

Regionalism Vs Multilateralism: Does Regionalism Challenge Globalisation or Build Upon It?

Palak Maheshwari

Email: palak.maheshwari@jgu.edu.in

Research Fellow, Jindal School of International Affairs, India

Abstract

Trade globalisation refers to the growing economic interdependence of countries globally. Regional trade refers to the conscious creation of policies to ensure smooth and preferential trade within a region. These ideas can seem opposite to each other but this study aims to prove that this is not so. There are several ways in which regionalism actually promotes globalisation. There is safety for local businesses in regional trade. Regional Free Trade Areas (FTAs) allow small countries to compete with each other before competing globally; which gives them more time to adapt and adjust. Regionalism also enables participation of less-developed countries in making heavyweight regional economic blocs and ensures a passage to deal with bigger economies (like in the case of ASEAN and China). It is often thought that regionalism developed as a response to globalisation when the fact is that regionalism precedes globalisation. These are all pieces of evidence provided in this study to conclusively say that regionalism builds upon globalisation instead of challenging it.

Keywords: globalisation, regionalism, free trade agreements, regional trade agreements, multilateralism

Introduction

Does giving preference to regional trade mean disenfranchisement of global trade? This is an often-debated topic in International Relations. In this study, I will strive to explain how not only regionalism does not challenge globalisation, but aids it in many ways, and almost acts as a stepping stone towards globalisation. The entire world went into rapid economic globalisation after the Cold War ended in the early 1990s. Put simply, this kind of globalisation refers to the growing interdependence of world economies on each other. It is brought about by exchanging goods, services, technologies etc. across the borders. Economic partnerships have been built by nations over several centuries to facilitate this.

Arrangements designed to organize a free trade of goods between countries of a particular geographic region can be defined as regionalism. This is also used to coordinate regional foreign policy sometimes. Economic regionalism is often seen as a way to manage the opportunities and challenges presented by the vast increase in international trade after the Second World War. Regionalism can present itself in many forms, the most basic of which is a Free Trade Area (FTA) which reduces or eliminates customs duties between its members. The South Asian Free Trade Agreement (SAFTA) is an example of this kind of regionalism. Higher degree of integration through a common tariff on non-members is applied in a Customs Union, and a Common Market adds to these by allowing the free movement of capital and labour. An economic and currency union is the highest form of regionalism. It

requires political consensus, its objectives include complete economic integration through a common economic policy, a common currency, and the elimination of all tariff and nontariff barriers. The European Union (EU) is a prime example.

Discussion

At a first glance, regionalism seems to be a challenge, and almost imagined as an antidote to the effects of globalisation. It is common to see these two as mutually exclusive. But in this paper, I will strive to prove that not only regionalism makes global trade more effective, it also democratizes it in a way.

Firstly, regional FTAs allow small countries to compete with each other before competing globally. According to the Centre for International Development at Harvard University, regional trade agreements help countries gradually work towards global free trade by increasing the level of competition slowly, and giving domestic industries time to adjust. This is very useful as huge amounts of capital are invested and disinvested in the global market very quickly, which makes it harder for smaller countries to compete (2009).

Secondly, lesser-developed countries get a fighting chance in the global economy because of regionalism. Despite multiple technological and human resource advancements over the years, the fact remains that countries of the Global North dominate international trade. Increasing membership of less-developed countries in the forming of regional trading blocs like the Southern Common Market (commonly known by Spanish abbreviation MERCOSUR) and Association of Southeast Asian Nations (ASEAN) shows the economic stability offered by regional organizations. Trading blocs also allow these small countries to enter into bigger agreements with regional hegemons. For example, ASEAN countries have been able to negotiate trade deals with a big economy like China and have gained a semblance of economic stability in the region. It would be fair to say that, “entering regional pacts with hegemonic powers can be easily seen to be more beneficial for smaller countries than subjecting themselves to the hegemonic-controlled free market” (Collins, 2010).

Third, the idea that regionalism developed in response to globalisation is not entirely valid. When communications technology and transportation did not exist at the level that they do today, trade was only possible within short distances geographically. According to Hurrell (2007), regionalism has existed since the birth of the first political communities. Hence, the assertion that regionalism poses a challenge to globalisation may seem unnecessary altogether.

According to Laryea (2013), there broadly exist three reasons for the creation of regional trading blocs: “(1) frustrations in the global (or multilateral) system (i.e., frustrations with progress towards achieving global regimes), (2) the domino effect and (3) socio-political integration for peace and stability” (p. 172).

The first reason states that countries opt for regionalism when they get disillusioned by or frustrated because of the multilateral global system. This usually happens when there is a delay in promulgation or implementation of laws. They are led to believe that procuring agreements at the global level is a slow and complex process and they would be far better off dealing only regionally. This often happens because of conflicting interests that several states have at the global level. Some countries may feel that their interests are not adequately represented at the global institutions like the International Monetary Fund (IMF) or World

Trade Organization (WTO). Some examples where there has been a lack of progress in multilateral agreements include the Doha Round under the World Trade Organization, and the failure to create a global investment treaty to regulate international investments. Now, in contrast to global partnerships, regional partnerships are much easier to navigate because they often involve fewer countries and those too have many shared interests. When it comes to free trade agreements (FTAs), this particular reason for the expansion of regionalism becomes more debatable. Some argue that the lack of progress in GATT/WTO arrangements has led to the proliferation of FTAs. But according to Baldwin (2002), the history of regional FTAs does not support this theory. He argues that regionalism has proliferated at the same time as multilateralism (p. 874-877).

The second important reason given for the proliferation of regional FTAs is the domino effect theory, which states that the success of a regional FTA anywhere in the world leads to creation of more regional FTAs elsewhere. Once a regional trade agreement (RTA) group is successful, other countries in the region which were not too keen on joining earlier may want to join now. An example is the European Union, which started with just six countries – Germany, France, Italy, Luxembourg, Netherlands and Belgium, has now expanded to include over 28 countries. It often happens that countries do not want to wait for the RTA group to be firmly established before they seek to join, for fear of eventual exclusion. This can be elucidated with the help of an example like the North American Free Trade Agreement (NAFTA). Canada did not want to create an FTA with the US for the longest time, but when the USA was undergoing negotiations with Mexico to create a trade pact with them, Canada pushed for NAFTA instead because it feared that it will be left out of the very profitable North American trade if US and Mexico create a pact alone. Canada wanted to be included because it feared this diversionary trade would eventually exclude it. Successful RTAs give rise to more successful RTAs because countries want to emulate the progress seen in other regions because of them.

A third important reason given for the proliferation of RTAs is the socio-political integration for peace and stability. While prosperity arising from preferential trade is the core of regionalism, it may also be motivated by other factors. For example, the EU came into being also because the European nations wanted to avoid more conflict after the end of the Second World War. In a way then, regionalism does not only offer economic prosperity but also incentivizes socio-political integration of a region.

All these reasons were expounded here to argue that seeing regionalism simply as a response to globalisation is a narrow view. Regionalism has existed for many millennia before globalisation. Regionalism not only does not pose any threat to globalisation but is essentially a stepping stone towards it.

Conclusion

There is constant debate between regionalism and globalisation and which of these challenges the other. In this paper I have attempted to prove that regionalism cannot challenge globalisation because it precedes it in history. If anything, regionalism actually works in a way to create new forms of globalised blocs in the world. Regional FTAs allow small countries to open up their markets gradually, while at the same time it gives time for the domestic markets to adjust. Regionalism can be an effective way for countries to come out of autarky, and boost their economy. It also gives smaller, less-developed countries a chance to

compete globally in the international trade ecosystem by first competing locally with regional players. Successful instances of this include ASEAN and MERCOSUR. Finally, the assertion that regionalism challenges globalisation may seem unnecessary altogether because of historical nuances. In this study, I also aimed to prove how regionalism does now always come up in response to globalisation. There can be several other reasons for the proliferation of RTAs, like lack of progress in the multilateral system, the domino effect, and for reasons of socio-political integration.

The results of this study do not exist without limitations. For starters, it does not take into account the reaction of the world economy to the Covid-19 crisis. It has been predicted that countries are expected to take up more protectionist policies when it comes to labour, goods and capital because of the situations created by the global pandemic. This study also does not take into account stray factors like the exit of the United Kingdom from the European Union, and the United States' exit from several multilateral arrangements like the Paris Agreement under Donald Trump. There has been a change of leadership in the US and the Democratic Party is back in power so it remains to be seen how the hegemonic status of the US economy will play out in instruments of multilateralism now. The question of China also remains unanswered. Although the ASEAN countries have benefited economically from this RTA, but it does not mean that political and geographical conflicts that these countries have with each other and bigger powers like China and Japan in the South China Sea have found their logical conclusion.

There are recommendations that I can make to further the scope of this research. One obvious off-shoot is how the Covid-19 pandemic would affect the regionalism versus multilateralism debate. Another interesting area of research is how regional economic integration is affected by land and border disputes between countries of the region. The South Asian Association of Regional Cooperation (SAARC) can work as a fantastic case study for this. Another area of research that can come out of this is how regionalism leads to the creation of customary international law as well, especially in reference to MERCOSUR. As seen in Canada's keenness to join the NAFTA after Mexico came onboard, another area of study can also be how regional trade agreements allow countries of the Global South to have a voice in international trade in a way that a completely globalized system would never allow.

References:

1. Baldwin, Richard E. "The Causes of Regionalism." *The World Economy* 20, no. 7 (1997): 865–88. <https://doi.org/10.1111/1467-9701.00107>.
2. Collins, B. "Does Regionalism Challenge Globalization or Build upon It?" E-IR, May 9, 2022. <https://www.e-ir.info/2010/07/29/does-regionalism-challenge-globalization-or-build-upon-it/>.
3. Hurrell, Andrew. "One World? Many Worlds? the Place of Regions in the Study of International Society." *International Affairs* 83, no. 1 (2007): 127–46. <https://doi.org/10.1111/j.1468-2346.2007.00606.x>.
4. Laryea, Emmanuel T. "The Globalisation versus Regionalism Debate." *Global Journal of Comparative Law* 2, no. 2 (2013): 167–93. <https://doi.org/10.1163/2211906x-00202003>.
5. MacLeod, Gordon. "New Regionalism Reconsidered: Globalization and the Remaking of Political Economic Space." *International Journal of Urban and Regional Research* 25, no. 4 (2001): 804–29. <https://doi.org/10.1111/1468-2427.00345>.
6. Moon, Chung-in. "Economic Regionalism." Encyclopædia Britannica. Encyclopædia Britannica, inc., 2016. <https://www.britannica.com/topic/economic-regionalism>.
7. Oldemeinen, Mareike. "Does Regionalism Challenge Globalisation, or Build on It?" E-IR, May 17, 2010. https://www.e-ir.info/2010/05/13/does-regionalism-challenge-globalisation-or-build-on-it/#_ftn8.