multilateral Trading mechanism as well as to the 'free trade' aspiration formulated during the Bretton Woods conference with respect to this claim. This also undermines the role of global hierarchy represented by international institutions such as GATT, WTO, International Monetary Fund (IMF), and World Bank. These giant institutions seem to be replaced by smaller, fragmented and biased trade liberalization, building on regionalism. Inevitably, this weakens the roots of multilateralism disintegrating the international trading and commercial system, indirectly encouraging prejudiced and close trading blocs whose internal geo-political and ulterior motives become the faux engine driving trade relations resulting in a global dilemma.

A striking characteristic of regionalism is that countries that have previously preferred multilateralism tend to have joined the regionalism movement, including Australia, Japan, Singapore, India, USA, New Zealand, and Republic of Korea. Particularly, several agreements between countries in far-off regions or continents have arisen. In particular, the European Union-Mexico, USA-Israel, Jordan, Chile, EU-South Africa, *inter alia*.

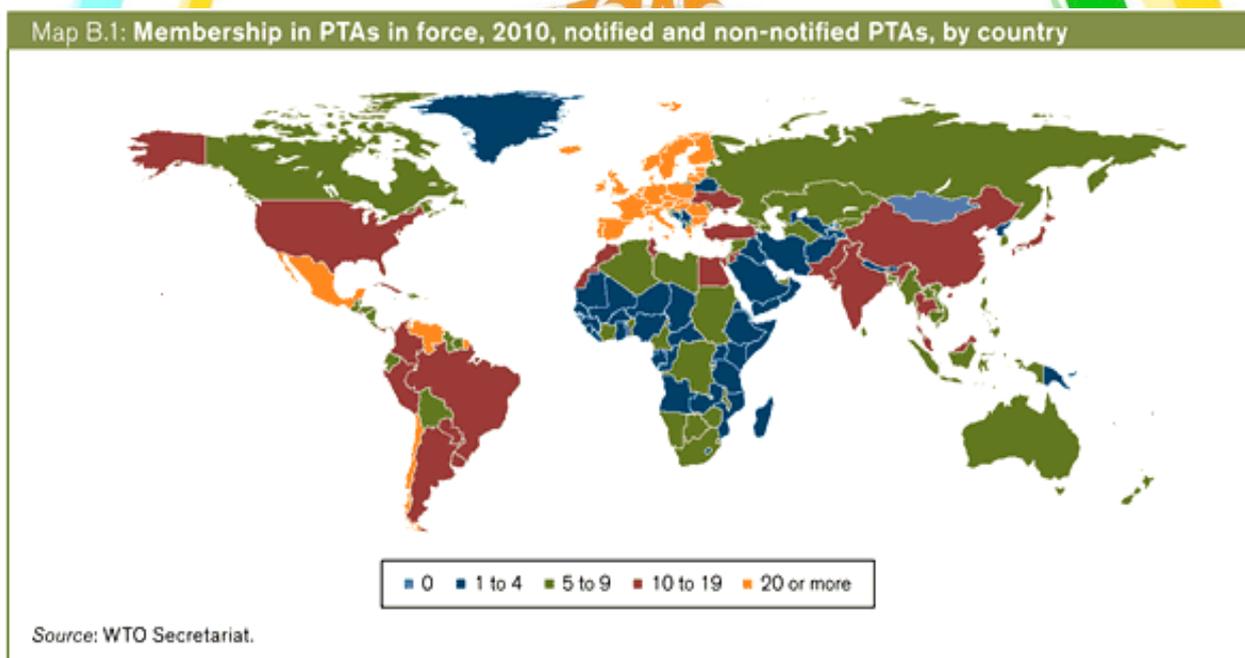
Figure 1: Cumulative number of Preferential Trade Agreements (or RTA's) in force, 1950-2010, notified and non-notified PTAs, by country group:



Source: WTO Secretariat.

Source: (WTO, 2011)

Figure 2: Membership in PTA's in force, 2010, notified and non-notified PTA's, by country:



Source: WTO Secretariat.

Source: (WTO, 2011)

The recent trend towards RTA's is considered to be less dangerous to third countries and the MTS than previous experiences as these new agreements tend to have a wider coverage and extend to products, services, instruments, intellectual property, *inter alia* (Crawford & Laird, 2001). In prominent economic literature, it is asserted that regional integration would result in both dynamic and static gain (Viner, 1950). Under perfect competition (simple partial equilibrium), RTA's

might accelerate the trade levels among members that hold less productive indigenous producers at bay, that is, trade creation or at the cost of efficient third countries, that is, trade diversion. The dynamic effects of RTA's have been a driving force due to Foreign Direct Investments, Intellectual Property Rights, policymaking, institution building, *inter alia*. These political effects, beyond the economic implications, are predominant characteristics of blocs such as the European Union and the North American Free Trade Agreement (NAFTA); a direct consequence of which has not only been an increase in intraregional exports but also a global network with the rest of the world.

Table 1

Intraregional exports and their share in world exports (1990-2003, in USD million and per cent)

	1990	1995	1999	2000	2001	2002	2003
World	3491451	5137956	5667125	6364080	6121807	6396697	7443692
European Union	1022932	1385805	1587418	1618929	1623480	1732227	2063450
NAFTA	226273	394472	581161	676441	639137	626985	651213
FTAA	300700	525346	734848	857839	814620	797612	841264
<i>Share %</i>							
European Union	29.3	27.0	28.0	25.4	26.5	27.1	27.7
NAFTA	6.5	7.7	10.3	10.6	10.4	9.8	8.7
FTAA	8.6	10.2	13.0	13.5	13.3	12.5	11.3

Source: (UNCTAD, 2004)

II. Case of Developing Countries: Balancing Arguments

As discerned above, the political aftermath of RTA's vis-à-vis MTS, has invited many arguments, both for and against regional integration. Discussing the pros, RTA does primarily enable its party countries to a wider and stronger gamut of services and goods, which could have been plausible at a multilateral level. RTA's also provide a platform for experimenting with novel policies, execution which might lay the foundation for impending multilateral negotiations. This provides "building blocks" for globalization and a liberal Multilateral Trade Framework for RTAs. In a more distinct argument, RTA's are considered to be discriminatory, "inward-looking" and seem to still promote protectionist measures consequently resulting in complacency with strong defences built around. Specifically, RTA's whose aggregate members contribute to a majority of global trade, are assumed to be diverting trade instead of creating trade. Although such quotients depend

on trade policies of its non-members; if they are supplementary and not complementary to the MTS, they weaken the validity and credibility of RTA's to a great extent.

This approach of a novel trade agenda has embraced not just economic but political implications too. For developing countries specifically, it is imperative for them to ensure sustained economic growth and stability and have been drawn to a multilateral approach since 1990's. At a domestic or national level, they are still committed to engaging in local issues, such as, poverty reduction programmes, hunger eradication, educational levels, environmental issues, *inter alia*. Of recent, many of these economic implications' programmes have been closely co-ordinated with the World Bank, International Monetary Fund, as opposed to the United Nations in retrospect. This puts them in a tough spot as their fortresses now deal with not just the Multilateral Trading System, but also new challenges of regional and multilateral trade policies, both. Via the "WTO plus" or "WTO minus", where developing countries receive lesser flexibility and policy space, RTA's become a platform for trade negotiations, posing a perpetual threat to the legitimacy of the MTS. Although MTS, as represented by WTO sets general requirements and approvals for trade policies globally, developing countries consider it to be in an insecure position to complement regionalism with multilateral regimes. It is the World Trade Organization that sets guidelines for all RTA's and is governed by WTO rules. Nevertheless, the regional stance of developing countries and LDC's primarily support two arguments;

- **Domestic Requirements:** RTA's cater to specific nation-level needs-agricultural products, merchandise trade and services. This is facilitated by RTA's due to close geographical proximity, common cultural background, bilateral relations, and historical traditions among limited group of countries.
- **Building Blocks:** This is a more concrete argument with respect to our hypothesis that RTA's or regional integration is not an "end in itself" but a building block towards a more globalized network of countries; to attain a unified economic, social and cultural bloc, embracing many countries.

Furthermore, for developing countries, incorporation with WTO, coherent with RTA's might restrict their calibre to pursue national objectives and strategies to ensure beneficial integration into a global economy. The failure of the Doha Round negotiations to reach a consensus, deepens this issue. Though trade is important, it is not a magic bullet for achieving development (Sachs, 2005). Developing countries' RTA's contributed to globalization, but at their own pace and levels. Such trade reforms must be complementary not only to globalization but also to development policies of middle and low income countries. This must be supported by a simultaneous flexibility

in MTS. There must be a paradigm shift to safeguard RTA's certain benefaction to globalization and liberal trade while ensuring MTS provides the right buoyancy for developing countries' growth to accentuate.

III. European Union: A Globalized Perspective

The European Union comprises of 28 member countries. It is a political and economic union with a combined population of approximately 450 million. The European Union comes under the Customs Union of Regional Trade Agreements and was established in the early 1990's. EU has been one of the earliest RTA's signed under the Single European Act, passed in the mid 1980's, to eliminate all Non-Tariff Barriers (NTB's) among its member countries (Husted & Melvin, 2012). Globalization and international trade have contributed significantly within EU, compelling the Union to embrace new trade policies and agreements. As contended previously (refer introduction section), globalization reduces the transaction costs and promotes international trade and investment. The EU-28 is the world's largest trading bloc, admitting new members, which has asserted its strong position geopolitically- continuously emerging more global than ever. In October 2015, European Commission published a 'trade for all- Towards a more responsible trade and investment policy' strategy, endorsing the MTS and released a "reflection paper on harnessing globalization" in May, 2017 (Titievsakia & Harte, 2019). EU formulated its response to globalization on two fronts:

- External Level Cooperation: **international cooperation** by extending support to international organizations, bringing new areas under **regulation** that are oblivious to international rules currently; **economic diplomacy** to proselytize EU's economic agenda; **create a level playing field** by dint of trade agreements and decrees.
- Internal Level Cooperation: **mapping** of vigorous social and educational policies, **boosting innovation**, capital formation, fiscal policies, governance; **working in close proximity** with accredited regions to encourage globalization.

On-going and Planned Trade Agreements:

- *EU-Japan Economic Partnership Agreement*: Launched on 1 February 2019
- *EU-Canada Comprehensive Economic Trade Agreement (CETA)*: September, 2017
- *EU-Singapore Trade Agreement and Investment Protection Agreement*: 19th October 2018
- *EU-Mexico Global Agreement*
- *EU-Chile Association Agreement*, 2017

- **EU-MERCOSUR**

Figure 3: State of EU trade, EU's Free Trade Agreements



Source: (EU, 2016)

Albeit the regionalism narrative is predominant in the recent years, EU is determined to the idea of a global trading system, as embodied in the WTO; this argument was supported by the Dutch Prime Minister Mark Rutte in a speech addressed to the European Parliament, “Let us broadcast a strong message to the world: that Europe’s belief in the power of multilateral cooperation and free trade is as firm as ever” (2018).

Conclusion:

From the above analysis, it can be concluded that there is an affirmative coherence between the processes MTS and RTA and their cumulative effect on globalization.

Admitting Regional Trade Agreements have multiplied over the recent years, since the establishment of the World Trade Organization and the enduring Doha Round, most countries—developing and developed nations have been party to an RTA on trade policies, Intellectual Property Rights, merchandise trade and services. Developing countries have effortlessly used the tool of RTA to assimilate themselves into the global economy. RTA’s and MTS are not necessarily incompatible; if played right, globalization can manifest itself through the machinery of a culmination of unilateral, bilateral, regional and multilateral pathways. Many RTA’s are

processed through the WTO route, covering the policy space and economic implications of developing countries.

The integration of developing countries into a world economy, measures and mechanisms require further study. How can developing nations incorporate into the global economy while maintaining domestic objectives? (Pal, 2005). The Doha Round must also reach a conclusion by studying underlying causes and costs of implementing trade reforms, without hindering the process of regional developmental strategies.

Recommendations:

- Nations party to Regional Trade Agreements can lower Most Favoured Nation tariffs for their non-participating members to create a positive effect on the total output of trade.
- Developing countries must carve their own sphere of catering to national and domestic needs while participating in the Multilateral Trading System. Promotion of exports to the world economy boots integration.
- Build stronger global and national institutions to sustain trade creation and nullify trade diversion; to provide the appropriate buoyancy for developing nations to bounce back.
- Address the limitations of WTO and MTS, use legal framework for accelerating multilateral trade (soft law and hard law approach).
- “Multilateralize regionalism” (Baldwin, Evenett, & Low, 2009). The author translates this into initiatives to integrate regionalism into multilateralism by weakening the forces behind RTA’s.

Best Practices:

- **Asia Pacific Economic Cooperation’s & Pan European Cumulation’s** best practices for RTA’s facilitated the reduction of deformities within the designated zones through “harmonization of rules of origin and diagonal cumulation” (WTO, 2011). The Information Technology Agreement eliminated MFN tariffs on information technology products, thereby rendering rules of origin and rules of cumulation invalid.
- **Critical Mass Approach** is a feasible measure to multilateralize the regionalism; the entire membership affirms to cooperate under the WTO without involving any bias vis-à-vis non-members. This approach resonates with the “code approach” that was discussed during the Tokyo Round Agreements, but was later on terminated with the “Single Undertaking” amid the creation of WTO (Low, 2011).

Developing countries require special attention to effectively administer the interface between RTA’s and MTS on a globalized and national level. Clear and concise policies, trade reforms, and

economic agenda of low and middle income countries are imperative to assure regional integration to be complementary and coherent with a global economy. Flexibility must be all pervasive- at both regional and multilateral levels to ensure auxiliary policy space across the spectrum. This new circuit of ‘coherence and compatibility’ with regional and multilateral mechanisms is a mammoth task and juncture, an opportunity to be grabbed by countries along with national institutions as well as international establishments (Mashayekhi, Puri, & Ito, 2005).

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