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Francesco Duina
Bates College

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Trading Blocs in the Twenty-First Century

Complexity and Consequences

Francesco Duina

Introduction

Trading blocs such as the EU, NAFTA, Mercosur, and APEC have become an important feature of the changing international political-economic order. Without question, most have similar basic objectives: above all, the liberalization of trade. Yet, they also *differ* on several important dimensions, ranging from their specific economic objectives to their levels of legitimacy. These differences reflect, in part, the plethora of *factors driving integration,* from 'rational' ones—such as national responses to faltering multilateralism—to more sociological ones—such as taken-for-granted assumptions about what modern legitimate governments should pursue. Unsurprisingly, given all this, integration has at once progressed at a different *pace* in different blocs and generated significant *challenges* for the member states.

All this suggests that trading blocs are complex projects that defy simple description or generalizations. I explore this complexity in Sections I–IV of this chapter. In Section V, I reflect on its multifaceted implications for the regional expansion of economic actors and the rise of the international economy.

1. Dimensions of difference

Trading blocs occur whenever two or more nations agree to liberalize trade across their borders via the removal of a combination of tariff and non-tariff barriers (NTBs).[1] According to the WTO, nearly 200 blocs were in force at the start of 2010.[2] If blocs currently being negotiated, signed but not yet in force, and those in the proposal stages are taken into account, the figure exceeds 400. With the exception of perhaps fewer than fifteen countries (for instance, Madagascar and San Marino), every nation on earth belongs to one or more trading blocs. Some countries, such as Switzerland, participate in over twenty. Others, such as the United States and Japan, belong to approximately ten. The majority participate in five or fewer. The result is an intricate pattern of relationships that is quite difficult to capture in any simple graphic or diagrammatic depiction (Bhagwati 2008: 63). The sudden growth in the number of these blocs—most came into existence in the 1990s and 2000s—has made matters even more difficult to track. In Asia, for instance, there was a single bloc in 1995 and a stunning sixty-one by 2010 (Wignaraja and Lazaro 2010: 8).

Trading blocs have generated important new regional realities. Any discussion of capitalism in the twenty-first century should therefore examine these blocs. The first step for doing so is to grasp and make sense of their variety: while they are all manifestations of a desire to liberalize trade among nations, major differences set them apart. Four dimensions of difference are especially important: economic objectives, frameworks and policies for the attainment of those objectives, political purposes, and levels of legitimacy.

Economic objectives

The most obvious difference concerns the stated economic objectives. All blocs aim at trade liberalization, but the extent to which liberalization should be pursued varies dramatically. Recall that goods, capital, services, and labour are the essential components of any economy. Given this, we can distinguish among four basic types of blocs, ordered from the least to the most wide-reaching: free trade areas, customs unions, common markets, and economic and monetary unions.

In the lightest and most common cases of integration—free trade areas—member states agree to liberalize trade primarily for goods. Selected services and capital are also often included—as is the case for NAFTA, the ASEAN Free Trade Area (AFTA) along with the relevant side agreements, and the European Free Trade Association (EFTA). To be in line with WTO regulation, free trade

[1] Some blocs are agreements between already-constituted blocs (Mercosur–EU, for instance) or between one or more nations and a bloc (ASEAN–Australia–New Zealand, for instance). For the sake of simplicity, throughout this chapter I refer to blocs as agreements among nations. All of the empirical examples I consider, moreover, involve blocs with more than two member states—for these tend to be the most important.

[2] For up-to-date figures, see the WTO's database on regional trading agreements: http://rtais.wto.org/UI/PublicAllRTAList.aspx

areas (much like other blocs) must comply with General Agreement on Tariffs and Trade (GATT) Article XXIV, which asks that the reduction of tariffs should cover 'substantially all trade' and that member states not adopt protectionist measures towards third parties that are on the whole more restrictive than those in place prior to the bloc's formation. The term 'substantially' leaves open the possibility of significant exceptions. Many experts agree that it implies a reduction of at least 85 per cent of existing tariffs among the member states, but this is disputed (Wignaraja and Lazaro 2010: 14). Thus, partly as a result of this, we observe considerable variation across blocs in terms of the percentage of goods actually moving freely across national borders, though textiles and agriculture continue to be among the most protected sectors in most blocs (Suominen 2009: 38). We also observe varying compliance with the requirement that member states not increase their overall protectionist stances vis-à-vis third parties, with free trade areas showing lesser protectionist tendencies than customs unions or common markets.

Customs unions are similar to free trade areas but introduce common external tariffs (CETs) and possibly other trade policies vis-à-vis non-member countries. The logic behind CETs is to prevent producers in any one member state from having access to cheaper materials than producers in any other member state—something that would jeopardize internal trade much like a tariff barrier among the member states. CETs also give the member states a coordinated way of protecting themselves against foreign competitors and markets, though in principle only when in compliance with GATT Article XXIV. A good example of a customs union is the Southern African Customs Union. There also exist blocs, such as the East African Community, which, on their way to becoming common markets or more, become customs unions as an official stepping stone.

Common markets take aim at all four key elements of an economy—goods, capital, services, and labour—and rely as well on CETs. Given their ambitious coverage, they are fairly rare. At the same time, some of the most important trading blocs in the world—that is, Mercosur, the Andean Community (CAN), and the EU—are common markets. Economic and monetary unions encompass all the elements of common markets plus the adoption of a single currency and coordination in key macroeconomic policy areas. A portion of the EU—the eurozone—and the West African Economic and Monetary Union offer examples.

Frameworks and policies

There is no simple formula for the pursuit of economic integration. Given two blocs with identical objectives, those charged with translating vision into reality have at their disposal a variety of instruments. We observe important overlaps but also variations in those instruments across blocs.

In virtually all blocs, officials rely on the reduction or outright elimination of tariffs on goods. The most critical differences here concern the schedule for that reduction. GATT Article XXIV specifies only that the tariff reduction 'plan or schedule for its [a bloc's] formation is within a reasonable length of time'. Thus, in some blocs the reduction is in theory immediate (i.e. Singapore–Australia). In others, it should occur within five years (i.e. South Korea–United States). In yet others, the period can extend to a decade or more (i.e. NAFTA). Interestingly, Asian blocs are generally rather aggressive with their timing (Suominen 2009). Moreover, within a given bloc, different schedules are likely to apply to different industrial sectors.

NTBs include quotas, subsidies, fiscal incentives, and other instruments designed to protect from foreign competition or simply help in financial terms particular sectors of the economy. As tariffs decline, NTBs acquire increased significance (Helble, Shepherd, and Wilson 2009). Moreover, NTBs are key for the liberalization of trade in services, capital, and labour. Blocs differ greatly in the sorts of NTBs that they tackle—and these differences are not simply correlated with the stated objectives of blocs (establishing a free trade area, for instance, instead of a common market). We also note, again, certain geographical patterns whereby, for example, blocs in the Americas are more likely to focus on NTBs than those in Asia (Suominen 2009: 44).

Another type of NTBs are regulatory differences across member states in important areas such as the environment, workers' rights, product safety and quality, and antitrust. These differences can translate into cost asymmetries that can undermine trade. Regulatory harmonization can be a daunting task. In some blocs, officials have embraced it (for instance, the EU and Mercosur), but in others they have opted to rely on the principle of mutual recognition (as with EFTA and NAFTA). In yet other instances (AFTA, for example), officials have adopted a mixed approach (Duina 2006a).

These instrumental differences are accompanied by variation in another area: the organizational architecture of blocs. Some official body or combination of actors has to produce laws or agreements on tariffs and NTBs. Compliance must be monitored. Conflicting claims inevitably arise and must be addressed. What have countries agreed upon as the appropriate organizational structures for managing these tasks? As Table 2.1 indicates with reference to ten representative blocs, officials have chosen primarily between intergovernmental and supranational institutions (Hancock 2009). In the former case, delegation of authority is given to representatives of the member states—whose mission remains the advancement of their countries' interests. Bargaining takes place with national interests in mind. In the latter case, individuals from the member states are charged with safeguarding and advancing the

Table 2.1. The organizational architecture of blocs

		Supranational Institutions		
		None	One	Two or More
# of Permanent Institutions	Three or More	*No example exists*	CARICOM, SADC	EU, CAN, Mercosur
	Two or Less	NAFTA, EFTA, AFTA, APEC	COMESA	*No example exists*

bloc's interests and objectives. As Table 2.1 also shows, member states have made different choices about the appropriate number of institutions charged with advancing integration.

As is well known, the EU sports an impressive supranational architecture and numerous institutions. But CAN, with its three supranational bodies (a court of justice, parliament, and commission) is not very different, at least on paper (Alter and Helfer 2010). With its many institutions (including a new parliament and a court of justice), Mercosur belongs to the same group. By contrast, blocs like NAFTA, EFTA, AFTA, and APEC are intergovernmental (Capling and Nossal 2009; Narine 2004). They are also reliant on very few institutions to manage their affairs. Other blocs lie in between these two ends of the spectrum. These include the South African Development Community (SADC), the Caribbean Community (CARICOM), and the Common Market for Eastern and Southern Africa (COMESA), all of which have one supranational body (a court of justice). They differ in terms of number of institutions, with COMESA having the fewest.

Political purposes

The primary goal of virtually all trading blocs is economic. Yet, when one examines the foundational treaties or later agreements, explicit references to political objectives often appear, as is the case for instance with SADC, where security, peace, and the pursuit of 'common political values' are recognized as primary objectives (Article 5 of SADC Treaty). Sometimes trading blocs are formed in the context of pre-existing political agreements, as has happened in ASEAN with the adoption of AFTA in 1992. In those cases, the full purpose of a trading bloc can only be understood in reference to those agreements. Additionally, in all cases, blocs have unofficial political purposes that cannot, or need not, be put into formal writing. Thus, any given bloc is likely to have multiple, complex, and sometimes evolving sets of political objectives. Easy categorizations are therefore impossible, though it is probably the case that deeper forms of economic integration often come with more ambitious political aspirations. We proceed below by discussing some of the most salient political purposes and the blocs where they are most readily observable.

We can distinguish between internal and external political purposes. One of the most common *internal* purposes is the coordination of government policies in sensitive areas such as migration, terrorism, labour markets, and industrial development. Coordination can include data collection and sharing, joint identification and articulation of problems, and cooperation on devising solutions. Aware that real benefits can result from these sorts of initiatives, member states at times pursue economic integration with the hope that it will lead to coordination in other areas later on. The EU and Mercosur are cases in point (Jelin 1999). In other instances, policy coordination emerges as a new goal, as happened for instance among members of APEC in 2001 in the area of security with their adoption of the APEC Leaders Statement on Counter-Terrorism and subsequent initiatives (Despeignes 2004).

But more basic political objectives are sometimes on the minds of member state leaders. In Africa and Asia, stable and democratic countries have often worried about the possibility of government breakdowns or dictatorships in neighbouring countries. In South America, Paraguay comes to mind. Poorer, much smaller, and with a higher likelihood to revert back to dictatorships than its neighbours, Paraguay was invited to join Mercosur partly as a way to give Argentina and Brazil influence over its political system (Hakim 1996). Similar arguments have been made for NAFTA in the case of Mexico (McConnell and MacPherson 1994: 170). Lastly, the rapid eastward enlargement of the EU after the collapse of the Soviet Union was seen by many as a way of 'locking in' the newly freed but still potentially volatile countries.

Related to these fears is yet another political objective: the prevention of wars among the member states. Historically, countries with very interdependent economies have been less likely to go to war with each other than countries with less in common. The founding of the EU reflected European fears that Germany might one day cause trouble again in the continent (Milward 1992).

Some of the weightiest political considerations, however, have to do with *external* political purposes. Countries—especially poorer or smaller ones—view integration as a valuable pooling of resources to face external geopolitical threats. Caribbean countries established CARICOM in the 1970s with the expressed objective of coordinating their foreign policies in a Cold War context where, individually, they counted for little. In Asia, countries have pursued economic integration to strengthen their position vis-à-vis other blocs or powerful countries (McConnell and MacPherson 1994: 167; Switky 2000).

Legitimacy

Legitimacy is in the eye of the beholder. When it comes to blocs, two very different types of beholders exist: citizens and actors (organizations, political parties, associations, etc.) inside a bloc, and those outside (other nation states, other blocs, international organizations, etc.). Even allowing for this, it is fair to suggest that some blocs enjoy overall more legitimacy than others—with the variation being a function, among other things, of the objectives, history, institutional efficiency, compliance rates, and recent success of those blocs.

NAFTA, the EU, Mercosur, and APEC are perhaps among the most legitimate blocs, though of course they face plenty of criticisms as well.[3] Average public support for those agreements (the EU and NAFTA in particular) is relatively high,[4] while, at the international level, officials from other governments and blocs take those blocs seriously and seek to maintain good relations with them. CAN, CARICOM, and AFTA probably enjoy less, but nonetheless a real, amount of legitimacy both internally and externally. By contrast, some blocs, such as COMESA and several others in Africa, lack any significant amount of legitimacy (Mistry 2000; West & Central Africa Monitor 2005).

2. Drivers of integration

What has prompted countries all over the globe to establish regional trading blocs? From a substantive angle, we can distinguish between variables active at the global and regional levels (Farrell 2005: 2). Some analysts view blocs as responses to failure by the WTO and multilateralism more generally to further the causes of free trade or as defensive moves against the threats of an emerging global economy and global instability (Sbragia 2008; Bhagwati 2008). Other analysts, by contrast, point to dynamics within regions—typically the interests of local business and political actors, and economic complementarities (Mattli 1999). Such distinction may not be very useful since global and regional-level variables always interact with each other. A more incisive approach may prove more fruitful.

Scholars of various intellectual orientations—rational choice theory, realists, neo-institutionalists, constructivists, and others—have articulated various accounts of what drives regional integration. By and large, we can group them

[3] In NAFTA, for instance, the Zapatista movement in Mexico was launched precisely on the day NAFTA was enacted as a way to protest the agreement. The EU, in turn, is routinely criticized for its 'democratic deficit'.

[4] For data on public support of NAFTA, see Bennett's discussion of what percentages of Americans (58 per cent) and Canadians (66 per cent) perceive NAFTA to be beneficial (2004: 1298), though these numbers have shifted over time (Hall and Nelson 2004).

into two camps. In the first (what we may call the *rationalist* camp), we find those inclined to view national governments and their leaders as calculating actors seeking to maximize the self-interest of their countries or, often more specifically, powerful constituents therein. Consider the words of Andrew Moravcsik in his seminal inter governmentalist analysis of the EU: 'on not a single major issue', Moravcsik wrote in reference to all major agreements in the history of the EU, 'did governments take a position openly opposed by a major peak industrial, financial, or agricultural interest group' (1998: 475–76). On the contrary, those agreements lie on the 'Pareto-frontier', a zone where all decisions 'improve welfare' for the actors involved (1998: 25). A number of prominent international relations scholars have put forth similar claims (Mansfield and Milner 1997; Milner 1997: 77; Haggard 1997: 21, 31), with numerous investigations of single blocs, especially in Latin America (Kaltenthaler and Mora 2002: 90, 92; Sánchez 2004: 31) and North America (Cameron and Tomlin 2000; Mena 2006), offering empirical support.

In the second camp (the *sociological* one), the focus is on dominant models and emulation, unforeseen consequences, cognitive shortcuts, spillover effects, and more. In the EU case, arguments abound about path dependency (Pierson 1996; Ackrill and Kay 2006; Sverdrup 2002; Holzinger and Knill 2002), bureaucratic overreach (Heisenberg and Richmond 2002: 204; Alter 1998: 131), and reinforcing loops between EU institutions and their environments (Sandholtz and Stone Sweet 1998; Bulmer 1998: 373). Evidence on other blocs is also growing (Mayer 1998; Laursen 2003; Dreiling 2001; Malamud 2005). COMESA and CAN, for instance, exhibit institutional characteristics (courts of justice, for instance) which reflect a desire to look legitimate (by emulating the EU) rather than practical or functional considerations (Duina 2010). In Asia, where blocs developed rather late compared to other regions, observers point to the 'domino effect' as a cause for integration (Suominen 2009: 31). In the case of NAFTA, increased—though neither demanded nor expected—coordination, networks, and policy adjustments in the member states have developed as a result of further economic integration (Aspinwall 2009).

The debate will surely continue. For now the conclusion we can draw is quite clear: no simple, single formulation can really account for the past or predict the future of blocs. This, of course, has important implications for both the international economy and business actors, as we shall see later in this chapter.

3. Pace of integration

Any rigorous discussion of the pace of integration in various blocs must take into account the fact that the term 'pace' refers to at least three distinct concepts. Our assessment of any given bloc will be quite different depending on which concept we use.

First, pace can refer to the extent to which formal measures to promote integration have been implemented in practice. Given certain (and surely different across blocs) tariff-reduction schedules and other liberalizing initiatives, for instance, have these been followed on time and applied to all relevant goods? Tariff reduction in NAFTA and CARICOM, for instance, has been overall timely, but the removal of NTBs has proven less punctual (Hall and Nelson 2004; O'Brien and Morano-Foadi 2009). In blocs where regulatory harmonization is required (the EU and Mercosur for example), we see that some countries (i.e. Denmark) have complied quite well with the law and others not (i.e. Greece). This suggests that the pace of integration has been uneven within single blocs. To this, we can add that progress varies across industrial sectors in a given bloc.

A second measure of 'pace' refers to increases over time in the internal movement of goods, capital, services, and labour that have taken place since integration. We are interested here in the practical realization of the ultimate objectives of blocs. Recent analyses show that the huge increase in (well-implemented) trade deals in Asia, such as AFTA, seems to have done little to intra-Asian trade (*Economist* 2009). It would be odd to suggest that the pace of integration there has been impressive. On the other hand, intra-regional trade of goods and investments in NAFTA increased by 300 per cent between 1994 and 2004 (Pastor 2004: 127). Similar observations apply to the EU, of course, but also Mercosur and, to a lesser extent, some of the blocs in Africa, such as SADC and the Economic Community of West African States (Chacha 2008).

Thirdly, and equally importantly, 'pace' can refer to what we may call the addition of further objectives to the original plans for integration. In a free trade area, for instance, member states pleased with progress up to date may opt to pursue a CET. Or industry sectors previously excluded from trade may be taken up for liberalization, as has happened in AFTA. Expansion beyond the original objectives seems to have occurred in the EU, APEC (with its new focus on security), and Mercosur (with its small step towards social security by way of establishing in 2006 the Structural Convergence Fund). It has not happened, by contrast, in NAFTA, though we should note that there private actors, politicians, and government officials have worked in transnational committees, forums, and other formats to seek 'policy coordination' in areas not covered by NAFTA—efforts aimed at the creation of what observers call 'NAFTA-Plus'. The Principles of Cooperation of May 2000 on bankruptcy proceedings for transnational companies is one example (Duina 2006b: 11–12).

These three definitions of 'pace' are not mutually exclusive, of course, and any investigation of the impact of integration on the international economy and economic actors should take into consideration all of them. Any given

Table 2.2. Pace of integration in five blocs*

Bloc	Implementation of agreed-upon integration measures	Increases in intra-regional trade	Expansion beyond original objectives
EU	0	0	+
NAFTA	+	+	–
AFTA	0	–	0
APEC	0	0	0
CAN	0	+	+

* — → Poor; 0 → Average; + → Impressive

bloc, moreover, can be evaluated in light of all three definitions, as Table 2.2, with its tentative assessment of five representative blocs, suggests.

4. Challenges to nation state integrity

Despite predictions to the contrary, nation states remain the most salient form of political organization in the world. At the same time, the spread of trading blocs has generated real challenges to nation states—even when these blocs have been set up in fully intergovernmental fashion, with limited legal activity and economic objectives, and no explicit political objectives. Unsurprisingly, given all the differences that set blocs apart, no simple overarching formulation of these challenges can be advanced. Instead, three important propositions can be put forth, all, as we shall see later, with implications for economic actors and the international economy.

Legislative autonomy

Blocs have challenged the ability of nation states to control the content and direction of domestic law. The most obvious instances concern blocs where voting processes or judicial proceedings at the regional level can negate the preferences of any given member state (despite the fact that the resulting regional law must be complied with at the national level and is thus of consequence for national law). This happens in the EU because of qualified majority voting in the Council of Ministers, and in blocs with a supranational court of justice (CAN, Mercosur, and the EU, for instance) or other supranational institutions with the power to revise or expand upon, in unforeseen ways, existing regional law.

More subtly, in virtually all blocs integration has been advanced primarily by the executive branches of national governments. Legislative branches have in many cases only ratified key agreements. In the case of major treaties, this is consistent with constitutional provisions and does not amount to a usurpation of the power of legislatures. But in the case where secondary laws are being produced regularly (i.e. CAN, the EU, and COMESA), executive representatives do acquire unusual powers vis-à-vis their legislative counterparts.

There is a third dynamic at work in most blocs: the unintended and unforeseen consequences of regional policies and laws. One of the clearest examples is the expansion of regional law into issue areas not identified nor targeted as relevant to integration—the 'spillover effect' described by neo-functionalists. Other examples are practices and decisions which unexpectedly follow from existing agreements and decisions. This is what happened in NAFTA as a result of chapter 11 (which gives foreign investors at times more power than domestic actors to challenge judicial decisions and laws) (Duina and Buxbaum 2008), and in the EU in the realm of social policy (Leibfried and Pierson 1995).

Transnationalization of politics

Politics in nation states has traditionally been primarily a domestic affair. Business, trade unions, special interest groups, and social movements have historically focused on national-level issues: industrial regulation, fiscal policy, social welfare, etc. Moreover, their membership bases have been domestic. Regional integration has altered matters on both fronts: both the objects of political contention and the actors pursuing them are increasingly regional. New transnational political spaces have opened up, with potentially major implications for economic actors and the rise of a global economy.

Examples abound. In October of 1996, union leaders from the four Mercosur member states established the Coordinadora de Centrales Sindicales del Cono Sur: a 'unified movement of power' fighting against the 'neoliberal' mission of Mercosur (Calloni 1996; La Jornada 1996). The Coordinadora has, since its founding, actively voiced its members' positions on a variety of fronts related to South American integration. In the EU, women's movements have joined to form several powerful transnational groups to represent their collective interests regionally. These include the European Women's Lobby, the European Women Lawyers Association, and the European Federation of Women Working in the Home (founded in 1990, 2000, and 1983 respectively) (Duina 2006c).

In NAFTA, in turn, research indicates that 'NAFTA has encouraged the founding of tri-national labor alliances to confront common employers as well as less formal linkages around specific problems and broad-based lobbying and mobilization coalitions' (MacDonald 2003). Businesses, in turn, have mobilized together across borders to push for policy convergence in areas not officially targeted by the NAFTA agreements—with policies on transnational bankruptcy proceedings being a good example (Duina 2006b).

Secessionist movements

As the history of the EU suggests (Nielsen and Salk 1998), trading blocs represent 'opportunity structures' (e.g. valuable openings) for the assertion of separatist or autonomous movements. Those movements have leveraged blocs to refine their image and visions for the future, and ultimately bolster their destabilizing claims against their nation states. We need only recall here the Zapatista uprising, which was launched on the very day that NAFTA came into effect, or the considerable leveraging of the Parti Quebecois in Canada and the Scottish National Party of NAFTA and the EU respectively to bolster their credentials as cosmopolitan, open-minded parties looking to free their people away from oppressive nation states. Other examples include the Lega Nord in Italy—for whom the EU represents yet another form of oppression that would justify isolation for Northern Italy from the rest of the country or anything bigger than that—and the Convergència i Unió's embrace of the EU as modern and more in line with Catalonia than Spain.

These tensions and problems assume a very local and specific character, of course. What matters for our purposes, however, is that their occurrence can have very serious implications for economic actors and the evolution of the global economy, as we will see in the coming pages.

5. Significance for economic actors and the international economy

Trading blocs are everywhere. While multilateralism has faltered, blocs continue to grow in numbers and, many, in strength as well. There are good reasons to believe that the twenty-first century will continue to see regionalization, and not globalization, progress the most, despite the efforts of the WTO and other organizations pushing for multilateralism. We have seen that blocs appear to be rather simple projects: efforts to liberalize trade among their member states. Yet we have also learned that they are, in fact, rather complex entities. What implications, then, do these blocs have for economic actors and the international economy as a whole?

In the case of economic actors, the most obvious implication is the creation of incentives for regionalization: for the establishment of transnational structures within the geographical areas covered by those blocs. As firms, for instance, find it easier to sell and produce within a given bloc, they have reasons to develop branches, administrative offices, and factories throughout a bloc's member states (Rugman 2005). As labour issues become increasingly the subject of regional-level legislation, trade unions and other affected groups find it advantageous to establish transnational agendas, membership bases, and structures, as we have already seen in the case of NAFTA, the EU, and Mercosur. Interest groups—such as consumer groups or professional associations—follow a similar path. This tendency to expand regionally—structurally but also, as a result, in terms of programmes and agendas—has already been documented empirically, even if with important caveats (Feils and Rahman 2008; Wei, Andreosso-O'Callaghan, and von Wuntsch 2007; Kim 2007).

A second obvious implication for economic actors is increased cross-national movement and transactions within the newly created regions. If barriers to capital movement are removed, for instance, investors' appetite for stocks, bonds, assets, and real estate within a given bloc typically intensifies. In NAFTA, direct investment from the US to Mexico grew between 1994 and 2002 by nearly 250 per cent—far more than investments to the EU or the rest of the world (*Economist* 2004). On the whole, research indicates that intra-regional foreign direct investment (FDI) levels have increased because of integration in the EU, NAFTA, Mercosur, and AFTA (Kreinin and Plummer 2008). Supply chains, in turn, are stretched beyond national borders, labour mobility can at times increase as professional workers especially are more inclined to search for employment in the participating member states, and firms target customers on a more regional, rather than national, level. Valuable data and information, as well, is exchanged with increasing frequency across borders among business partners, vendors, and even competitors.[5]

For the global economy, the most obvious implication of the rise of trading blocs concerns their contribution towards the making of a single, international marketplace. Here, however, the evidence has been contradictory. According to some researchers, blocs represent stepping stones or learning 'laboratories' bound to prepare countries for participation in the global economy (Summers 1991; Gordon 2003: 112; Cable 1994: 12). But other observers have disagreed, arguing that blocs are protectionist and trade 'diverting' projects which at best slow down the rise of the international economy or at worst make it impossible (Bhagwati 2008; Frankel 1997: 214). Arguments put forth by the latter group have found support in works showing that most trade and FDI happens in very specific regions of the world—most notably Europe, North America, and East Asia (Hirst, Thompson, and Bromley 2009; Rugman and Verbeke 2004).

Yet, we must take the complexity of trading blocs into account when reflecting on these matters. Surely, not all blocs will have the same impact on either economic actors or the rise of a global economy. In the case of economic actors, for instance, consider the fact that a 2007–2008 Asian

[5] For representative studies, see Coeurdacier, De Santis, and Aviat (2009), Dumont (2005), and Sciglimpaglia and Saghafi (2004).

Development Bank survey of exporters in Japan, South Korea, Singapore, and Thailand found that only 22 per cent reported taking advantage of the blocs in which they operate (*Economist* 2009). This contradicts the idea that all blocs encourage firms, interest groups, and others to expand their operations across member states (as reasons for their choices, firm leaders listed confusion about overlapping trade agreements and costs of compliance with overly complex regulations). Or consider recent research on CAN indicating that integration has actually led to lower FDI movement in the region (Paez 2008). Regionalization does not happen everywhere, then. Our preceding discussion of complexity suggests, therefore, that much can be gained by considering one key question: *how is each dimension of complexity likely to shape—mediate, limit, magnify, etc.—the regionalization of economic actors and the rise of a global economy?* We can only begin to address the most important dynamics here. Table 2.3 lists each dimension and its impact on the expansion of economic actors and the rise of the global economy.

We turn to economic actors first.

Table 2.3. Economic implications of differentiated integration

Dimensions of Complexity	Expansion of Economic Actors More Likely...	Relevance for the Global Economy
Economic Objectives	...in targeted industry sectors	Blocs can promote protectionism in given sectors; CET can be either a barrier or facilitating factor
Frameworks & Policies	...when regulatory harmonization also takes place	Blocs under pressure to comply with WTO frameworks
Political Purposes	...among interest groups especially if bloc espouses political objectives	Blocs now represent, bargain, and set objectives for themselves at the WTO and other multilateral forums
Legitimacy	...if legitimacy is high	Struggling blocs may help multilateralism; successful blocs may undermine it
Rational vs. Non-Rational Drivers	...when overall pressures for integration are predictable	'Stickiness' of existing agreements, if unwanted or unplanned, can hinder multilateralism
Pace of Integration	...if pace is rapid	Impact a function of overall influence (positive or negative) of blocs on global economy
Legislative Autonomy of Nation States	...if law-making becomes an increasingly regional affair	As regional law and institutions become the object of attention at the WTO and other multilateral forums, nation states matter less
Transnationalization of Politics	...when loci of contention are transnational	If politics becomes regionalized, then WTO and other multilateral forums lose relevance
Secessionist Movements	...if secessionist movements do not pursue protectionism	Positive for global economy if movements embrace multilateralism instead of regional integration

Economic actors

How does each dimension of complexity affect economic actors in trading blocs? When it comes to *economic objectives*, recall that in most blocs some sectors of the economy are exempt from trade liberalization. Liberalization in other sectors is instead being pursued aggressively. If so, within a bloc, we are likely to see the selective expansion of economic actors. Some actors—those in sectors undergoing liberalization—pursue expansion; others—those in protected sectors—do not. This applies to firms but also to interest groups, trade unions, and other actors. Recent research on firms in the dairy industry and on women's groups in the EU, Mercosur, and NAFTA supports this (Duina 2006a). Exceptions exist, of course. For instance, some actors may forge transnational ties with others precisely to pressure bloc officials to liberalize their sector. But in most cases such activities will probably amount to network building and not actual structural expansions.

Second, as to *frameworks and policies*, we saw that officials use a variety of tools to pursue trade liberalization. Each option has implications: all things being equal, regulatory harmonization and other more sophisticated tools for trade liberalization offer strong incentives for transnational expansion, though of course a number of other factors determine firms' decision to expand abroad:[6] harmonization, after all, lowers production compliance costs while making products from one country more easily accepted in another. Reliance on tariff reduction, by contrast, only generates relatively light incentives for expansion. The same can be said for labour movement, especially professionals: harmonization of training and qualification requirements does much to promote cross-border migration.

Third, *political purposes*, in particular those with consequences for the economy, can stimulate the expansion of economic actors, especially interest groups. Consider, for instance, blocs that aim at the coordination of policies in areas such as foreign immigration, unemployment, or defence. A variety of stakeholders—such as labour unions and high technology firms—would have reasons to establish cross-national networks, objectives, offices, and more. They will also have incentives to form alliances with their counterparts in other member states, which can possibly lead to more permanent arrangements (such as mergers) later. When war prevention figures among the priorities of a bloc, this (provided it is pursued in practice) will generate more stability and thus, as the literature on FDI and political stability shows (Kolstad and Villanger 2008), more reasons for actors to reach beyond their national borders.

[6] Research on determinants of FDI is extensive and stresses factors such as regulatory quality, national growth rates, and market size. See, for instance, Torrisi et al. (2008).

But, of course, all of the above considerations are more likely to hold if there is widespread agreement that the bloc in question is *legitimate*. They are also likely to hold if the various stakeholders perceive that the forces pushing integration forward are not uncontrollable or unpredictable but in fact follow a transparent logic (*rational versus non-rational drivers*), and that integration is indeed taking place at a good or at least reasonable *pace*, however defined.

What about the integrity of the member states? Loss of *legislative autonomy* by itself may have little direct impact on actors' structural organization. However, if it is a reflection of the increasing importance of the regional level as the locus of legislative activity, it is bound to encourage actors affected by the relevant laws to expand. Like-minded stakeholders from across the member states are bound to join forces and lobby bloc officials. Thus, actors will surely have reasons to expand if *political activity has become transnationalized*. Interest groups such as industry associations will establish a presence in whatever sites is necessary, and develop regional-level agendas and membership bases (Doh 1999; Greenwood 2003).

Lastly, the strengthening of *secessionist movements* in trading blocs generally creates disincentives for firms to expand, since these movements generally create uncertainty (political, regulatory, and economic). If firms have reasons to believe that a section of a country is moving towards autonomy or even independence, they may actually decide to move away from that region. The experience of Quebec in the 1990s, when many Anglophone firms threatened to pull out from the province, supports this point (Symonds 1996). And, interestingly, for those that have relocated from Quebec, stock market investors rewarded them with increased valuations (Tirtiroglu, Bhabra, and Lel 2004).

International economy

A major strand of research suggests that regional blocs present—via protectionism and trade diversion—major threats to the international economy. If accurate, could this observation apply to all blocs? Differences in *economic objectives* among blocs will actually determine to a good extent whether protectionism and trade diversion materialize, or whether the opposite may in fact happen. The erection of CETs in common markets is a particularly salient matter, but so are a bloc's position vis-à-vis subsidies, quotas, rules of origin, and fiscal incentives. Any claim about the positive or negative impact of blocs for the international economy must take such differences into account. Extensive and oftentimes contradictory research on all of these variables already exists, of course,[7] but not in the context of a comprehensive, comparative discussion of blocs.

[7] See, for instance, Krueger (1999).

Objectives are achieved through *frameworks and policies*. These have enormous implications for the WTO and other multilateral negotiation forums. Complex regulatory environments at the regional level (i.e. the EU, CAN, or Mercosur) but also simpler ones (such as NAFTA) must be compatible with WTO frameworks if agreements are to be reached at the global level. Thus, once again, we must examine closely those frameworks and policies. And, in so doing, we must also recognize that in some cases they empower bloc officials to represent the collectivity of their member states in international negotiations (the cases of the EU and AFTA come to mind), while in other cases this does not happen (Narlikar 2003: 159). When it comes to *political purposes*, therefore, we see that some blocs have formed precisely with the objective of having more power at the WTO negotiating tables, while others have not (Odell 2006).

But, of course, little of the above could be said if blocs lacked *legitimacy*. Blocs with little legitimacy are unlikely to really matter at the WTO or elsewhere, regardless of formal mandates or agreements. At the same time, blocs whose origins and evolutions appear to have followed less than *rational* courses present challenges of their own. Institutions are sticky, and blocs whose objectives and structure have emerged out of isomorphic, path-dependent, mimetic, or other dynamics often prove more difficult to change than those driven by primarily 'rational' forces, as evidence from the EU shows (Sandholtz and Stone Sweet 1998). Moreover, the evolution of those blocs may prove difficult to control. This, too, may generate challenges to the rise of a global economy.

When it comes to the *pace of integration*, we must first consider a bloc's overall impact on the global economy. If countries in a bloc prove, despite GATT's requirements, more protectionist towards third parties than before integration, fast pace only makes matters worse for the WTO and multilateralism. But if the pace is slow, it may undermine the project as a whole and motivate member state representatives to seek alternative (bilateral or multilateral) paths. On the other hand, if a given bloc is indeed functioning as a stepping stone for further inclusion in the global economy, then fast pace is certainly positive for multilateralism, while a slower pace may push member states to leave the bloc and seek alternative arrangements which may, or may not, be beneficial for multilateralism. Determining, with accuracy, whether a bloc is beneficial or harmful for the global economy is not a simple task, but finding examples of countries actually making claims to that effect and then threatening to leave out of frustration with progress is easier. In Mercosur, both Paraguay and Uruguay have repeatedly voiced dissatisfaction at the protectionist tendencies of Brazil and the resulting lack of interest, for Mercosur as a whole, in negotiating trade agreements with other countries—and the

United States especially (*Economist* 2005, pp. 36–7; MercoPress 2001; BBC Monitoring 2002).

Finally, we discussed the various ways in which blocs can challenge the integrity of nation states. National *legislative autonomy* and the *transnationalization of politics* are relevant for the global economy in quite similar ways: if indeed law and politics are regionalizing, then the WTO and other multilateral forums must increasingly turn to blocs for the pursuit of their visions. Moreover, such a regionalization is likely to lead to a diversion of political resources and capital away from multilateral venues, with negative implication for how quickly global agreements can be reached. As Bhagwati put it, 'lobbying support and political energies can readily be diverted to preferential trading arrangements such as FTAs [free trade agreements]... That deprives the multilateral system of the support it needs to survive, let alone be conducive to further liberalization' (Bhagwati 1993: 162). As to *secessionist movements*, the critical variable is their stance towards openness and multilateralism. When blocs invigorate these movements, the position of these movements towards the global economy certainly assumes greater importance.

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