



The Relationship between Regional Trading Blocs and Globalization

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Abstract

Over the years, countries throughout the world have formed many regional trading blocs, and there is no doubt that they play an important role in the world economy and trade. Since trading blocs came into being, there has been much discussion on their effects on globalization, which is the other important trend in the world economy development apart from regionalization. In this thesis, this issue will be reviewed and analyzed and finally a conclusion will be reached.

Keywords: Trading blocs, Globalization, Regionalization

1. The motivation to establish regional trading blocs: competing with the outside world

Looking through the world since the 1960s, we can see that an important motivation of the formation and development of regional trading blocs is to compete with the outside world.

After the World War II, the Western European countries had once been very dependent on the United States (the U.S.), which charged something else from them. Therefore, since their economy recovery after the 1960s, they began to search for economic and political independence. Another important fact that stimulated the process of their cooperation is Japan's fast economic development. In order to compete with the U.S. and Japan and some other developed countries, the Western European countries started to search for ways of cooperation in many fields in the early 1960s.

Since the 1980s, there have been plenty of changes of the strengths of the main economically strong countries. These changes, especially Japan's fast development, made some other developed countries search for the protection of regional trading blocs, which could preserve their economic interest and prevent the loss of their competitive edge. At the same time, more and more developing countries also had to do the same thing out of their dissatisfaction with the unfair and unbalanced economic situation.

On 12 April 1989, "The Delors Committee presented the report on the economic and monetary union." (The History of the European Union 2008) On 2 October 1997, "The Ministers for Foreign Affairs of the Member States of the European Union signed the Treaty of Amsterdam" (The History of the European Union 2008), which cleared away the last obstacle to the euro and provided it with a legal guarantee.

The fast development of the European Union (EU) and Japan reminded the U.S. of its relative falling position in the world economy. According to Mason and Turay, "business and political leaders saw that the USA was becoming less and less competitive with Japan and the EC.... in the 1970s and 1980s US manufacturers lost their strong market positions in several key sectors, including consumer electronics, commercial aircraft, apparel, machine tools, semi-conductors and automobiles." (Mason and Turay, 1994, p. 17) Finding that its role in the multilateral talks in the General Agreement on Tariffs and Trade (the GATT) less important than before, the U.S. began to think about Canada and Mexico, two of its closest countries. At the same time, Canada and Mexico also hoped that their products could enter the American market and that they could attract more of the American investment. "Both Canada and Mexico have had difficult economic and political relations with the USA, but each wants NAFTA more than the USA itself." (Mason and Turay, 1994, p.18) Therefore, in 1992, the three countries formed the North American Free Trade Agreement (the NAFTA). This was the first time a regional trading bloc made up of countries with a considerable disparity between them came into being.

On 8 August, 1967, Thailand, Indonesia, Malaysia, Singapore and the Philippines formed an organization called the Association of Southeast Asian Nations (the ASEAN). Later, other states Brunei, Vietnam, Laos, Myanmar and Cambodia joined. Being faced with the keen competition among the U.S., Japan, China and some other big countries, these relative small countries found that the only way to ensure their security and competitiveness is to unite and cooperate.

2. Regional trading blocs' effect on globalization

2.1 Regionalization is changing the pattern of world economy

In recent years, regionalization has been more and more popular and common in the world. For America, the NAFTA

has achieved a positive result. For Europe, “one in eight numbers of the United Nations (UN) is the member of the EU. Europe is an equal partner to the United States in trade negotiations.” (the Foreign & Commonwealth Office, 2005, p. 15) And the launching of euro has an epoch-making significance to the world economy. For Asia-Pacific region, the Asia-Pacific Economic cooperation has become one of the most influential forums. In Southeast Asia, the ASEAN member countries have obviously strengthened their cooperation in economic fields.

The formation of the NAFTA, the EU, the Asia-Pacific Economic Cooperation (the APEC), the ASEAN and other regional trading blocs have to some extent changed the pattern of world economy and trade. There is no doubt that the increase of the dependence of the member countries on the regional trade blocs and their negotiating abilities towards the outside world will bring keener competition to the world, which proves to be harmful to globalization.

2.2 Regionalization has created new trade barriers

One of the purposes of the establishment of trading blocs is to arrange easier trade within the regions, and to increase the economic efficiency and the competitiveness of their productions. The free trade or relative free trade among the member states will surely increase their dependence on each other, which will promote regionalization. For example, since the establishment of the NAFTA, the trade among the U.S., Canada and Mexico has been more than doubled, and the economic cooperation in this region will be increased in the future.

While the World Trade Organization (the WTO) is trying to eliminate trade barriers throughout the world, trading blocs are maintaining and even increasing them under the name of regional cooperation. While trading blocs are giving their member states more interest, they are building trade barriers to the outside world and preventing other countries' and regions' productions from importing. When they have satisfied their member states, they have also damaged the foundation of global cooperation and increased the difficulties of negotiations between countries, thus blocking the real “globalization”.

Certainly, there are other effects of trading blocs on globalization except the above two, such as causing international political confrontation, speeding the readjustment of each country's industrial setup, promoting direct investment and arranging keener competitiveness in international trade. Regional trading blocs do have a wide and far-reaching influence.

3. The definitions of “trading blocs” and “globalization”

According to what is stated above, it seems that regional trading blocs are bound to be a barrier to globalization. However, there are other things which have not been viewed.

What was talked above was all temporary fact. Now it is necessary to look at some intrinsic and basic things. First of all, the relationship between trading blocs and globalization will be looked into from their definitions. “A trade bloc is a large free trade zone or near-free trade zone formed by one or more tax, tariff and trade agreements.” (Trade bloc, 2008) “Globalization describes the changes in societies and the world economy that result from dramatically increased international trade and cultural exchange. It describes the increase of trade and investing due to the falling of barriers and the interdependence of countries. In specifically economic contexts, the term refers almost exclusively to the effects of trade, particularly trade liberalization or “free trade”.” (Globalization, 2008) From their definitions, there seems no difference in their natures. Both of them pursue “free trade” between countries while the main difference lies in their scopes. To be more precise, the former one is regional and the latter is global.

Virtually, as what is discussed above, “free trade” is much more practiced in regional trading blocs than on the global level. e.g. The EU as the most famous regional trading bloc has not only formed a market in which essential factors of production can be traded freely, but also launched a common currency called euro, which is of great significance to regionalization. But the WTO has only reduced tariffs and restricted some non tariff barriers. Obviously, the global free trade is not as developed as the regional free trade.

However, it cannot be deduced that trading blocs are a barrier to globalization from the above facts. Because the trading blocs which first appeared as early as fifty years ago did not stop or even slow the process of globalization. The multilateral talks of the WTO and its predecessor, the GATT, constantly reached many agreements. Though there were difficulties and contradictions in these talks, the results proved to be good. The GATT has become the WTO and the world free trade has been achieved better than ever in many fields. Since the 1990s, the world market which based upon market mechanism has been formed as well as a global financial market.

4. The interest of countries

Generally, when the relationship between trading blocs and globalization is discussed, countries are the very basic members and factors of international trade organizations and are of great importance. No matter what a country does, should it be joining regional trading blocs or multilateral talks, its ultimate purpose is to get as much economic interest as possible from it. This purpose is beyond all others, e.g. the so-called regional economic interest and global economic interest.

A country joins a regional trading bloc not because of the abstract supranational “regional interest”, but because it wants to reach its economic, political and other purposes with the power of the bloc. It cannot be denied that in order to compete with the EU and Japan, the U.S. formed the NAFTA with Canada and Mexico. Under the pressure brought by the EU and the NAFTA, Japan also strongly promotes the economic cooperation among the East Asian countries. Another good example is the ASEAN, which consists of smaller countries, because each of them does not have sufficient strength to compete with big countries, they hope that they will have it by getting together. On the contrary, if the regional trading blocs cannot give what their member countries want, there would most probably be problems that will slow the process of regionalization. For instance, the reason why Germany and France compete for the regional economic leadership and the UK is out of the euro system, is that the above three countries’ interests conflict with the whole region’s interest.

Many countries join regional trading blocs with the hope that the power of the blocs would help them to speak louder in multilateral talks. They want the blocs to be their “speakers”. To achieve this, all the member states in one trading bloc have to speak in “one voice”, which represents their common economic interest. And if one of the member countries’ interests are out of the whole, it will surely speak in a different voice. And what the country would do next is probably to seek other cooperation, such as bilateral and other multilateral talks, which could help them with their economic development. Again a good example of this is the formation of NATFA. Why does the U.S. need NAFTA? One of the important reasons is that it found “the GATT was unable to eliminate the competitive advantage that Japan’s industrial structure and distribution system and the EC’s agricultural and high-technology subsidies provided.” (Mason and Turay, 1994, p. 17) In other words, no matter what means a country uses, it is always oriented by its interest, especially the economic interest.

5. Conclusion

By looking at the direct motivation to form a regional trading bloc, namely, competing with other regions and countries, one conclusion that can be framed is that trading blocs do hamper globalization to some extent. Also the fact that they have divided the world into trading areas and changed the pattern of the world economy proves this conclusion.

However, we cannot say that trading blocs and globalization are completely contradictory as there is no contradiction or difference in their natures. Both of them pursue “free trade”. For a single nation, its purpose to join a regional trading bloc and the WTO is to get more interest from them. Both trading blocs and globalization require their member countries to overstep their boundaries and transfer some of their economic sovereignties. The difference is that the former one is within a region while the latter one is on global level. Therefore, their contradiction lies in their scopes but not their natures. It is natural and reasonable that trading blocs and globalization coexist in the same period. In the future, regional trade will expand the global level, which means, trading blocs are a necessary stage of globalization.

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