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Intereconomics

Suggested Citation: Lorenz, Detlef (1989) : Trends towards regionalism in the world economy: A contribution to a new international economic order?, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 24, Iss. 2, pp. 64-70,
<https://doi.org/10.1007/BF02928553>

This Version is available at:

<https://hdl.handle.net/10419/140176>

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Detlef Lorenz*

Trends towards Regionalism in the World Economy

A Contribution to a New International Economic Order?

The world economy has for some time been characterised by a growing generalised trend towards regionalism. This is often considered to be on a par with the formation of blocs, fragmentation of the trading system and a relapse into the disastrous conditions of the thirties. However, if regionalism is understood not as a defensive or aggressive policy of bloc building, as in the thirties, but as a regional grouping that is open towards the world economy, it appears to have something to offer as an alternative to the old international economic order.

After the second world war there were two determined attempts to establish a universal international economic order to solve the economic problems of the "one world" and consciously to replace "naturally developed" economic relations by "legally created" international economic orders via international fora. Both the old international economic order "organised"¹ and applied from 1945 onwards through international organisations such as the IMF, the World Bank and GATT and the blueprint for a new international economic order drawn up by the United Nations from 1973 onwards but never put into effect could have been regarded as genuinely *universal* systems. Instead, however, the world economy divided into three parts. For a variety of reasons, the countries of the second world, the socialist state-trading countries of the Eastern bloc, did not fit into either the old or the new international economic order. The other two sub-systems also reflected too closely the interests of the old industrialised countries (the first world) and the new developing countries (the third world). Both the East-West conflict and the North-South divide stood in the way of a *world* economic order.

Remarkably, these obstacles to a universal system, which were the result of political and economic disparities, have recently become much less important as development and reforms proceeded, especially in China and the USSR but also in other countries, such as the newly industrialising countries (NICs). Instead, the world economy has been dominated for some time by interesting new "cross linkages" of quite another kind. The best known of these stem from the shift of both economic activities and world economic policy from the

Atlantic basin to the Pacific. Another factor is the "splitting" of the Atlantic region into a North American area and a new European economic area (EC 1992), with the increasing orientation of the USA towards the Pacific Rim bringing the situation into even sharper focus.² On the other hand, it should not be forgotten that certain regions, such as Africa and South America, are in danger of being marginalised by this trend towards *regional* economic groupings.³

Collapse of the Old Economic Order

Before examining this trend towards regionalism, however, let us consider a number of points that throw light on the "collapse" of the old international economic order. Before the recent heated debate about US free trade areas or the EC internal market, discussion was already centred on two other issues that are also important elements in regionalism, namely *deregulation* and international *co-operation*. These two slogans took on special meaning against the unstable background of a "naturally developed" international economic order after the old "legally created" system was virtually abandoned at almost the same time as unsuccessful attempts were being made to create a new one. Whereas the advent of a "non-system" was acknowledged at an early stage as far as the monetary

¹ The pair of terms "legally created" ("gesetzte") and "naturally developed" ("gewachsene") order stem from Walter Eucken: *Die Grundlagen der Nationalökonomie*, Tübingen 1950. The term "organised international economic order" was coined by Hans Möller: *Internationale Wirtschaftsorganisationen*, Wiesbaden 1960.

² For an interesting variation, see the GATT Report of 1984/85, pp. 13 ff.

³ Further details in D. Lorenz: *Notes on NICs and Regional Developments in the World Economy – A European View*, Free University Berlin (mimeo, September 1988). See also the "dropping-out syndrome" postulated by A. Brender: *The Vision of Disintegration is Scarcely Plausible*, in: *INTERECONOMICS*, Vol. 24, 1989, No. 1, p. 4.

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system was concerned (Williamson, Cooper), the same is now being predicted increasingly often in the eighties with regard to the GATT. For several years we have had to contend with an unbalanced mix of managed trade and laissez faire in both trade and monetary affairs.⁴

A prominent feature of this unstable mixed "system" is the coexistence of almost completely deregulated markets in goods, finance and foreign exchange alongside a diverse variety of arrangements that are on the very bounds of legality as propounded by the old economic order, such as the Multi-Fibre Arrangement (MFA), voluntary export restraint agreements (VERs), partial exchange controls and dirty floating. Even the international organisations of which the old economic order was composed were unable to keep the world economy functioning on a multilateral level. They were almost always under the influence of special circumstances. In the fifties and sixties, the golden decades of re-integration, they were either more or less quiescent, as with the Marshall Plan, or conditions were such that they did not have to act. In later years they were often bypassed in favour of reserve currencies, flexible exchange rates, Euro-currency markets or protectionist "regimes". Moreover, the universalist hegemony under the Pax Americana weakened considerably, giving way mainly to "trilateral clubs" that the core countries created in the shape of a variety of so-called "G-units" (Group of Ten, Five etc.) or "GATT-Plus" approaches.

Deregulation and Co-operation

As far as deregulation and co-operation are concerned, two remarkable sequences can be discerned for both trade and monetary affairs over the period since the war. In the area of *trade* the old tariff barriers were successfully removed, only to be replaced by non-tariff neo-protectionism. One of the main reasons for this was the negligent failure to develop a "positive" concept for macro-economic adjustment and competition policy by means of international cooperation. Given the unprecedented need for

adjustment as a result of structural change and competition for market shares owing to the new (substitutive) international division of labour, deregulation alone with very restrictive provision for exemptions (as under Article 19 of the GATT) could no longer succeed after world economic growth had returned to normal levels. As a consequence, ever more neo-mercantilistic regimes emerged.⁵

In the *monetary* field, the necessary international co-operation was not even practised during the time of the Bretton Woods System. Instead, there was a permissive creation of liquidity to finance balance-of-payments and exchange-rate disequilibria. Nor was international co-operation fostered by the partial deregulation of credit and foreign exchange markets that began in the sixties or the fully-fledged "double" deregulation via huge Euro-currency markets and the floating of currencies in the seventies. To some extent they had the opposite objective, namely to protect independent national economic policies from external influences, both in the North and in the South. Moreover, economies became more vulnerable to unco-ordinated national macro-economic or stabilisation policies and to monetary protectionism. Last but not least, currency deregulation proved questionable in the very field for which it was regarded as particularly helpful, namely overcoming the macro-economic oil shocks. The well-intentioned efforts of industrial and developing countries alike to tackle macro-economic shocks via the deregulated private capital markets (recycling) subsequently necessitated international ad hoc co-operation on a large scale. The international interest rate links via deregulated markets had a particularly adverse effect owing to the global and almost total interdependence created in this field. This led to a specific requirement to manage the debt crisis and a great need for international co-operation in a context of heightened risks to the world system of finance and trade.

Given this sequence of events in the monetary and trade fields, it is not surprising that world economic policy in the eighties found itself confronted increasingly with demands for both deregulation and co-operation – on the one hand the deregulation of international trade to eliminate mercantilistic regimes and on the other greater co-operation in macro-economic and monetary policy to stabilise exchange rates or reduce excessive balance-of-payments disequilibria. Assessments of the extent to which these two demands could be met differ widely; there is greater optimism about the progress towards deregulation than towards co-operation, since the one implies only a "negative" policy but the other a "positive" policy as well.⁶

⁴ Compare for instance J. Pelkmans: Economic Cooperation among Western Countries, in: R. G. Gordon, J. Pelkmans (eds.): Challenges for Interdependent Economies, New York 1979; E. Minx: Von der Liberalisierungs- zur Wettbewerbspolitik: Internationale Wirtschaftspolitik zwischen Industrieländern nach dem Zweiten Weltkrieg, Berlin 1980; D. Lorenz: Ursachen und Konsequenzen des Neomerkantilismus, in: A. Woll (ed.): Internationale Anpassungsprozesse, Schriften des Vereins für Socialpolitik, New Series, Vol. 114, Berlin 1981, pp. 9 ff.; A. Pfaffler (ed.): Der Kampf um den Wohlstand von Morgen. Internationaler Strukturwandel und neuer Merkantilismus, Bonn 1986.

⁵ D. Lorenz: A Gatt for the Mercantilists? in: INTERECONOMICS, Vol. 20, 1985, No. 6, pp. 255 ff.

⁶ On the difference between negative and positive policies, see E. Minx, op. cit., pp. 12-14, and J. Pelkmans, op. cit., pp. 97 ff.

The many dilemmas of non-market co-operation, in other words of international economic policy, are well enough known. International co-operation in the sense of co-ordinating policies such as competition, industrial or technology policy on the one hand or macro-economic stabilisation policy and North-South policy on the other seems economically presumptuous and politically utopian. Nonetheless, it would be a mistake to think that the shortcomings of co-operation can be compensated or cured mainly by means of micro-economic deregulation! With highly open product and financial markets and flexible exchange rates, international disparities in fundamental areas of national economic policy pose a potential threat to the international economic order and cause turbulence that can clearly not be brought under control simply by greater market freedom. Leaving major problems affecting the international economic order to be resolved by market forces alone may ultimately even jeopardise such a minimalist system.

Growing Trend towards Regionalism

Deregulation and co-operation on a *world scale* have therefore been less than satisfactory. Are things different with a *regional* approach, which holds out a greater promise of freer trade and closer economic policy co-operation within the smaller group but begs the crucial question of world economic co-operation? An affirmative reply seems more certain in the field of international *monetary* policy, where one can examine

not only the considerable theoretical literature on the question of optimum currency areas but also the experience of the regional EMS and co-operation within the various "G-groups".⁷ For that reason we shall not consider this issue further here. In the field of *trade* policy, on the other hand, the contradictions have been becoming increasingly acute for some time: here the GATT Uruguay Round, there free trade areas and "geographically discriminatory arrangements" (GDAs).⁸ Remarkably, by contrast with the situation in the monetary field, the question of optimum trade or specialisation areas has hardly been posed, if one disregards, for instance, location theory which lost favour long ago.

The exemptions for free trade areas under Article 24 of the GATT hardly provide a counterargument. For one thing, the theory of trade policy has often "discriminated" against the customs union argument almost as much as against the infant industry argument. Furthermore, Article 24 was really intended at most to cover unimportant exceptions along the lines of Benelux, but not a major "deviation" such as the EC of Six or even Twelve. Even disregarding the EC, this article is "one of the most troublesome provisions of GATT . . . , a failure, if not a fiasco", according to K.W. Dam.⁹ This view – at least until recently – was widely shared and considered proven as far as the prime beneficiary of Article 24 is concerned. The EC has become the most objectionable example of a GDA, and not only in the eyes of the USA and orthodox free traders, especially if its external preference policy is taken into account. Even the new programme for the internal market by 1992 – the greatest deregulation project of modern economic history, according to Narjes¹⁰ – and the initiatives for co-operation at macro-

⁷ "At world level there are grounds for continued scepticism for some time to come. . . . The same scepticism need not apply to Europe, however. Even those who today . . . advise us to be prepared for the European monetary scene to change very slowly can entertain hopes of a further development of the EMS." O. Sievert: *Is There an Alternative to Floating Exchange Rates?* in: *INTERECONOMICS*, Vol. 21, 1986, No. 5, p. 223. Cooper states the following: "But there is a serious question about whether one world money is either necessary or desirable. . . . In short, there would be an inner club accepting higher responsibilities, but open to additional members who met the requirements, and of value even to non-members by providing a stable monetary environment against which to frame their economic policies. But this arrangement would mark a formal break with the universalism that governs the de jure if not the de facto structure of the Bretton Woods system today." R. N. Cooper: *A Monetary System for the Future*, in: *Foreign Affairs*, Summer 1984, p. 184.

⁸ R. Pomfret: *Unequal Trade. The Economics of Discriminatory International Trade Policies*, London 1988.

⁹ Quoted in R. Senti: *GATT. System der Welthandelsordnung*, Zürich 1986, p. 117.

¹⁰ Quoted in H. G. Krenzler: *Zwischen Protektionismus und Liberalismus. Europäischer Binnenmarkt und Drittlandsbeziehungen*, in: *Europa-Archiv*, Vol. 9, 1988, p. 241.

PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG

Annual subscription rate
DM 120,-
ISSN 0023-3439

KONJUNKTUR VON MORGEN

The short report on domestic and world business trends and raw material markets
published every fortnight by HWWA-Institut für Wirtschaftsforschung-Hamburg

VERLAG WELTARCHIV GMBH – HAMBURG

economic level have recently been heavily overlaid by reservations about external trade.

No matter how important and ambivalent a role the EC may have played and continues to play between free trade and protectionism in the world trading system, one point is even more fundamental, namely that the EC is no longer the only offender and can therefore no longer be treated as the scape-goat for the shortcomings of the old international economic order. Put another way, there is now a growing generalised trend towards *regionalism* in the world economy, though with differing emphases and politico-economic causes. This is demonstrated at the academic level by the highly topical book by Pomfret on GDAs and a conference held by the influential Institute for International Economic Policy in Washington on the theme "More Free Trade Areas?".¹¹ At the trade policy level, the ground was prepared some time ago for the "defection" of the USA from the GATT spirit with the policy of reciprocity, the free trade agreements with Israel and Canada and regional initiatives in the Caribbean and Pacific. Perhaps more spectacular and recent are the moves towards concrete regional co-operation in East Asia and the Pacific, which are even more remarkable for being partly in competition with the US initiatives.¹²

A Second-best Solution?

What then does the spread of regionalism signify? The GATT free trade model, with its two principles of multilateralism and non-discrimination, has been regarded as the point of reference and the first-best arrangement for international trade policy since the days of the old economic order. By comparison, regionalism is at most a second-best solution, and is generally ranked far lower.¹³ It is considered to be on a par with the formation of blocs, fragmentation of the trading system and a relapse into the disastrous conditions of the thirties. However, if regionalism is compared with some of the fundamental distortions of the GATT system, such as the MFA, VERs or Generalised Systems of Preferences, the picture is much less black and white. Regionalism actually compares more adequately with another phenomenon

that was being repeatedly recommended as long ago as the mid-seventies as a "slimming cure" for the ailing universal GATT.

The phenomenon in question is the prescription that like-minded countries should band together in a club of traders, or a "GATT-Plus", a notion that also plays a role outside the sphere of trade policy.¹⁴ These proposals, which have been described recently as a "minilateral" solution,¹⁵ entail a conditional application of the most-favoured-nation principle, in the same way as the codes agreed in the Tokyo Round, and are thus a form of discrimination; however, they are generally considered preferable to regionalism. In some respects, the clubs are the second-best solution and regionalism at most third-best. However, "GATT-Plus" exists only on paper so far and the GATT has shown itself to be more a caricature of the first-best solution during the eighties, rather than a true image. By contrast, regionalism must bear the real burden of "high politics", in other words withstand combination with foreign policy or politics of hegemony.¹⁶

A Catalyst for Multilateral Liberalisation

In other respects, regionalism brings together a group of like-minded, though far from uniform countries sharing certain common characteristics. In the non-economic field these may be, for example, membership of the same or a related geographic and historic region or of the same or similar socio-economic systems. Regionalism in North America, Europe or East Asia thus has a particular character of its own. In the economic sphere, the criterion is mainly the pursuit of identical objectives of economic co-operation both within the group and towards non-members in order to increase the region's welfare (its GNP). The deregulation of the internal market and economic and monetary policy co-operation now being discussed should be easier to achieve with such layers of regional ties than without them.

Moreover, if regionalism is understood not as a defensive or aggressive policy of bloc building, as in the thirties, but as a regional grouping that is *open* towards the world economy, then it appears to have something to offer as an alternative to the old international economic order. It could then prove to be a complement to a

¹¹ See the report in IMF Survey, 14th November 1988, pp. 362 ff.

¹² See the report on the Hakone X Conference in Berlin in 1988 by S. Awano-hara: Japan und Ostasien. Auf dem Weg zu einer pazifischen Arbeitsteilung, in: Europa-Archiv, 1988, Vol. 22, pp. 639 ff. The US Department of State and the ASEAN Governments recently commissioned the East-West Center in Honolulu to carry out a study entitled "The ASEAN-U.S. Initiative". A report on the study says that "The U.S. needs to pay more attention to ASEAN. Otherwise these countries are going to fall under the economic domination of Japan. That is not something the U.S., or ASEAN, wants to see happen." EWC Centerviews, Vol. 6, 1988, No. 5, p. 1.

¹³ R. Pomfret, op. cit., p. 189.

¹⁴ G. and V. Curzon: Defusing Conflict between Traders and Non-Traders, in: The World Economy, Vol. 9, 1985, pp. 19 ff.

¹⁵ Cf. J. D. Richardson: International Coordination of the Trade Policy, Working Paper No. 2293, National Bureau of Economic Research, Cambridge (Mass.) 1987, pp. 39 ff.

¹⁶ M. C. Aho and J. D. Aronson: Trade Talks. America Better Listen!, New York 1986, p. 130.

multilateral trading system rather than a substitute¹⁷, in a similar way as Western European regionalism in the fifties and sixties. This is compatible with the view that regionalism could act as a "catalyst" for multilateral liberalisation, a function attributed recently to bilateral free trade areas such as that between the USA and Canada.¹⁸ "Multilateral liberalisation at different speeds" (Koopmann) also has some affinity with the idea promoted previously in Europe by Predöhl and Triffin, among others, of constructing an international economic order or re-integrating the world economy from the bottom upwards and not the reverse.¹⁹ Given the various dilemmas posed by "universalism", there may again be justification for an unbiased consideration of the strategy of regionalism.

The sense of belonging together and pursuing common objectives will in any case encourage trade and co-operation within a region more than vulnerable universal "integration" will, especially under the severe strains imposed by structural change. It is therefore natural that from the point of view of the world economy all attention focuses on the *openness of regionalism* and its quality of inter-regional co-operation. Before returning to this point, a number of phenomena currently subsumed under regionalism need to be examined. Three versions play a role: (a) bilateral free trade agreements or areas, (b) geographically discriminatory arrangements (GDAs) and (c) communities of countries seeking to integrate or co-operate with one another.

Different Versions of Regionalism

(a) Since the passing of the US Trade and Tariff Act of 1984, which gave the President a mandate to negotiate bilateral free trade arrangements, two prominent "case studies" have come about, namely the agreements with

Israel and Canada. Whereas the agreement with Israel is singular in many respects and does not constitute regionalism at all, the one with Canada is both an important regional agreement and an example of the catalyst function or the bargaining tactics of the Uruguay Round.²⁰ If one adds the possibility of an EC-like southward expansion to take in Mexico, a possibility that has been discussed but would be extremely problematic, there would emerge "... a truly North American free trade area; slow movement in that direction is possible".²¹ By comparison, the free trade overtures towards East Asia, Japan, the NICs and ASEAN are still speculative, although they may prove to have a relevance of their own.²² To count these regional free trade areas as a manifestation of regionalism does not seem to be entirely justified, however, even if parallels can be drawn with the "external" regionalism of the EC. Apart from the United States' agreements with neighbouring countries (Canada and Mexico), a possible chain of such bilateral agreements as "building blocks" of a larger free trade area seems to have little to commend it and to be particularly dangerous to a *weak GATT*.²³

(b) The GDAs discussed by Pomfret are various types of discriminatory trade policy, all with a geographic dimension. However, the main thrust of the analysis is concentrated on the violation of the central tenet of the GATT, the principle of non-discrimination.²⁴ Discriminatory trade policies have flourished since 1947, despite the GATT, and the trend is upwards. They are against the "global" interest, but they have "... a variety of economic consequences, which may be beneficial to the direct participants".²⁵ According to Pomfret, there may therefore be plausible motives for GDAs and they may operate in a wide variety of ways, such as the important VERs and the results of the discriminatory trade policies of the EC and, more recently, the USA. As regards regionalism in the sense we are considering, all

¹⁷ M. C. Aho and J. D. Aronson, op. cit., p. 122.

¹⁸ Cf. G. Koopmann: Reorganization or Disorganization of the World Economy? in: *INTERECONOMICS*, Vol. 24, 1989, No. 1, p. 11. Another aspect is the important "control function" of the GATT tariff rounds, as practised successfully vis-à-vis the EC during the Kennedy Round. Cf. D. Lorenz: Außenwirtschaftspolitik der EG: Neue Wege unter neuen Bedingungen? in: *Orientierungen zur Wirtschafts- und Gesellschaftspolitik* (Ludwig-Erhard Stiftung), 1988, No. 38, p. 44.

¹⁹ See in particular the two chapters on integral trade and monetary policy, in which global and regional solutions are compared, in: A. Predöhl: *Außenwirtschaft*, 2nd edition, Göttingen 1971, pp. 219 ff. and 297 ff. For Triffin, see his essays in: H. Grubel (ed.): *World Monetary Reform. Plans and Issues*, Stanford 1963, pp. 50 ff. and 435 ff.

²⁰ Cf. M. C. Aho and J. D. Aronson, op. cit., pp. 126 ff. Especially with regard to the agreement with Canada, the "learning-by-doing effects" of the new GATT tasks play an important role: "The most significant gains could come in fashioning agreements in those areas not covered in GATT. Services, intellectual property and investment policies are the most obvious candidates" (p. 127). For details, see J. J. Schott and M. G. Smith: *The Canada-United States Free Trade Agreement: The Global Impact*, Washington 1988, chapters 6 and 7, and W. Diebold Jr.: *Bilateralism, Multilateralism and Canada in U.S. Trade Policy*, New York 1988, especially pp. 172 ff.

²¹ M. C. Aho and J. D. Aronson, op. cit., p. 129; and the chapter on Mexico in: W. Diebold Jr., op. cit., pp. 105 ff.

²² For a Japanese view, see S. Awanohara, op. cit., pp. 645 f.; and The Japan Institute of International Affairs/PECC: *Review on Pacific Cooperation Activities*, Osaka, May 1988, p. 45. Compare also remarkable insights in the Report No. 35 of The Trilateral Commission: *East Asia in Transition. Challenges for the Trilateral Countries* (Authors: R. Halebroke, R. MacFarquhar, K. Nukazawa), New York 1988, pp. 19-36.

²³ M. C. Aho and J. D. Aronson, op. cit., p. 129. "While the prospects of trade liberalisation emanating from bilateral or plurilateral negotiations are tempting, especially if multilateral talks are foundering, several negative developments could follow from 'minilateral deals'"; G. C. Hufbauer and J. J. Schott: *Trading for Growth: The Next Round of Trade Negotiations*, Washington 1985, p. 93.

²⁴ R. Pomfret, op. cit., pp. XI and 9.

²⁵ R. Pomfret, op. cit., p. 155.

that matters are communities of integration among the GDAs, but this aspect is not discussed in Pomfret's interesting study. With regard to the EC he recognises that "... the real criticisms of the EC's role involve not its own status but its trade policy behaviour",²⁶ but that makes an inappropriate distinction between internal and external free trade and between political and economic aspects. For the USA, which is reproached for increasingly adopting the EC's strategy on external preferences in the eighties, the problem does not yet arise. The USA is no longer undergoing a comparable process of *internal* integration, unless in future it should transmute into a North American free trade area extended northwards and southwards!

(c) The real nub of the question of regionalism therefore concerns the communities seeking to integrate and co-operate more closely on a regional basis, the old ones in Western Europe (EEC, EC, EFTA) and a relatively new one in East Asia. Since these are both areas that have reached a fairly advanced stage of integration and do not simply represent shifts of trade policy emphasis away from multilateralism towards the "new bilateralism" (Diebold Jr.) of free trade areas as in the case of the USA, they undoubtedly involve a different dimension. The increasing integration of politico-economic free trade areas or specialisation zones, which have to overcome quite complex heterogeneity undoubtedly creates *centripetal* forces deriving legitimately from the political and economic processes of *relative* homogenisation of the regions in question.

Regional Revaluation of East Asia

For example, the EC and the 1992 internal market initiative may be described as "only" a further stage in the long process of *European integration*, which is unquestionably geopolitical in character. The political and economic integration of the core EEC countries, which was encouraged by the USA and the Atlantic Alliance, went hand in hand with the old policy of European political unification, leading to European Political Co-operation (EPC). However, the expansion of the EEC into the EC of Twelve is only one of the results of this process. The Mediterranean policy and the policy on trade with Eastern Europe constituted an expansion into fields that were both politically and economically contentious, at least in the eyes of outsiders. In particular, the Community had to put up with the accusation that its policy on external trade preferences was a form of discrimination that contravened the GATT.

²⁶ R. Pomfret, op. cit., p. 171.

²⁷ See D. Lorenz: Außenwirtschaftspolitik der EG, op. cit.

Leaving these contentious world economic aspects aside, however, the expansion of the Western European core-countries or the unification of the fragmented continent is ascribable primarily to political and locational forces working towards integration, rather than protectionist regionalism! It must also be stressed, however, that the development of the EC into the European internal market of 1992 and the broadening of the European free trade hinterland into a European economic area has at least one ambivalent aspect, namely that greater deregulation and co-operation within Europe might be compensated by greater protectionism towards other countries, either temporarily or permanently. This is the "fortress syndrome", which must be seen both as an aspect of the mercantilistic modifications to the old international economic order and its fragmentation and as an accompaniment to overcoming European heterogeneity.²⁷

Further independent initiatives and at the same time reservations about increasing regionalism in the world economy are also to be observed in *East Asia* and the *Pacific*, which is repeatedly described as the economic gravity center of the twenty-first century. The economic position of the East Asian region, including ASEAN, has been changing dramatically in recent years. Not unlike the United Kingdom in the past, Japan and the four little dragons (the first and second generations of NICs) are born free traders because of their lack of natural resources and their strategy of export-led development.²⁸ They also needed *extra-regional* substitutive specialisation to develop their economies to the full. Now, however, more intensive intra-regional activities have come to the fore in view of the protectionist counteroffensive in the USA and Europe, the appreciation of the yen since 1985 and not least the enhanced economic potential of East Asia itself. In particular, post-war Japan which cannot be compared with the North American continent or the large European economic area and up to now for political and economic reasons could not rely on its regional hinterland (and possibly did not want to do so) has had to review its world economic strategy. An East Asian economic area including ASEAN and China and organised in

²⁸ However, in its day the United Kingdom was a *symmetrical* free trader, in other words it also allowed imports free access, something that is to come about only now in East Asia. See also R. Pomfret, op. cit., p. 185.

²⁹ See especially S. Awanohara, op. cit., pp. 642 f. and 647; The Japan Institute of International Affairs/PECC, op. cit., pp. 38 ff.; The Trilateral Commission op. cit., pp. 21 f. and 31; and D. Lorenz: Intra-regional Trade and Pacific Cooperation: Problems and Prospects, in: W. Klenner (ed.): Trends of Economic Development in East Asia, Berlin and Heidelberg 1989, pp. 65 ff.

accordance with the "flying geese" model of the co-operative vertical division of labour now appears to be a real possibility.²⁹

Open Regionalism

In connection with this regional revaluation of East Asia, the problems of the formation of economic blocs and its consequences for Japan and East Asia are also being perceived clearly and discussed. Both the EC and the USA are playing a role in this. As far as the USA is concerned firstly there is the strategy of *bilateral* free trade areas, which raises serious problems whether Japan is included or excluded, and not only in the Pacific. Secondly, it must be assumed that the unusually strong demand for imports witnessed in the first half of the eighties cannot continue, even if protectionism does not increase. If US import demand decreases, producers will almost automatically turn to Europe, and in particular to the internal market of the EC. If *both* the old "Atlantic" industrial-nation markets – East Asia's "vent for surplus regions" (Lorenz) – are willing and able to absorb only a limited increase in exports from abroad, the development of the East Asian region by means of vertical intra-industry integration would also be a partial economic alternative. However, this strategy of the "flying geese" probably arouses greater opposition than the completion of the internal market in Europe because of the diversity of countries in East Asia and the political animosity that still exists because of Japan's expansionist policies in the thirties and forties. It remains to be seen how great the politico-economic differences will prove to be between Europe and East Asia as far as integration is concerned.

It is clearly partly because of this background that the Pacific Economic Co-operation Conference (PECC) and its centre in Japan have introduced the term "*open regionalism*" into the discussion.³⁰ Although the PECC is not an "official" international organisation, it brings together all the states bordering the Pacific except those in Latin America, and hence including the USA, so that the line of argument is clearly aimed at the other major region of integration, the EC! Two interpretations of open

regionalism are given: (a) The PECC is not a discriminatory free trade area like the EC. The openness of the Pacific region thus depends on non-institutionalisation! Furthermore, it portrays itself as a pressure group for the Uruguay Round.³¹ (b) The more interesting interpretation is also derived from the lower degree of organisation in the Pacific region, but "... if the Pacific Community links up with the EC, access to mutual flows will give rise to still larger flows!"³² This approach might well fit in with the EC's new strategy of reciprocity, which has possibly been cribbed from the USA.³³

Nevertheless, with the term regionalism being widened and stretched in this way to mean "not entirely global but multilateral", two questions must be asked. First, whether the "gap between the global approach and bilateral negotiations" can really be bridged in this way,³⁴ and secondly whether, as a prerequisite for this, such a wide-ranging Pacific "regionalism" can be regarded as operationally viable. Moreover, regarding the Pacific and EC regions the fundamental point boils down to two presumably contrasting concepts of integration: the "locational" one of the EC and the trade policy approach of the *Pacific*. The distinction would be far less pronounced if the Pacific region were confined to an *East Asian* group of nations characterised by closer intra-regional specialisation.

The term "open regionalism" becomes particularly important for this kind of regionalism and its inter-regional economic relations. Here lies the crucial problem of regions integrated on a co-operative basis. The promotion of growth in integrated regions and the development of deregulated intra-regional flows of goods and factors of production call for the adequate involvement of other sections of the world economy; only then will *intra*-regional and *inter*-regional relations be on an equal footing and able to develop without excessive imbalance. This will undoubtedly also require *co-operative* economic policy strategies, which would have to be geared not for almost unlimited multilateral relations but for a network of more transparent plurilateral or "minilateral" relationships. On a second level there is also a tendency towards co-operative specialisation in which regionalism does not appear to be identical with the formation of blocs. This is the strategically very important question of the relative locational advantages of different economic regions in the context of the globalisation of the production of goods and services by multinational companies. This complex problem, which is of great importance for any international economic order, deserves further attention but cannot be tackled within the confines of this article.³⁵

²⁹ See footnote 22.

³¹ The Japan Institute of International Affairs/PECC, op. cit., p. 46.

³² The Japan Institute of International Affairs/PECC, op. cit., p. 11.

³³ See H. G. Krenzler, op. cit., pp. 235 and 243; and W. Nöbling: Festung Europa? Die Außenwirtschaftspolitik der Europäischen Gemeinschaft im Zeichen des Binnenmarktes 1992, Hamburg 1988, pp. 38 ff.

³⁴ The Japan Institute of International Affairs/PECC, op. cit., p. 45.

³⁵ See W. Hager: Protectionism: A World Divided? in: INTERECONOMICS, Vol. 24, 1989, No. 1, pp. 5 ff.; and the Annual Report of UNIDO: Industry and Development. Global Report 1988/89: Regional Integration and Global Production Network, pp. 18 ff.