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**Article**

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*Suggested Citation:* Agu, Chukwuma (2009) : Multilateralism, Regionalism and the Paradox of the "Spaghetti Bowl" in Developing Countries, Aussenwirtschaft, ISSN 0004-8216, Universität St.Gallen, Schweizerisches Institut für Aussenwirtschaft und Angewandte Wirtschaftsforschung (SIAW-HSG), St.Gallen, Vol. 64, Iss. 3, pp. 293-316

This Version is available at:

<https://hdl.handle.net/10419/231179>

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## Multilateralism, Regionalism and the Paradox of the "Spaghetti Bowl" in Developing Countries

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Even though the WTO encourages the formation of regional integration arrangements, there is evidence that intra-group trade among regional blocs, particularly since 1995 has been in decline. This presents a unique challenge – formal endorsement of RTAs alongside the behind-the-scene crowding out of the central reason for its existence – improved intra-group trade. In this paper, we juxtapose what has been termed the 'spaghetti bowl' in Africa with evidence of downward trends in intra-group trade in many developing regions, including Africa. The paper looks at some conceptual and practical issues raised by this paradox with a view to start a debate in this area.

*JEL Codes:* F13; F15; F33

*Keywords:* Multilateralism, Regionalism, Intra-group trade

### 1 Introduction

Whether in developed or developing regions, economic integration and regional bonding has become increasingly the fad. As of 2003, the WTO had received notifications for over 250 regional trading agreements (RTAs), of which nearly 70 percent came after 1995 (WTO 2003). Both in terms of scope and depth, there are several pointers that it is the golden era of regional integration. Even conservative regions like Asia are in a frenzied race for regional integration and economic partnerships. Presently, the overwhelming majority of WTO members are parties to one or more regional trade agreements. Interestingly, it seems that both the motivation for such trading arrangements and the pattern of implementing them have changed significantly since the formation of the WTO.

The above is a far cry from the conditions that warranted the proposition of the Vinerian trade diversion and trade creation as the theoretical levers for multilateralism and regionalism. By 1944 for example, the General Agreement on Tariff and Trade (GATT) represented little more than a response to high tariffs that complicated international transactions and hid inefficient industries behind impregnable walls. The multilateral trading ideology in the 1940s was shared by only the 23 founding members of GATT, with few bilateral trading arrangements and definitely no regional trading bloc (WASESCHA 2003). With little exceptions, much of international trade pro-

ocols had preponderantly economic underpinnings and there was much room for use of domestic trade policy instruments in promoting individual country development objectives. But things have changed.

Multilateralism and regionalism have grown together over the years; but not without conceptual and practical tensions. While endorsement of the multilateral trading system has grown from 23 nations to 153, the number of functional economic groupings and trading blocs has risen from zero to a couple of hundreds between 1945 and 2007. But there are unsettled questions about the relationship between the myriad regional trading agenda within the multilateral trading system and the multilateral trading system itself. With differing scopes and details, and many of the regional trading arrangements and economic partnership agreements incorporating WTO-plus conditions, there are deep questions on potentials for convergence or divergence of the two trading systems over time. Mike Moore's (former WTO Director General) reference to "... *à la carte* approach in RTAs ... (as) a recipe for confusion ..." outlines this potential conflict succinctly. First, with the welfare impact assessment of Viner (and subsequent trade theorists) put into question, even the hitherto unspoken agreement that multilateral trade liberalization is superior to preferential trade agreements is being reconsidered. Practically, it has been acknowledged that both the Kennedy Round of 1964 and subsequent rounds of trade negotiations are motivated by the need to correct imbalances in world trade stemming from unilateral or bilateral (and regional) measures, particularly those arising from enlargements of the EU – a tacit acknowledgement that bilateral and regional actions create rather than solve problems for the multilateral trading system. In addition, PTA and its extensions are contrary to the principle of nondiscrimination, a fundamental bedrock of the multilateral trading system.

Despite all the above, both the GATT and WTO encourage regionalism – at least in principle. Article 24 of the GATT recognized free trade areas and customs unions as acceptable exceptions to the principle of non-discrimination in commodity trade. For as long as tariff duties or other border restrictions adopted by such free trade areas are not more restrictive on average than those previously applied by member countries or the group, GATT accommodates such FTAs. Likewise, Article 5 of the General Agreement on Trade in Services of the WTO permits RTAs in services. Such explicit support is based on the belief that FTAs improve social welfare, facilitate broad-based trade liberalization, and complement the multilateral trading system. Indeed, in many quarters, it is believed that somehow, someday, the

regional blocs will metamorphose into one great global trading system without barriers as the different regional groupings merge.

Whether the above is true or not is not the question here. Rather, there seems to be so many contradictions in the questionable marriage between multilateralism and regionalism in theory and practice to warrant further examination. In particular, with a weak WTO and so much administrative oversight over the organization of trade and the implementation of regional trade agreements, it will come as a big surprise that regional trade arrangements are neither undermining the multilateral trading system, nor the latter playing the *volte-face* in the supposed support to RTAs. The question is whether written encouragements of the multilateral trading system for regional trading arrangements translate to practical improvements in trade within such regional trading blocs. The argument here is simple – regional trading blocs do not exist for their sake, but to promote increased trade within the blocs. Consequently, any support to a regional trading bloc that does not translate to increased intra-group trade is not very useful.

Much of the argument in the theoretical literature on the nature of the relationship between multilateralism and regionalism is inconclusive; and little empirical data is available. But there are indications that the multilateral trading system may have been undermining the development of regional groupings in developing countries. While serving as the umpire for RTAs, the WTO has not proven capable of providing any effective 'on the ground' support to RTAs in developing regions to improve supply response and competitiveness, lay out regional infrastructure and/or even check overlapping memberships. With several structural impediments to broad-based domestic reforms and supply response, RTAs in developing regions may not really be complementing, or be complemented by, multilateral trade. Under such circumstances, it is possible to have improvements in the outward signs of regionalism (formation of more RTAs) alongside a worsening of indicators of actual integration (reduction in overall intra trade).

This paper sets out to investigate this paradox – more bonding in regional integration arrangements and less bonding in actual trade among countries within the arrangements. It asks the questions, why has regional economic groupings in Africa put in so much into regional integration and reaped so little in tangible trade results? Is it possible that while the WTO explicitly supports the formation of regional trade arrangements particularly in developing countries, its existence implicitly discourages actual trade among them? What aspects of multilateralism, embodied in the World Trade Or-

ganization are responsible for this seeming retrogression in trade relations among sub regions in developing countries in general and Africa in particular? What factors are responsible for the marginal gains made in some of the sub regions that have not seen as much fall in intra-group trade as others and what can the rest learn from them? What should be the appropriate approach for African countries towards multilateralism and how should such interface with their domestic trade policies and regional economic obligations? It aims to elicit debate on the unresolved issue of the relative relevance of regionalism vis-à-vis multilateralism for developing countries as well as what the appropriate balance should be.

The paper begins by outlining some of the issues in the literature between multilateralism and regionalism, including recent issues in the literature. It then proceeds to show, using available data, that intra-regional trade has been falling in much of the developing world, including Africa. It shows the trend in many sub regions in Africa since 1995 and the 'reverse trade diversion' which has placed immediate neighbours at risk of lower trade one with the other. It notes that neither the stagnant output growth of the late 1980s and early 1990s nor the disadvantageous geography of Africa could explain falling intra-group trade experienced by the regions. The paper also shows that it is probably not the formation of the WTO per se that is the challenge, but Africa's approach to global trade configurations. In particular, the change in domestic trade policy focus that places emphasis on global visibility even for countries with extremely weak production base and the perception of European and North American markets as 'the' markets for all are outright worrisome. The goal of the paper is to elicit debate on the relative relevance and appropriate balance between regionalism and multilateralism, particularly for developing countries given these developments.

## **2 Regionalism and Multilateralism – Theory and Practice**

The link between multilateral trading arrangements and regional trade agreements is both historical and economic and has been extensively surveyed in the literature (see particularly POMFRET 1997). Historically, the end of World War II marked the beginning of the intensification of multilateral trade arrangements as a way of curbing the excesses of beggar-thy-neighbour autarky policies that was the norm. But interestingly, this period also marked the new wave of regionalism as Western Europe began the establishment of what is still till date the most successful common market. After an initial resistance to the wave of regional integration perceiving it

as contrary to the multilateral trading system, the United States made moves to form regional blocs, first with Canada and later extending it to the South. Several other attempts have remained ongoing in several regions of the world even though all nations continue to support the multilateral agenda.

Theoretically, Viner's (1950) work on implications of regional trade arrangements marked the beginning of intense enquiry into RTAs and their relationship not just with multilateral trade but also with domestic trade policies. The major point of Viner's works is that regionalism has the capacity to create and divert trade. Both in his theory and by subsequent analysts, trade creation is viewed as positive and good for growth while trade diversion is perceived as distortionary. Much of subsequent analyses by other authors have been woven around the trade-creation-is-good-and-trade-diversion-is-bad concept till recently when attention started to shift to not just view regionalism alongside multilateralism but also in terms of alternative domestic trade policies. But it is important to note that Viner's conclusions on the outcome of regional integration efforts and negotiated trade arrangements were ambiguous.<sup>1</sup> Summarily, it showed that the net effect of RTA would depend on which of either trade creation or trade diversion holds. Conceptually, the ambiguity owes to the fact that preferential trade policies reduce one price distortion – between domestic and partner country products; but introduce another – between partner and third country products (POMFRET 1997). Consequently, majority of the ensuing literature in this field laid emphasis on the contrast between discrimination through preferential tariffs and unilateral tariff reduction. Discrimination is assumed to misallocate global resources by distorting relative prices and increasing transaction costs while multilateralism (especially as in the Most Favored Nation Principle) reduces suspicion and distortions.

Viner's argument analyzes world trade as a zero sum game. But if economic growth is sustained (and/or sustainable), it might be better to see trade as having the potential to grow on all sides. Trade diversion is not the only source of distortions; domestic policies can also introduce distortions in regional and multilateral trade. Indeed, trade creation and trade diversion are some of the issues that are hardly brought up in the arguments for or against regional integration in developing countries in modern discourse.

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1 As in many other theories, Viner's thoughts were also critically influenced by the political economy of the times he lived in. at that time, the US was vehemently opposed to European regionalism seeing it more as a threat to the burgeoning but young multilateral trade arrangement as enshrined in the GATT. Viner therefore worked to provide economic justifications for and against regional trading arrangements which the EC represented.

Latter and more complex models emerged with multiple traded commodities and generally showed that there are several other (often more powerful) effects of the formation of an RTA than just trade creation and trade diversion for both member countries or third parties (MUNDELL 1964; REIZMAN 1979 and KOWALCZYK 1990). Some of these include induced changes in the volume of trade with both members and non-members, changes in the terms of trade with the Rest of the World and changes in national output. As in the traditional VINER analysis, the direction of such changes can be either way – positive or negative. Some of these latter literature showed that even where trade diversion swamps trade creation, it is not necessary that the value of imports from third countries falls. Value of trade with new trading partners can be influenced by changes in relative prices and real income – a phenomenon referred to as “external trade creation”. Likewise, the formation of an RTA does not have to translate to reduced trade with the rest of the world. In fact, it is argued that fixation with trade diversion biased assessment of the potential welfare gains for both member countries of RTA and third parties. Trade diversion is considered as no more than one of the terms-of-trade effects of the formation of an RTA while it is acknowledged that there is no basis for assuming real value of national output (as distinct from real national income) of member countries as fixed and therefore unaffected by the formation of an RTA (LIPSEY 1960). A number of these new theories assume imperfect competition and project that regional integration or unilateral trade liberalization can result in pro-competitive effects that are substantially larger than predicted by traditional trade theory (POMFRET 1997; WHALLEY 1985)

Given their concurrent growth, questions arise as to the nature of the relationship between regionalism and multilateralism. Early literature on the subject seems to indicate that there is potential threat from regionalism to the multilateral trading system. By its nature, RTAs are discriminatory, presenting it in sharp contrast to one of the most important principles of the global multilateral trading system. Consequently, it is assumed that both cannot effectively coexist for too long.

However, this is changing. The thinking has been turned to the potential of RTAs to metamorphose and/or aid the speedy liberalization of trade across the world (LLOYD 1992). For example, it is now argued that preferential trading arrangements will trigger “competitive liberalization”, a possible alternative means of achieving global free trade as nations compete to open their markets to one another. Countries are likely to join such preferential arrangements or accept broader agreements for fear of being completely

excluded. Consequently, preferences are expected to continue to expand and merge until one PTA encompassing every country emerges. This assertion refers to BALDWIN's (1995) 'domino regionalism' which argues that the expansion of a PTA (or RTA) increases the incentives of the excluded countries to apply for membership. In so doing, excluded countries face trade-offs between increased competition in opening its market and the gains from preferential access to other markets in the bloc. This class of literature also shows that for as long as the size of the preferential trading bloc is larger than the excluded country, the potential gains from joining outweigh the potential losses. Consequently, the larger the bloc the greater the incentive to join, and so the journey to a super-global PTA progresses.

But there is also the incentive for already existing members of a PTA to refuse acceptance of a new member as they consider the potential dilution of their preferences vis-à-vis potential gains from the new entrant. Consequently, admission into a PTA is expected to involve a 'coincidence of wants'. When rejection occurs, the excluded members have incentive to form competing PTAs. It has been shown that if the inter-bloc tariffs are low enough, the preference margin (which creates trade diversion and discourages bloc merger) is low. This induces mergers and then the possibility of arriving at one-world bloc; otherwise, convergence may not happen.

The above outcome does not always have to follow. For most participating countries in an RTA, a central attraction is the preferences which create economic rents through trade diversion. Liberalization may close opportunities for such rents and therefore may be resisted by those who are already enjoying such rents. In other words, *high preference degrees within a PTA can lead to reduced interest in multilateral trade liberalization. Consequently, it is posited that at times, multilateral liberalization that was feasible before a PTA can cease to be so afterwards.* Besides, negotiation and administration of both RTAs and multilateral trade liberalization involve substantial resources for participating countries. When such resource requirements get overwhelming, countries may make choices on the basis of which are more feasible and yield superior returns or they may make such trade-offs on purely political exigency considerations. When multilateral negotiations get costly, regional trade arrangements may come in as handy alternative. In the real world of multilateralism, regionalism can reduce the bargaining costs of reaching international trade agreements.

Whatever the theory though, regionalism as a practice continues to grow. Many RTAs fail but even more are established. Recent events, especially the

failures of consecutive meetings and negotiations at the WTO seem to indicate that multilateralism can only go so far. There is visible frustration with the slow pace of the multilateral system. In the words of STEPHENSON (2003), *the WTO, with 146 members ... moves at level of lowest common denominator since everything must be done by consensus. This makes the liberalization process both slow and frustrating. As the number of subjects under multilateral disciplines increases, each round of trade negotiations becomes more lengthy and difficult to conclude, as evidenced by the blockage at the Cancun Ministerial.* In contrast, regional arrangement can be concluded in much shorter time. This trend has tended to provide additional impetus for regional bonding. But importantly too, the desire to grow faster, increase investment and lock in economic reforms has led countries to consider greater synergy between their policies and those of their immediate neighbours, leading to greater number of regional trading arrangements. Such lock-in effects, which are more easily obtainable under an RTA than a unilateral trade arrangement have allowed trade liberalization to move forward at a quicker pace (STEPHENSON 2003).

Political motives underlie regionalism and considerations for trade gains can sometimes come as secondary. Thus, most conclusions on the direction and impact of regional integration arrangements that do not take account of the political undertones and outcomes can be misleading. The EU has been described as the most successful economic partnership with non-economic motives. Such motives often fall within the realm of politics and form the crux of the Johnson-Cooper-Massell theory. For example, regionalism politicizes international trade first by promoting hard bargaining in the course of negotiating preference margins on a case-by-case basis and there are no guarantees that the outcomes of such case-negotiations would not generate bad blood among all parties. For politicians and technocrats also, RTAs may just be no more than instruments to broaden their areas of influence. In the words of POMFRET (1997), "competitive bargaining and influence spheres add to mercantilist tendencies" leading to perceptions of "... international trade as a zero sum game, in contrast to the GATT/WTO philosophy of promoting mutual gains through freer trade ...". The potential of such attitude to lead to disputes is very high. But fact is, such non-economic motives and impacts are hard very difficult and imprecise to measure.

These non-economic issues form the bedrock of most current discussions of RTAs and other trade arrangements. For example, a major complement of RTAs should be the ability to import knowledge, ideas, investment goods, technology and skilled management from successful integrating (AMPONSAH

2002). Economic integration makes growth sense only to the extent that it brings about improved environment for human capacity building, learning by doing, and sustained policy and institutional reforms. And these are some of the most pressing needs of developing economies. Thus analyses of impact of multilateral and regional trade agreements that do not reflect transmission mechanisms for changes in human resource and capacity usage may not be very relevant to these economies— at least not in the immediate.

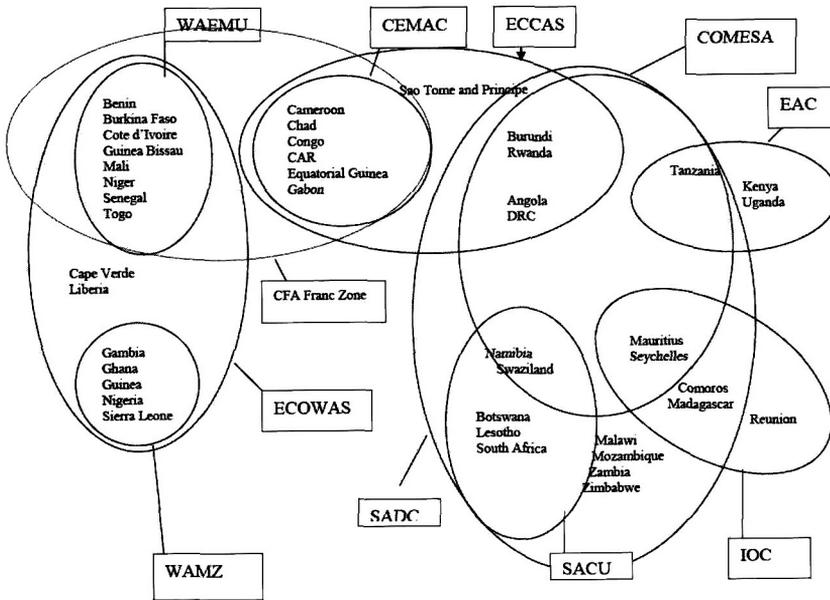
Regional integration now often goes beyond harmonizing trade policies. This was first initiated by the Europe 1992 plan and has since become a feature of most regional integration agreements. Deeper integration, which seeks to harmonize other macroeconomic policies, may affect customs procedures, intellectual property systems, FDI policies sectoral policies like agriculture, and provision of infrastructure. RTAs can take advantage of physical proximity between members; they can scale-up markets in ways that allow the exploitation of greater economies of scale and correspondingly promote greater national specialization; they can encourage investment by reducing transaction costs; and they can equip enterprises with the resources and experience to compete better in international markets. In addition, they have the potential of pooling negotiating capacity and reducing negotiating costs at other levels. For regional trade agreements to deliver these benefits fully, they require deeper degree of internal integration than has normally been the case to date – at least in an African context. Amongst other things this requires attention to their product coverage (particularly whether they embrace trade in services as well as goods), to making their conformity procedures as user-friendly as possible, and to ensuring that other non-tariff barriers to trade such as multiple police check-points on cross-border routes are minimized. More generally, deep integration is facilitated by the development of truly regional physical and trade infrastructures – an area that has been the cause of great concern in recent times.

### **3 Paradox of the Spaghetti Bowl**

Africa is littered with failed or tottering regional integration projects; but even so, there are so many much more RIAs coming up by the day. Indeed, the recurrent impasse in WTO negotiations shows that multilateralism can only go so far. There is visible frustration with the 'lowest common denominator' pace of the multilateral system as well as the perceived inability to cater for the special needs of LDCs, providing additional impetus for regional bonding in Africa. This is besides the fact that RTAs are believed to

have policy lock-in effects that could be of immense benefits to politically unstable developing countries (STEPHENSON 2003; AHMAD 2003). Consequently, in recent years, many African countries have come together in regional economic groupings – both by accident of history and design of policies. The economic mindset of the time that most African countries became politically independent would not permit autarky. The newly independent countries simply flowed with that tide. The Lagos Plan of Action (LPA) of the 1960s (adopted in April 1980) was directly inspired by the emerging success of Europe and was a more direct effort at harmonizing existing regional frameworks and initiating new ones (AGU, ACHIKE and AMAEZE 2007; MATTHEWS 2003).

**Figure 1:** Regional Integration Arrangements in Africa\* – The Spaghetti Bowl.

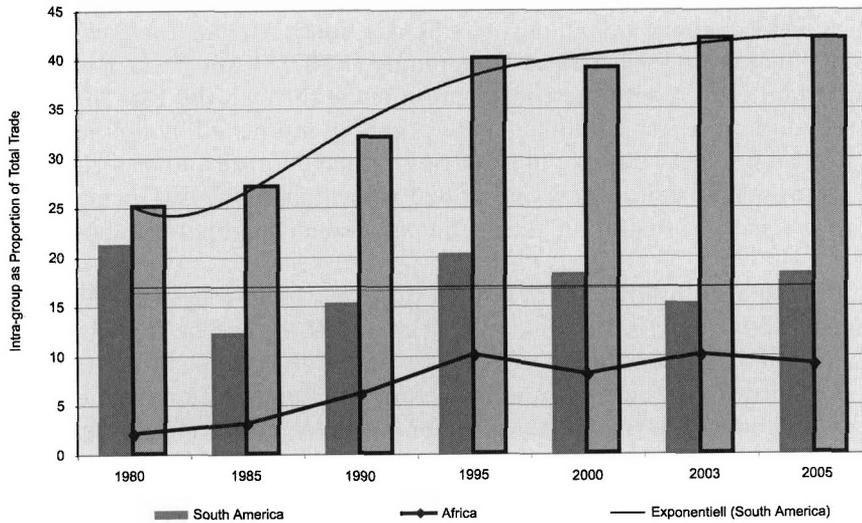


\* The major groupings in Africa include the Central African Monetary and Economic Community (CEMAC – formerly known as the Central African Customs and Economic Union – UDEAC), the Economic Community of the Countries of the Great Lakes (CEPGL), the Economic Community of Central African States (ECCAS), the Southern African Customs Union (SACU), the Common Monetary Area (CMA), the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), and the East African Community (EAC), the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), and the Mano River Union (MRU).

However, the plan left out some already existing arrangements like the West African Economic and Monetary Union (WAEMU), Central African Monetary and Economic Community (CEMAC), South African Customs Union (SACU) and the East African Community (EAC) (FAO 2003). But more importantly, even with the coordination made through the Plan, regional integration in Africa continues to be primarily motivated by political and historical ties. The response of countries to such political and historical ties led to what has been severally described as the 'spaghetti bowl' in membership to regional integration arrangements (depicted in Figure 1 above).

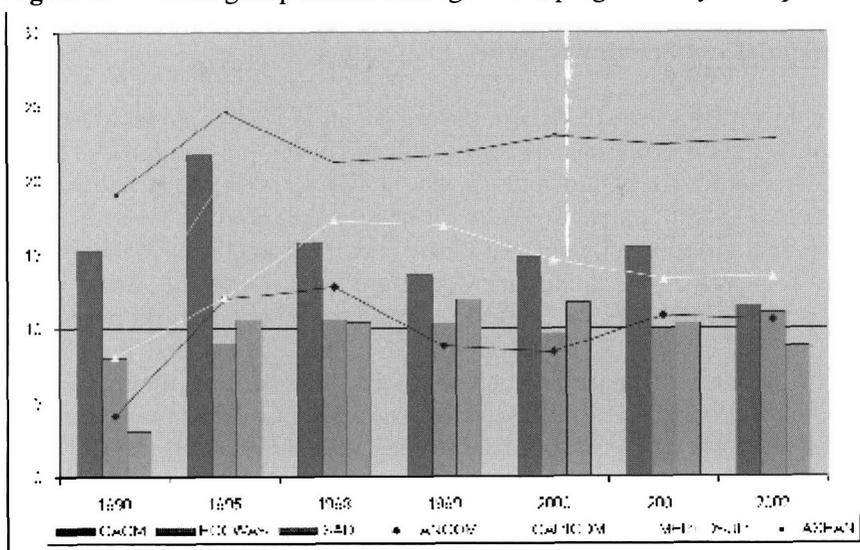
But the 'spaghetti bowl' is not limited to Africa. Following the 1997 Asian financial crisis and the collapse of Seattle in 1999, the wave of regional economic bonding and bilateral talks is now on the rise among hitherto reluctant countries of Asia. Presently, the picture is not much different from what appears above. The Bangkok Agreement includes China and Korea which are affiliated in a different agreement under APEC with Brunei, Indonesia, Malaysia, Hong Kong, Japan, etc. Pakistan is part of the ECO alongside Afghanistan, Azerbaijan, Kazakhstan, etc but is equally deeply involved in SAPTA with Bhutan, Maldives and Nepal. Membership of the ASEAN cuts across countries that are also part of the BIMST-EC and the Bangkok Agreement, among others. SPARTECA has members that are also part of ANZCERTA, PATCRA, and the Melanesian Spearhead Group. These are besides the numerous bilateral trade agreements that litter the entire the continent and between countries in the continent and others in other continents. Latin America is altogether not immune from the confusing maze of regional groupings. The FTAA, NAFTA, MERCOSUR and the numerous smaller arrangements each has cross-cutting membership among the different countries of the region.

On the surface, the multiplication of regional trading agreements seemingly indicates growing trade bonding among developing countries. But this is far from reality. Intra-regional trade has, in reality, been on the decline. Particularly, since the formation of the World Trade Organization in 1995, there has been a downward plunge in the size and share of intra-group trade among different regions and sub regions of the developing world. Figure 2 shows the trend in the three developing continents between 1980 and 2005.

**Figure 2:** Developing Countries' Intra-Group Trade, 1980–2005

Asia, with the highest share of intra-group trade (and indeed South-South and world trade growth) among the three regions, grew sharply till 1995 and flattened out afterwards. Latin America. After falling initially following the regional implosion of the 1980s, intra-group trade in Latin America picked up and grew again to 20% by 1995, but fell afterwards and has never reached its 1995 value since. Intra-group trade in Africa grew from a mere 2 percent in 1980 to 11 percent in 1995 but fell afterwards and remained fairly stagnant.

At the regional group levels, this phenomenon is even more pronounced. Figure 3 depicts intra-group trade among seven of the more prominent developing country regional groupings – with emphasis on the 1995 effect. Almost without exception, the situation is the same across all the groups. Intra-group transactions in ASEAN and CACM peaked in 1995 and either flattened out or dipped afterwards (for the latter, the dip was quite sharp). A few others like MERCOSUR, CARICOM and ANCOM managed to sustain the growth till 1998 but plunged afterwards as did the rest.

**Figure 3:** Intra-group Trade Among Developing Country Groups

In Africa, the different regional groupings fare no better. Up till 2005, the free fall or stagnancy depending on region concerned has remained persistent. CEMAC for example, never had substantial trade shares within the sub region. However, beginning 1995, intra-group trade share had fallen to less than 1 percent of total trade. SADC which started with about 1 percent of intra-group trade share grew quickly between 1985 and 1995 to 11 percent. Post 1995, overall intra-group trade did not just dwindle but has remained unstable since. Intra-group trade share in UEMOA (one of the highest and most stable among regional groupings in the continent) could not escape the 1995 bug as it fell slightly between 1990 and 1995 but picked up again and has been relatively stable ever since.

Almost without exception, 1995 marked a watershed for the worse in intra-group trade for developing countries (we have not looked at the data for developed countries – an exercise that may be useful for making sweeping conclusions about the relationship between regional and multilateral trades). Intra-group trade in almost all developing regions either stagnated or fell after 1995. It increased significantly between 1980 and 1995, but afterwards tapered off, became epileptic or got reversed outright. Data on the Caribbean showed that it simply stood still after 1995 while Central America (which has never really been able to find its feet) remained weak both before and after 1995.

## 4 Explaining the Paradox

### Conceptual and Practical Realities

What does all this have to do with the organization of regional vis-à-vis multilateral trade negotiations and protocols for developing countries? In an earlier paper (AGU, ACHIKE and AMAEZE 2008), we showed that the current state of things is not attributable to growth implosions or to lower number of regional groupings. Compared to the mid 1980s and early 1990s, Africa had a relatively more stable macroeconomy with improved growth since the late 1990s and into the 2000s. The literature is very clear on the necessity (but not sufficiency) of output growth in influencing trade growth, including active participation in regional integration arrangements (see for example BERG and KRUGER, 2003). In Africa however, while there has been pervasive downturn in intra-group trade, there is no indication of such largely uniform and pervasive reduction in output growth since 1995. To the contrary, and particularly given the continent's history, output growth has not only been more pronounced, but more stable since the late 1990s. Average output growth in Africa, which stood at a meager 2 percent and sometimes was zero between 1989 and 1995 steadily grew between 1999 and 2006 from 2.9 percent to 5.5 percent. The number of countries with negative growth rates drastically reduced from 21 in 1990 to 4 in 1998 (ADB, 2004; ADB, 2007). Oddly, this relatively high growth period 'coincided' with episodes of falling intra-group trade. We also showed that activities towards 'further integration' increased within the period implying that there was no lack of integration in principle (AGU, ACHIKE and AMAEZE 2008).

Multilateralism by definition is the "governance of the 'many,'" and its central principle is "opposition [of] unilateral, bilateral and discriminatory arrangements believed to increase international conflict". In contrast, all RTAs by definition are discriminatory and exclusive, with possible negative implications for third parties. To function as an effective RTA, a regional grouping has to lay down principles for dealing with third parties which must differ from the principles for dealing with member countries. In so doing, it violates the major framework upon which the multilateral system is formed and raises potential friction between its functioning and that of the multilateral trading system. Key promoters of the WTO (and its GATT predecessor) well acknowledge this as being the case. However, little has been done in the past to work out amicable solution to the potential conflict. The WTO encourages the formation of RTAs and inadvertently gives its nod to MOORE's 'a la carte' regional integration processes. In so doing, it

plays the ostrich and shifts the responsibility for resolving the practical challenge of 'exclusion in the midst of non-exclusion' arrangement to integrating economies. The question then becomes whether the integrating economies have the capacity for resolving a problem as complex as effective regionalization within the broad framework of a multilateral trading system. For poor developing regions, with weak capacities and ill-defined integration agenda, the outcome is of the sort seen in actual trade and the spaghetti bowl since 1995.

Many integration programmes in developing regions (whether involving only developing countries or between developing countries and developed ones) are often WTO-plus. The WTO lays out broad framework, not just for integration, but also for reducing the negative impact of regional integration on third parties (ANDRIAMANANJARA 2003). In line with its mandate, such frameworks are often extensive on minimizing potential losses for third parties. But in so doing, they are short in addressing the central issues relating to production and distribution within developing country trading arrangements. To solve this problem and remain within the bounds of multilateral rules, majority of these integration programmes go beyond the minimum stipulated by the WTO. For example, rules of origin in many regional integration exercises have been known to go as far as is possible to protect the integrating regions from 'channeling' by third party countries. Rules governing trade in services, investment and government procurement are all made as complex as possible (often beyond the minimum stipulated by the WTO) all in a bid to protect the interest of countries within RTA, while keeping minimum interests of third parties in sight, as mandated by the WTO. For many developing countries, such complex array of rules has potentials for translating to reduced actual economic interaction. Ultimately, there are little assurances that when developed, these commitments will be abided by. This is truer when viewed in light of the weak governance as well as poor and unclear role definition and assignment in both the WTO and trading blocs.

In the absence of strong governance structure, a game theory application to internal dynamics of regional groupings indicates possibilities for conflict for countries within the bloc. Following KEENAN and RIEZMAN (1988; 1990), if a large member country seeks to use its bargaining power to push own agenda, resistance by others may lead to factionalization and restriction wars. Where one country has substantial bargaining and punitive powers, it wins the war and imposes losses on the other(s). The model highlights the self-interest content of trade bonds – whether regional or multilateral – and

evidently, many regional blocs in Africa have this challenge to some degree. The apparent rule in many of such regional integration projects is the existence of one or two very large economies and an array of smaller, weaker ones. In West Africa for example, Nigeria is a large economy with a lot of bargaining power and suspicion among the rest of any position taken by the country within ECOWAS is palpable. Even though there are 16 countries in the sub region, Nigeria alone accounts for half the population and output. This gives much leverage for single-handed determination for the regional agenda. Expectedly then, ECOWAS integration has suffered several delays and setbacks as a result. In SADC, South Africa is a single majority. The rest are consequently in a perpetual struggle for a voice. Though the EAC seems to be made of three nearly equal countries, Kenya is still treated with a lot of suspicion in the sub region.

Market access has traditionally been one of the central motivations for regional integration. Understandably, for developing countries, it is a pressing issue at two levels – access to large markets within the regional bloc and access to developed country markets. Interestingly, the latter is fast becoming more important and a more potent determinant of the sustenance of regional interests than the former. Arguably, the EU is more involved with and behind many of the regional integration arrangements in Africa than African countries themselves, possibly on account of interests in EPA. Countries which are left out of blocs fear that their access to major markets will deteriorate. They seek to join an RTA, not necessarily on account of prospective trade and development gains from other members of the RTA, but on account of perceived market access and increased bargaining power at the multilateral level (EMMERIJ 1989). Even when lower cost inputs can be obtained from immediate neighbours, African countries in particular will rather trade with foreign partners who have potentials of other benefits like aid and FDI. Under the supervision of the WTO, bilateral and multilateral agreements are coated with additional promises that go beyond trade and which induces actions that in themselves threaten the RTA to which they belong. There is therefore some form of trade diversion, but not from third parties to members of the RTA, but from members of the RTA to developed countries that may not be part of the RTA but which have vested interests in the integrating countries – a sort of ‘reverse’ trade diversion. The result is that much of the current explosion in regional arrangements in the continent is concentrated at the top and with little constituency for ‘on-the-ground integration’.

It is difficult to prove that the reduced trade among countries within regions in Africa (or other parts of the developing world for that matter) stems from geographical and infrastructural disadvantages. First, nothing has changed in these terms since 1995. The geographical positioning of the countries remains the same. There may have been reduced investment in infrastructure in such regions as West Africa for example, but this is not on account of lower growth or on account of any reduction in member countries' commitment *in principle* to the regional integration. Where cases of such reduced commitment to the provision regional infrastructure exist, it is usually on account of reduction in member countries' commitment *in reality* to the regional integration. Where such is not the case, then it is possible the external forces demanding such integration are yet to prioritize the provision of regional infrastructure – a situation that is common given that the main target of the promotion of the regional bloc is not necessarily improvement in trade.

From the foregoing, it becomes clear that there are more (external) political forces driving regional integration in Africa than there are (internal) economic forces. There are strong arguments (and possible indications) that RTAs may not ultimately converge with, but diverge from, the multilateral system (OECD, 2003). This seems particularly to be the trend in RTAs in Africa. Presently, there exist multiple visions, multiple interests, multiple allegiances and multiple expectations from regional integration. There are unserved (and indeed unserviceable) obligations in the integration process. Commitments and timelines are hardly respected by member countries of regional blocs in Africa. There exists very little (if any) exploitation of synergies; instead mutual suspicion is rife leading to formulation and implementation of national policies that undermine regional programmes. Impact assessment studies of regional integration programmes are undertaken by and in foreign countries and the results exported to the regional institutions. Such conditions as presently obtain in many RTAs in Africa are hardly the outcome of calculated economic actions (of trade creation and/or trade diversion), but of political considerations. They reflect a railroad created by demands placed on them by the current multilateral system and so are incapable of delivering any meaningful positive economic results to the integrating countries.

CERNAT (2001) conducted a study of the implications of south south RTAs for intra-group trade in selected African regional blocs – the SADC, COMESA and ECOWAS. Using a gravity model, he found that African RTAs have positive impact on intra-RTA trade. This finding runs contrary to WORLD

BANK (2000) research conclusion – supported by YEATS (1998) – that African regional blocs are potentially more trade diverting than others and have doubtful non-economic benefits. Two perspectives seem to be consistent with this finding. The first is by KEMP and WAN (1976) which asserts that for any proposed customs union or free trade area there exists a set of common external tariffs that would leave the new trading bloc's trade with non-member countries unchanged. As such, welfare of the third parties would not be affected and any improvement to the welfare of the integrating countries would strictly add to world welfare. Given that Africa's tariffs are historically high, marginal reductions, particularly when they affect both countries in the blocs as well as the rest of the world, may have led to improvements in the continent's welfare without necessarily leading to huge trade diversions. The second is that it is not clear that African countries involved in RTAs fully implement intra-group tariff elimination programmes.

This second point is important in understanding the dynamics of African RTAs given multilateral trade relationships and economic partnership agreements. Where does allegiance lie? It is possible that the implementation rate for RTA protocols could have lingered even if there were no multilateral engagements. However, this is very unlikely. Limited time, material and human resources have to be allocated between multilateral trade and regional trade commitments. The resources needed to be effective in both (functional RTA and effective participation in multilateral trade) are simply way out of the reach of poor, developing African countries. They therefore have to allocate resources where the pressure is more and where the potential gains seem greater. Without doubt, many of these countries have been convinced that the option with greater pay-off is multilateral trade and so invest in such commitments and negotiations.

This trend can also be seen in the tendencies of trade policies of these countries. For example, AGU and ODUH (2005) in an assessment of the trade policy in Nigeria noted that the country's trade policy is overly outward oriented, with emphasis on global visibility. This has meant that the focus of resource expenditure is on putting the country on the global map. In many other African countries, the objective is the same with minor variations. With limited resources, these countries commit to full implementation of multilateral commitments and leave little resources for regional and domestic requirements and therefore fail dismally in these areas. Part of the carrot is the understanding that developed country markets hold greater potentials for breaking even than do other poor countries. The same argument

underscores the enthusiasm for economic partnership agreement with the EU even when the premise and underlying objectives are questionable.

It is important in concluding to note that the degree of vulnerability to this 'multilateral bug' differs from one sub region to the other. Intra-group trade has been relatively more stable in the UEMOA and EAC groups than in other parts of Africa. This probably owes more to long historical and cultural ties than to any special capacity to resist the multilateral effect. Having been in some form of union since independence, these groups are more closely bonded together. However, even in such groups, there has not been any growth or improvement relative to what existed before 1995.

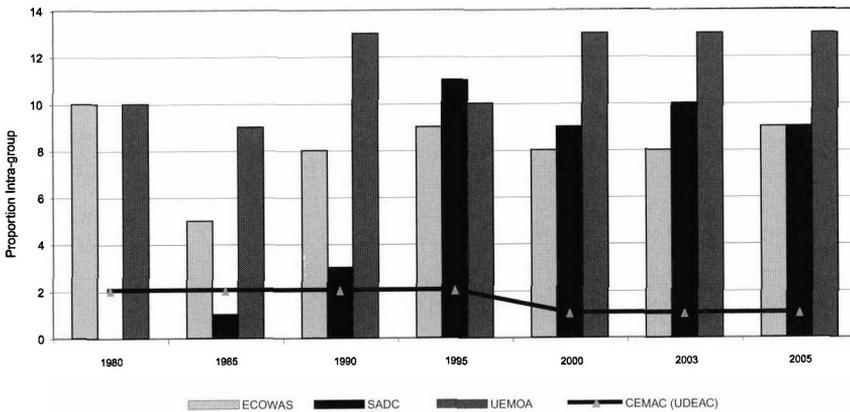
### **Is the WTO Really the Issue?**

It may not be appropriate to place the blame for all the woes facing regional integration and intra-group trade at the doorstep of the WTO. However, given the trends and events since 1995, the WTO cannot be completely extricated from the issues. For one, much of the tenets of the WTO demand consistent liberalization, extolling the numerous virtues of trade openness, the removal of trade barriers and integration into the global trading system, among others. These 'virtues' stand in sharp contrast to the dominant views, practices and institutional structures in many developing countries prior to WTO. These practices and structures emphasized domestic protection as well as priority of trade and diplomatic relationship with immediate neighbors, etc. However, following the formation of the WTO and in order to comply with some of its binding protocols, domestic trade policies of many developing countries have been revised and emphasis placed on integration with the global village. Attention to domestic and regional capacities and possibilities has substantially waned in light of the obviously more potentially rewarding global possibilities and so developing countries jostle for multilateral visibility. Within this context multilateralism somewhat became a retardant to the growth of intra-group trade among developing countries.

The WTO came with a lot of promises for developing countries. To reap from these promises, immediate neighbors became less important, particularly for small open economies. But in addition, as policy attention and resources focused on jostling for the limited space in the international market, developing countries, especially those with identical supply side constraints and products, saw themselves as rivals. Appearance in the 'big

markets' became the big issue for economic and diplomatic reasons. Complementary concessional policies like the African Growth and Opportunity Act, the Lome Convention and Cotonou agreement of the EU and ACP countries granting market access with limited condition to Europe and North America completed the circle of factors needed to completely change the orientation of policymakers in a number of developing countries, particularly Africa. The narrowing of the policy space and the shrinking of government (both critical components of the larger package of structural adjustment programmes) led to falling trade tax revenue and meant less capacity to fund regional infrastructures. That the changes in trade orientation affected domestic and regional trade only is attested to by the fact that neither Africa's falling share nor East and Southeast Asia's rising share in global trade changed in any significant way since 1995.

**Figure 4:** Intra-group Trade within Regional Groupings in Africa



## 5 Conclusion

A number of questions remain unanswered in the regionalism-multilateralism nexus in developing countries. An evident outcome is that while there is encouragement for both to coexist, there are indications that one is satisfied at the expense of the other. On the surface, there seems to be increasing regional group formation happening at the same time as multilateral trade commitments. But further enquiry tends to reveal innate frictions between implementation of both kinds of international commitment. So far, Africa's response has been to put greater emphasis on the multilateral trad-

ing system and make only nominal commitments to regional trade, rendering them either stillborn or impaired. This way, the multilateral trading system has been crowding out actual regional trade leaving the latter with only paper commitments. The effect is what we have observed in the paper – increasing regionalization with decreasing intra-group trade among the blocs. However, this is fast becoming unsustainable as the markets being targeted at the multilateral levels are quite elusive. Since, it is yet to be proven that regional trade agreements are detrimental to growth and development, they provide immediate and reliable alternatives for African countries and will ultimately improve their bargaining powers. As such, it makes sense to pursue regionalism with the concomitant improvements in support infrastructure for trade as a development strategy. Policies and resources have to be geared towards this else the continent may yet lose the next decade ... and more.

Indeed, the recurrent impasse in consecutive rounds of the WTO negotiations seems to provide additional impetus for regional bonding. Regional economic bonding has substantially increased over the last decade and a half in Asia, Africa and South America. The challenge however, is to translate such economic bonding among developing countries to increased trade. The formation of regional blocs cannot be for its own sake – the ultimate purpose of improvement in interactions and consequent development has to be followed up on. In aiming to achieve this, there is need to empower supra-national trade institutions to be able to give incentives and exact sanctions to countries within and between regional blocs. Such institutions should also take up the responsibility of programming regional infrastructure for improving supply response. It is yet to be proven in any systematic, conclusive manner that multilateral trade liberalization is superior to regional or bilateral trade arrangements. Consequently, Africa can work to get its regional programmes in order as the rest of the world tinkers with options to enhance governance at the WTO. It is also important to re-define the drivers for regional integration programmes and domesticcate the responsibility for success or failure. Global trade is not a zero-sum game and whatever gains made in this direction do not have to translate to losses for other regions.

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