

## **WTO, China, and the Asian Economies IV Beijing, 24-25 June 2006**

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### **Multilateralism and regional integration: the European and the Asian approach**

#### Abstract

The 1990s signify a new stage of trade liberalisation and integration disputes: – free trade has gained renewed attention after WTO foundation – regional integration in Europe had progressed towards EMU – new regional preferential trade agreements were concluded and market economy has been restored in the former plan-economy countries. Economic liberalism expanded on global scale. The theoretical models of international trade and integration, based still on Smith-Ricardo, H-O, and Jacob Viner thoughts have lost their importance. In a global economy other factors gain importance, so the traditional approach to regional integration and trade multilateralism need to be re-examined.

The paper reviews the core openness/protectionism/interventionism controversy, and analyses multilateralism and regionalism as two main options of a single country's integration into the world economy. Selected data are presented, followed by a brief analysis of the European Union representing a regional path of integration and the East Asian countries as the example of a multilateral path. Which challenge globalisation brings to both? The paper raises the above questions to stimulate to debate and concludes with hypothesis of flexible integration as a plausible outcome.

*Key words:* multilateralism, regional integration, global economy, the EU, Asia

Preliminary version!

## 1. Protection, Openness, State and Market

The economic history brings many examples of dynamic growth, followed by slowing down periods or painful crises, in ancient and modern societies. The question: ‘what stimulates development’ is always the same, but the answers differ. They differ with respect to respondents – philosophers, politicians, researchers, a.o., but still contain a selection of the above listed key components: protection, openness, public intervention, free market. The ownership of resources, efficient technology, well-organised transport and distribution, access to markets, modes of social behaviour – these and other elements constitutes various economic systems, in past and present.

Since creation of national states the question of openness had often been raised in a context of a single country social & economic development, access to welfare, security and safety for its citizens. Especially the role of state in economy encouraged discussions and contributed to development of compound socio-economic/political theories.

Physiocrats, mercantilists, classics and many other after-comers, all agreed that foreign trade is an important factor for a country’s well-being, but the merits and conclusions clashed. Mercantilists promoted import protection and export promotion, what, obviously, could not create neither more trade nor a fair trade.

*“... The ordinary means therefore to increase our wealth and treasure is by Foreign Trade, wherein we must ever observe this rule: to sell more to strangers yearly than we consume of theirs in value.”<sup>1</sup>*

Adam Smith’s publishing of “Wealth of Nations...” in 1772<sup>2</sup>, and David Ricardo’s contribution by “Principles...” in 1817<sup>3</sup>, had imposed a classical revolution in economics. Free trade concept and liberal view on organising and managing business was spreading. Since then the comparative advantage theory got widely accepted, and promotion of free trade principles for all countries, irrespectively to level of development, had been gaining ground as a common rule of international exchange. Obviously, not all schools and scholars supported this approach

*“The French have been particularly forward to favour their own manufactures by restraining the importation of such foreign goods as could come into competition with them. (...) It is at present the opinion of the most intelligent men in France that his [ Mr Colbert ] operations of this kind have not been beneficial to his country. That minister, by the tariff of 1667, imposed very high duties upon a great number of foreign manufactures”<sup>4</sup>.*

The XIX-century free-trade practice changed along the years, turning to protectionism already at 1870, so again in early years of the XX- century, and culminated in the 1930s. The creation of multinational companies sharpened the competition and worsened market access. Conflict of national interest, monopolisation and social problems had also contributed to change of the view on market liberalism. Employment, labour conditions, development of national industries and rules of competition had been the controversial issues of openness.

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<sup>1</sup> Munn, T., England’s Treasure by Foreign Trade, Basil Blackwell Oxford 1928; reprint, cit. after Salvatore D., International Economics, Prentice Hall 1995, p. 27

<sup>2</sup> Smith, A., An Inquiry into the Nature and Causes of the Wealth of Nations

<sup>3</sup> Ricardo D., Principals of Political Economy and Taxation , J.M. Dent, London 1926

<sup>4</sup> Smith, A., An Inquiry into the Nature and Causes of the Wealth of Nations, A selected Edition, Oxford University Press 1998, p. 295

Karl Marx presented a different development theory, based on categories of the production mode and formation concept, where productive forces boosted changes, but the specific production conditions (as in the Asian countries), could postpone or disturb or hinder the development of capitalism.

*“The obstacles (...) oppose to the solvent effect of trade are strikingly apparent in the English commerce with India and China. There the broad basis of the mode of production is formed by the union between small-scale agriculture and domestic industry, on top of which we have in the Indian case the form of village communities based on common property of the soil, which was also the original form in China”*<sup>5</sup>

The principle of free trade suffered in “hard times”, it was put aside as the leading doctrine for international commercial relations in-between the wars and had to rest until the post-war Bretton Woods arrangements put it on agenda again.

## **2. Regionalism and multilateralism 1945 – 1990s**

### **2.1. Multilateralism – what is it?**

The term “multilateralism” is mostly used as the opposite of unilateralism – *“a policy of taking unilateral action (as in international affairs) regardless of outside support or reciprocity; also: advocacy of such a policy”*, and colloquially means *“having many sides; or involving or participated in by more than two nations or parties”*<sup>6</sup>.

In practice there are different traditions of understanding multilateralism, depending on field of its relevance. Three areas of its application have been most common (Oudenaren 2003)<sup>7</sup>:

1. in economics – as a principle for international trade & financial system organisation and reciprocal convertibility of national currencies ( as IMF, GATT/ WTO)
2. in political science – as universally accepted international rules of behaviour, constituted by treaties, law, diplomacy and common obligations (as United Nations)
3. in globally discussed important issues – as arms control, nuclear power application, environmental agreements, human rights charter (land mines, Kyoto, UN Charter)

Multilateralism is so a norm of behaviour, which relates to international agreements between a significant number of participants, who opt to follow the conventional norms & rules, as traditionally practiced in a given field or international organisation.

In my paper I will use the term multilateral” as a **cooperative behaviour** in an organisation with a **large number of participants**, i.e. an agreement signed by a big number of different signatories from countries in **all parts of the world**, aiming at reaching consensus through negotiations.

According to the above, the international agreements might be specified as bilateral (two partners), international (three or more partners), or multilateral – large number of partners. Generally, any agreement between two or more foreign partners might be referred as international, but agreements between countries or areas sharing the same geographic location will be named as regional.

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<sup>5</sup> Marx K., Capital, Vol 3 , Harmondsworth 1981, p. 451

<sup>6</sup> Encyclopedia Britannica Online, <http://search.eb.com/dictionary?va=unilateralism>

<sup>7</sup> Oudenaren J.,V., What is ”Multilateral”, Policy Review Feb-March 2003, p.34

## 2.2. The progress of multilateralism since the Bretton Woods decision

The purpose of the United Nations Monetary and Financial Conference in Bretton Woods in July 1944 and Havana in 1947 (ITO – GATT) was to create a reasonable international trade and payment system, and mainly:

- build a multilateral payments system (convertibility & unrestricted transfers)
- build a multilateral trade system ( removing tariffs & barriers)
- provide support for partners (assistance, aid & credits if necessary)

The foundation of the WB, IMF and later ITO/GATT should have end the between-war era of destructive protectionism, as the new organisations constituted principles and rules for fair and orderly international trade and exchange system.

The sixty years practice of functioning multilateral organisations had not resulted in fulfilment of the goals, but moved closer towards the ambitious targets.

The Bretton Woods institutions are multinational, both by the number of members (184-148 respectively) and the governing principles (non-discrimination, equal treatment, obligations), but they represent functional – but not comprehensive multilateralism. The voting system, personal appointments, conditionality principle, Washington-consensus – these and other practiced rules both by the IMF and the WB are questionable, if confronted towards democracy principles or member countries national sovereignty.

Nevertheless, the frequently discussed system “defects” or “imperfections” of an unequal power division in Washington-based institutions might be explained as the requirement of effective management in large organisations, especially with quota-based budget and finances, but with no doubt, has to be reformed.

The GATT/WTO represents a democratic model of multilateralism – “one country – one vote” system, country-based organisation scheme, open negotiation- and decision making procedures plus disputes solving rules. In that sense WTO is close to the “norm- based” multilateralism than the IMF/WB “quantity-based” multilateralism<sup>8</sup> ..

In general terms, the multilateral approaches since late 1940s have been successful, bringing ongoing trade liberalisation and dynamic trade growth, but as any other world-wide attempt, it do not fit all, the first-row and the last-row runners, who got disappointed with tempo, settled rules and dispensations or achieved results.

Therefore the clause of exception, allowing foundation of regional preferential agreements, had been the option for plausible solution of asymmetries towards member-countries with similar abilities and attitudes.

## 2.3. Regionalism – a quicker step forward?

A growing number of free trade areas and customs unions had been launched and developed in the past 50 years. The progress of the international trade theory had contributed to this development and the above mentioned “escape clause” for regional solutions has made it possible. The studies of welfare effects of a customs union done by Jacob Viner<sup>9</sup> and especially separation of two customs union effects: trade creation and trade diversion, kicked off research on regional economic integration. It seems evident now, that trade creation – the replacement of expensive home production by cheap import from the member-partner, and trade diversion – the replacement of cheaper import from the non-member country by more

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<sup>8</sup> Oudenaren (2003) p. 35

<sup>9</sup> Viner J., The Custom Union Issue, New York 1950

expensive import from a member-partner, brings, respectively, positive and adverse effect to a home-country welfare.

Tibor Scitovsky<sup>10</sup> contributed with separation of static and dynamic gains, making the simple arithmetic of the customs union total effect (trade creation + trade diversion) more complex. The controversy on gains and losses caused by the regional trading blocks has been commonly discussed because the expanding regionalism brings new questions for disputes and research at the time.

The membership in the WTO does not allow trade discrimination, but concessions were made towards developing countries and trade-blocks, in case the trade barriers between blocks' members have been removed, but for non-member did not increase. This was a 'Salomon solution' for exercising the non-discrimination rule:

removing the barriers between members was a liberalisation move, and remaining barriers towards non-members was formally a status quo, not a worsening. Then the total result – formally again, was positive. But we know that this is not necessarily true in real terms – the effect could be either positive or negative, depending on what goods are traded and what countries involved (i.e. what export/import structure do they have)

Examining well known types of preferential blocks:

■ free trade areas (FTA) ■ customs unions (CU) ■ common market (CM) ■ economic and monetary unions (EMU) does not bring about a simple conclusion whether these are or aren't free for discrimination in practice. It depends on methodology – how the gains and losses are calculated and foreign trade structure between involved partners

Studies of Bella Balassa (1974)<sup>11</sup> and others presented evidence already for 40 years ago, and the last word on this matter has not been said.

European Free Trade Association (EFTA,1960), reduced to four members after 1995, North American Free Trade Association (NAFTA,1994), Association for South-East Asian Nations (ASEAN, early 1980s) are well known examples of FTA, with no common tariff, non-discriminating towards non-members. Even so, the external effects of those agreements for the rest of the world/a single non-member country may depend on the size of the market which the blocks cover, its members' economic potential, elasticity of the exported & imported goods, so the impact of EFTA and NAFTA and other FTA, will, in practice, differ.

Customs unions adopt Common External Tariff (CET) towards non-members, like European EEC in the 1960s, Latin American MERCOSUR 1991/1995 or quite newly Eurasian Economic Community (EAEC, 2000/2001). The CET will always divert the trade between some of the member countries and their non-member trade partners.

The reason for regarding these or other customs unions as non-discriminative, pursuant to WTO-principles, are the expected positive effects of the CU on trade dynamics, due to:

- increased competition, price reduction, better efficiency
- scale effect (price, standards)
- new investment opportunities and FDI inflows

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<sup>10</sup> Scitovsky, T., *Economic Theory and Western European Integration*, Allen & Unwin, London 1958

<sup>11</sup> Balassa, B., *Trade Creation and Trade Diversion in the European Common Market: an Appraisal of Evidence*, The Manchester School of Economic & Social Studies No 2, June 1974, p. 93-135

New incentives for growth, following the process of integration, are expected to create more trade than the CU diverts, giving a positive total effect, as it is normally assumed. The effect for a single non-member country might be positive or negative, and the last occur if this country loses its main export market (what the Commonwealth-integrated Britain experienced in the 1970s towards EEC<sup>12</sup>).

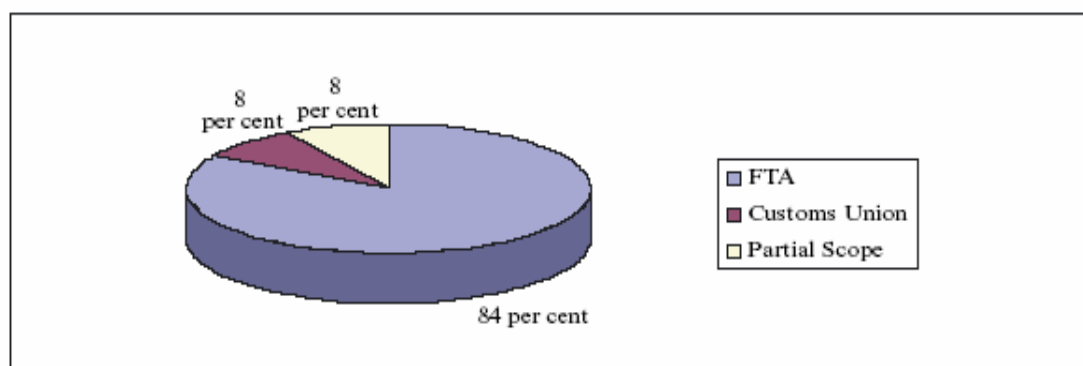
The WTO registered 33 major RTA<sup>13</sup>, but over 265 had been notified to the WTO (and its predecessor, GATT) by 2003. Of these, 190 are currently in force; another 60 are believed to be operational, so the total number of regional trade agreements is about 300 by in 2005.

Only three of 143 WTO members — Macau China, Mongolia and Chinese Taipei (pr 2003) — were not part to a regional trade agreement<sup>14</sup>. All others were part of one or many regional agreements, so

*“WTO Members agreed at Doha to initiate negotiations aimed at clarifying and improving disciplines and procedures under the existing WTO provisions applying to regional trade agreements, taking into account developmental aspects. These negotiations are scheduled for completion by 1 January 2005”.*

**Fig.1**

**Chart 2: Notified RTAs in force, as of February 2005, by type of agreement**



Source: WTO Discussion Paper nr 8/2005 p.3<sup>15</sup>

The majority of the RTAs have been signed after WTO creation 01.01.1995, while the rules on non-discrimination were in principle formulated in article XXIV of GATT in 1947, concerning goods, and in Uruguay Round negotiations on services, within GATS. The Doha-initiated negotiations to provide better harmonisation between regional and multilateral approach are not yet completed, what indicates complexity of work on adaptation of old rules to the new economic reality of increasing regionalism.

<sup>12</sup> Balassa B., op.cit and Prewo, W., Integration and Export Performance in the European Community, Weltwirtschaftliches Archiv 1974, Heft 1, p. 1-37

<sup>13</sup> [http://www.wto.int/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.int/english/tratop_e/region_e/region_e.htm)

<sup>14</sup> Regionalism – friends or rivals? [http://www.wto.int/english/thewto\\_e/whatis\\_e/tif\\_e/bev1\\_e.htm](http://www.wto.int/english/thewto_e/whatis_e/tif_e/bev1_e.htm)

<sup>15</sup> Crawford J.,A., Fiorentino R.,V., The Changing Landscape of Regional Trade Agreements, WTO, DP 8/2005

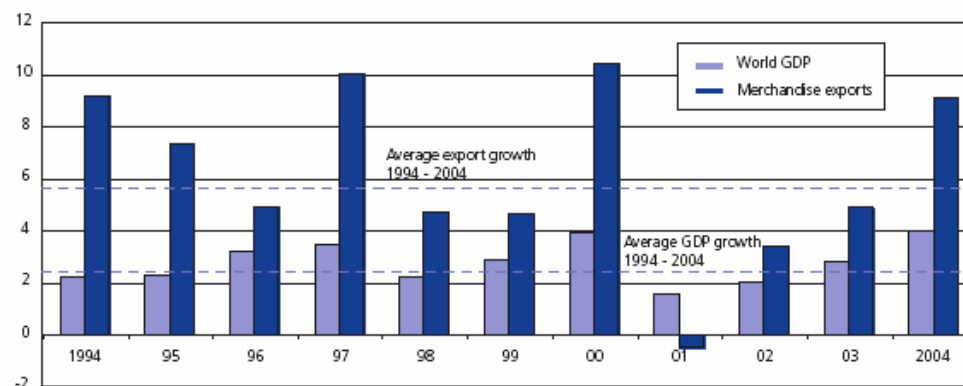
### 3. Trade and growth

#### 3.1. Trade dynamics

In all post-war period the trade was growing faster than production and GDP. The recent ten turbulent years the average growth rate was nearly 6% pr annum, 2,5 x more than GDP.

**Fig.2**

**Chart 1**  
Growth in the volume of world merchandise trade and GDP, 1994-2004  
(Annual percentage change)



Source: WTO.

Source: World Trade Report 2005, WTO, p.1

The geographic structure of trade is quite interesting, especially in a regional context.

**Table 1.**

**Table 3**  
World merchandise trade by major region, 2004  
(Billion dollars and percentage)

|  | Exports |                          |      |      |      | Imports |                          |      |      |      |
|--|---------|--------------------------|------|------|------|---------|--------------------------|------|------|------|
|  | Value   | Annual percentage change |      |      |      | Value   | Annual percentage change |      |      |      |
|  | 2004    | 2001                     | 2002 | 2003 | 2004 | 2004    | 2001                     | 2002 | 2003 | 2004 |
| World                                  | 8880    | -4                       | 5    | 17   | 21   | 9215    | -4                       | 4    | 16   | 21   |
| North America                          | 1330    | -6                       | -4   | 5    | 14   | 1727    | -6                       | 2    | 7    | 16   |
| United States                          | 819     | -6                       | -5   | 4    | 13   | 1526    | -6                       | 2    | 8    | 17   |
| South and Central America <sup>a</sup> | 272     | -2                       | 0    | 13   | 28   | 238     | -1                       | -13  | 5    | 27   |
| Europe                                 | 4024    | 1                        | 7    | 19   | 19   | 4133    | -2                       | 5    | 20   | 20   |
| European Union (25)                    | 3708    | 1                        | 7    | 19   | 19   | 3784    | -1                       | 5    | 20   | 19   |
| CIS                                    | 263     | 0                        | 5    | 27   | 35   | 171     | 16                       | 9    | 27   | 31   |
| Africa                                 | 228     | -6                       | 3    | 23   | 31   | 207     | 4                        | 1    | 22   | 25   |
| Middle East                            | 379     | -8                       | 5    | 21   | 26   | 243     | 5                        | 4    | 13   | 23   |
| Asia                                   | 2385    | -9                       | 8    | 18   | 25   | 2214    | -7                       | 6    | 19   | 27   |
| China                                  | 593     | -16                      | 22   | 35   | 35   | 561     | -8                       | 21   | 40   | 36   |
| Japan                                  | 565     | 7                        | 3    | 13   | 20   | 455     | 8                        | -3   | 14   | 19   |

<sup>a</sup> Includes the Caribbean.  
Source: Appendix Table 1.

Source: WTO, World Trade Report 2005, p.6

Here the EU is the biggest world trader (by value in USD, 2004), followed by Asia (China + Japan ~ 50% share in Asian trade) and the US. China replaced Japan as the third largest exporter and passed Japan also as importer. Trade dynamics was in general high in 2003 and 2004, exceptionally high for China and Korea Rep., with 40-31% rate pr annum growth.

**Table 2.**

| Country | 1999   | 2001  | 2003  | 1999  | 2001  | 2003  |
|---------|--|-------|-------|---|-------|-------|
|         | <u>Export goods &amp; servi. as % of GDP</u> |       |       | <u>Import goods &amp; serv. as % of GDP</u> |       |       |
| China   | 22 17  | 25 21 | 33 27 | 19  | 23    | 32    |
| Japan   | 10 26  | 10 26 | 12 24 | 9   | 10    | 10    |
| Korea   | 39 32  | 38 30 | 38 32 | 32  | 36    | 36    |
| EU (12) | 33 18  | 37 19 | 33 14 | 32  | 36    | 31    |
| UK      | 26 30  | 27 33 | 25 26 | 28  | 30    | 28    |
| USA     | 11 34  | 10 32 | .. 31 | 13  | 14    | ..    |
|         | <u>GDP growth (annual %)</u>                 |       |       | <u>FDI net inflow, current USD bill</u>     |       |       |
| China   | 7  | 8     | 9     | 38,7  | 44,2  | 53,6  |
| Japan   | 0  | 0     | 3     | 12,3  | 6,3   | 6,3   |
| Korea   | 9  | 4     | 3     | 9,3   | 3,5   | 3,2   |
| EU (12) | 3  | 2     | 1     | 336,4                                       | 290,4 | 280,8 |
| UK      | 3  | 2     | 2     | 89,5  | 53,8  | 20,7  |
| USA     | 4  | 0     | 3     | 289,4                                       | 167,0 | 40,0  |

Source: own selection from World Bank Development Data, <http://devdata.worldbank.org/data-query/> (25.08.2005); Red colour: high-tech export as % of manufactured exports

In table 2 the few selected indicators are presented, showing relative importance of international trade (export/import share in GDP), GDP growth and net FDI inflow (the BP statistics, bill USD). The trade pattern shows clearly increasing importance of trade for GDP growth dynamics, and what is even more interesting, the shift in the high-tech export among leading high-technology product exporters. The share of high-tech products as percentage of export of manufactures dropped in the US and Europe, and increased for Asia, especially for Korea and China.

The FDI stream follows the same pattern – substantial fall of FDI inflow to the US and UK, while China approach the position of the biggest FDI recipient country in the world...

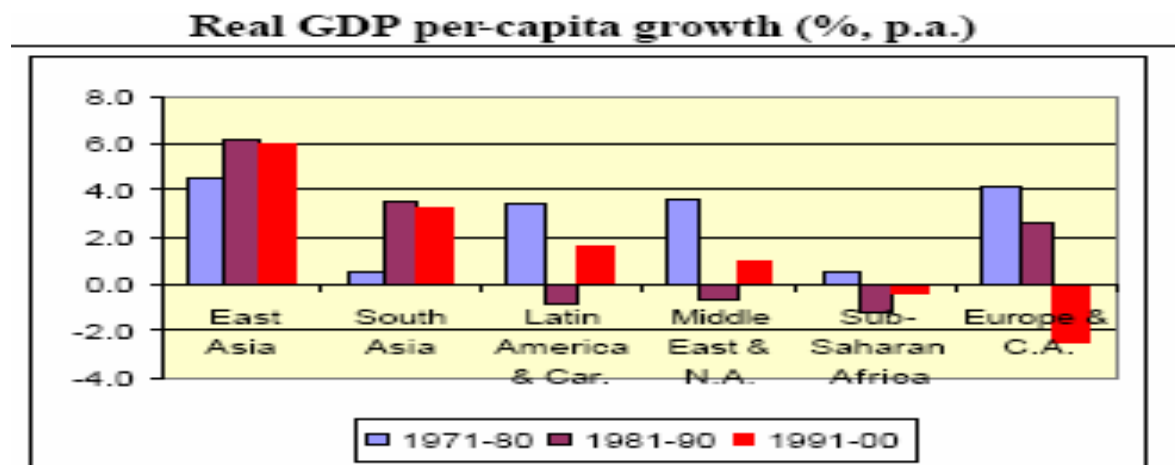
### 3.2. The GDP growth

Although it is proved that GDP is not a sufficient measure of a country's level of development, we do not have other simple index which better serves the purpose. The real pr capita growth of GDP – with all its limits – indicates at least the of society's welfare improvement, what is an important sign of development. The below chart, reproduced from Dipak Dasgupta's (et.all.) paper<sup>16</sup>, confirms observation of repositioning of the growth centre from Europe/North America to Asia within the recent 30 years.

<sup>16</sup> Dasgupta D., Nabli M.K., Varoudakis A., The Post Doha Agenda: Issues and Implications for the MENA Region, conference paper 2002



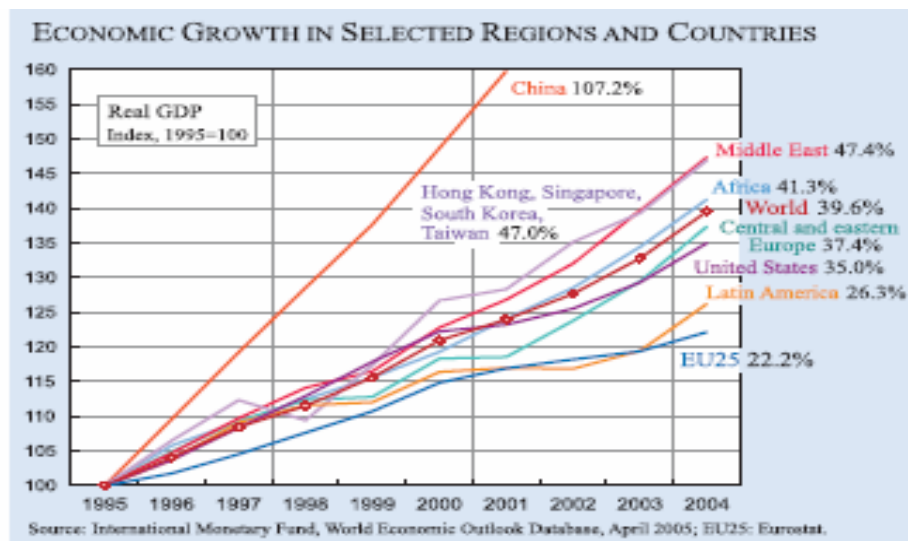
**Fig.3**



Source: Dasgupta D., Nabli M.K., Varoudakis A., (2002)<sup>17</sup> p.3

As the above diagram shows, growth rates differed quite little between the world big regions in 1970-80, but the gap had increased since mid -1980s.

**Fig. 4** Real GDP growth index 1995-2004 (1995=100)



Source: Sinn H-W., (2005)<sup>18</sup> p.9 (based on IMF and Eurostat statistics)

The last decade achievements show the same trend – emerging economies in Asia and Central & Eastern Europe perform better than the US and the EU.

<sup>17</sup> Dasgupta D., et al. 2002

<sup>18</sup> Sinn H-W., Europe and the Lisbon Goals, 4<sup>th</sup> Munich Economic Summit 9-10 June 2005, Introduction, CESifo Forum Vol. 6 No 2, p.9

## 4. The EUs regional integration

### 4.1. The path of integration

The European integration as the structured process has started in 1952 with 6 countries and proceed step by step, through the customs union (CU) completion in 1966 and so further stages, to the final one – the economic and monetary union (EMU), crowned with introduction of the common currency € in 1999/2002. Progress, in general, was successful. But the studies on the effects of regional integration, both total, i.e. for the world economy and partial, i.e. for the EU or a single member country, divert. Some studies conclude that EU regionalism may caused a significant trade diversion, what harms multilateral trade (Johnson 1962, Bhagwati in the 1990s) or the opposite – that regionalism was/is complementary to multilateral solutions and increase trade volumes (Ethier 1998), so results in trade creation.

European Community and so European Union has been the ‘best practice’ example of a regional block, with substantial progress in integration since the 1960s. Why so the economic effects of integration (the single market, several enlargements, monetary union & common currency..), substantial at the beginning, have been modest or non-existing in the recent decades?

The gains in the 1960s were mainly the result of trade creation and improved efficiency, what boosted growth. The same process continued in the 1970s, due to first and second enlargement. The further progress of integration towards the Single Market and EMU moved step by step to over-regulation and increasing bureaucratic coordination, which cost resources, but does not bring dynamic effects. It rather becomes a game for power, for Brussels positions, collective bargains and funds. An outdated system of subsidising agriculture crowds out the positive effects achieved in the earlier periods

### 4.2. The EU integration after recent enlargements

The EU integration has proceeded in almost 50 years as a formal process, identified with common institutions (“Brussels bureaucracy”) common policies, legal coordination. It worked well with six members, but gets complicated after each new enlargement. Such form of coordination creates problems and controversies both in decision making and decisions’ implementing, because national – overnational preferences are not commonly accepted by all member countries and also differently practiced. This dualism in attitude towards integration, mainly the willingness of member states to make joint decisions and so “translating” these decisions into national policies gets more complex and difficult after each enlargement, so it must, in consequence, hinder the progress of integration and/or slow the growth.

“Millennium meeting” in Lisbon (2000) announced ambitious reforms at national and European level in order to face the challenge of modernisation, and aiming “to make the European Union the most dynamic and competitive knowledge-based economy in the world by 2010”<sup>19</sup>. The reform package defined 28 objectives + 120 sub-objectives, to be measured by 117 indicators and reported in 300 annual reports – it sounds whatsoever ambitious, but at the same time a bit surrealistic. The practice shows that the dynamic growth does not come from number of written pages, but activity on micro-level. The mid-way-report of the High Level Group chaired by Wim Kok in November 2004<sup>20</sup> confirmed the scepticism to Lisbon strategy concept, which seems for me to be a document of a ‘wishful thinking’

<sup>19</sup> [http://europa.eu.int/growthandjobs/index\\_en.htm](http://europa.eu.int/growthandjobs/index_en.htm) p.1

<sup>20</sup> [http://europa.eu.int/comm/lisbon\\_strategy/index\\_en.htm](http://europa.eu.int/comm/lisbon_strategy/index_en.htm)

In an open-border world the bureaucratically coordinated integration cannot bring success, as it did in 1960-70s. Olivier Blanchard (2004) suggests that Europe suffers from inefficient regulation: needs deregulation in product- financial- and labour markets and reform of the public sector<sup>21</sup>. The problem is that EMU, SGP a.m. needs a type of market coordination which contradicts a single country business tradition, social relations, i.e. important institutions which are fundaments of confidence to the economic system. No system can function effectively without confidence of the citizens, who act or not according to the rules and respect or violate principles.

Andersen and Sitter (2006) addressed the problem by observing that new states and new policy areas, with widely different institutional traditions, would claim more heterogeneity and more 'differentiated integration'. They discuss how the EU can accommodate to it.<sup>22</sup>

I share the opinion of the above and other authors who mean that the EU, getting new and more differentiated members, has to change its integration concept. Whether it will be a two- or three-speed process, with inner- and outer trajectories, representing increasing integration intensity, or the other form of flexible integration, for only selected areas for common policies, is an open question today. The early 1960s concept does not fit the global world economy.

## 5. The Asian integration pattern

### 5.1. The Asian success

Japan was the first Asian country to challenge America and Europe in the 1970s, next came "the Tigers" and afterwards, in the 1990s, Korea, China and so India and Vietnam.

**Table 3.**

| Country   | Real GDP<br>annual % ch |        | Export vol.<br>annual % ch |        | Import vol.<br>annual % ch |        | Saving % of<br>GDP    |        | Investment<br>% of GDP |        |
|-----------|-------------------------|--------|----------------------------|--------|----------------------------|--------|-----------------------|--------|------------------------|--------|
|           | Ten year avr<br>87-96   | 97- 06 | Ten year avr<br>87-96      | 97- 06 | Ten year avr<br>87-96      | 97- 06 | Ten year avr<br>87-96 | 97- 06 | Ten year avr<br>87-96  | 97- 06 |
| USA       | 2,9                     | 3,4    | 9,1                        | 4,5    | 6,1                        | 7,7    | 17,5                  | 16,1   | 20,2                   | 18,5   |
| Euro-area | ..                      | 2,0    | 5,5                        | 5,8    | 5,4                        | 6,0    | ..                    | 21,4   | ..                     | 21,8   |
| Japan     | 3,2                     | 0,9    | 4,2                        | 5,7    | 5,4                        | 6,3    | 32,5                  | 31,6   | 29,7                   | 29,2   |
| Korea     | 8,4                     | 4,2    |                            |        |                            |        |                       |        |                        |        |
| Hong Kong | 5,9                     | 3,5    |                            |        |                            |        |                       |        |                        |        |
| China     | 10,0                    | 8,3    |                            |        |                            |        |                       |        |                        |        |
| India     | 5,9                     | 5,9    |                            |        |                            |        |                       |        |                        |        |
| NI Asian  | 7,9                     | 4,2    | 12,1                       | 8,7    | 14,3                       | 6,6    | 34,3                  | 33,8   | 28,0                   | 31,8   |

World Economic Outlook 2005, IMF, April 2005, p.202 - 244

The Asian countries build up their economic position applying strategy of managed development, where strong alliances between the corporate and public sector, high saving and investments, devoted labour contribution and strong export performance were the main

<sup>21</sup> Blanchard, O., The Economic Future of Europe, Journal of Economic Perspectives Vol 18 No 4, 2004, p. 3-26

<sup>22</sup> Adersen, S., Sitter, N., Differentiated Integration: What is it and how much can the EU accommodate? ARENA Seminar, University of Oslo, 14.02.2006 ([www.arena.uio.no](http://www.arena.uio.no))

pillars. The national economies (or at least several sectors in each) were relatively sheltered, opening slowly and gradually. Few preferential trade agreements and regional arrangements were concluded between Asian countries, until 1990s.

The multilateralism the Asian countries practice is based on GATT/WTO membership, where the gain comes from removal of trade barriers and opening the economies gradually, in own tempo. The Asian gradualism has been regularly criticised by international organisation, officials and other free market advocates, but several Asian countries proved to be a good example of reasonable economic policy, through public support to the private sector development.

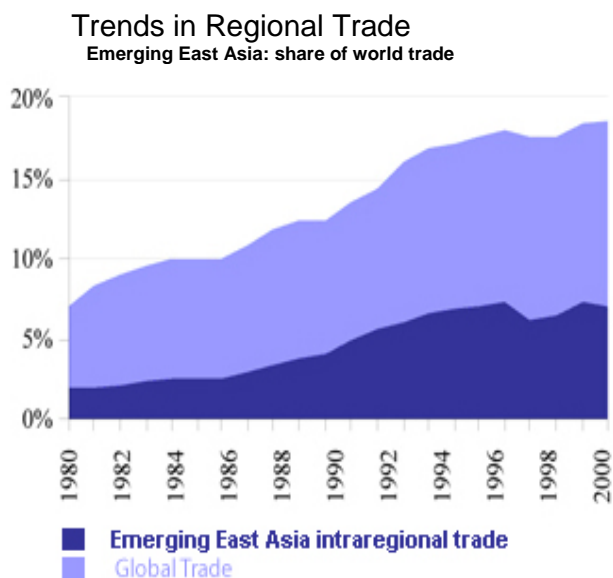
Dani Rodrik (2006) concludes that Chinas ‘experimental gradualism’ and ‘a highly unorthodox set of institutions’ has been successful policy so far.<sup>23</sup>

Strong demand, high saving & investments boost Asian home- and international markets, while the regional cooperation potential has not been fully exploited.

The regional cooperation in Asia increases, due to recently concluded agreements and ongoing trade and cooperation negotiations, but there are few multilateral solutions which work, Most of the concluded FTA are bilateral, many with non-Asian countries.

China signed preferential arrangement with ASEAN block in 2003, free trade agreement with Macao and Hong Kong in 2004. Korea concluded the free trade agreement with Chile in 2004,<sup>24</sup> and with EFTA in 2005. Singapore and Thailand are proceeding towards selective multilateralism, as signatories of larger number free trade & services agreements with their important trade partners. Tran Van Hoa (2004) points out the new agreements and implications of SEA and Australia’s trade.<sup>25</sup> All that shows interest for more regional cooperation, but several historical and political hinders have to be passed to make it work.

**Fig. 5**



Source: The World Bank<sup>26</sup>

<sup>23</sup> Rodrik, D., What’s so special about China’s export? p.1

<sup>24</sup> Crawford J.,A., Fiorentino R.,V (2005) p. 24-33

<sup>25</sup> Tran V., H., Enlarged ASEAN FTA and its impact on China’s Regional Trade, Growth and Economic Relations, III Int Conf WTO, China and the Asian Economies, Beijing 2004, 18-19.june, PUC

<sup>26</sup> <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPINTECOTRA/0,,menuPK:580011~pagePK:34004175~piPK:34004435~theSitePK:580005,00.html> (22.08.2005)

The climate for regional negotiations in the S-E Asia improves, so potential for more interregional trade is there.

## 6. The challenge of globalisation

The increasing number of economic transactions has now a global dimension, especially trade and financial deals, transport, communication, information. It means in practice that imbalances caused by these transactions may arise rapidly in a very short time, what triggers wealth transfer between countries and/or social groups. Adjustments used to be painful, as several crises of the 1990s bring evidence on. Even in globalisation era a universal model of free market economy, to be applied everywhere, irrespectively of local tradition and culture, cannot work. Therefore experts and scholars must accumulate more local knowledge to understand the local opinions, behaviours and outcomes before they criticise the solutions and models they do not favour.

Majority of economists will agree that non-discriminatory behaviour is the optimal policy for a single country and for the world economy as the whole – this is what trade theory concludes. But as a unilateral world-wide liberalisation will not be reached tomorrow, at least two approaches for a reasonable behaviour will coexist:

- multilateral negotiations option for the progress of non-discriminatory behaviour (the GATT/WTO – track)
- preferential liberalisation – regional integration as the step towards multilateralism

Both options will be exposed for lobbying from different interest groups, as they in reality are profit-maximising strategies for competing interests: sectoral, political, regional or other. What is the optimal solution? Robert Lawrence (1996) suggests that the first option is optimal for improving of the world welfare, but not likely to be accepted by political reasons – effects are too small if distributed to all, and WTO is too weak to impose the decisions<sup>27</sup>. This conclusion sounds reasonable and so suggests that regionalism will continue to develop also in a globalise world economy.

Economic integration has increased Europeans welfare in high tempo in the recent 50 years. The dilemma of deepening integration, as the EU case shows, claims coordination or unification of taxes, labour conditions, welfare payments and more. Those public goods are regarded by citizens of each single country as their fundamental rights and civilisation achievements through generations, so the local societies do not favour the change. Too far going unification may bring frustration and fall of confidence to the system. This is the dilemma, because a free market economy cannot function without their citizens' confidence and support. Therefore the process of deepening of the EU integration will not go on in a Lisbon-planned tempo, what is my view. More local democracy and local adaptations have to be accepted.

The slower – but progressing – liberalisation on multilateral level will move on, as this is an option for all, also less developed countries, more conscious now and open for international cooperation. The growing interdependence will call for more 'soft' knowledge, flexibility, less bureaucracy, and non-discrimination, with variety of measures for local adaptation.<sup>28</sup>

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<sup>27</sup> Lawrence R., Regionalism, multilateralism and deeper integration, The Brookings Institution, Washington DC, 1996

<sup>28</sup> Onishi A., Futures of global interdependence (FUGI) global modelling system. Integrated global model for sustainable development, Journal of Policy modelling, 27/2005, p.101-135

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