

Regional Trade Integration and Conflict Resolution

Edited by
Shaheen Rafi Khan

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Regional Trade Integration and Conflict Resolution

This volume addresses the growth of regional trade agreements (RTAs), which have mushroomed since the 1990s, and considers their potential as a tool for reducing inter- and intra-state conflict.

Exploring the links between trade, conflict and peace in different and varying contexts, this book maps the extant RTAs in the region, analyses the factors that hinder or promote regional trade integration and considers their economic and political impacts. Presenting a series of case studies in four regions: South America; the southern African region; South Asia; and South East Asia, the authors consider three key questions:

- What is the significance of the recent and rapid development of RTAs for peace building both within and between countries?
- To what extent do RTAs engender inter- and intra-state conflict?
- To what extent are trade and RTAs hostage to conflict and is regional political stability a precondition for economic integration?

Regional Trade Integration and Conflict Resolution will be of interest to students and scholars of trade, international relations and conflict studies. It will also be of interest to policy makers and non-governmental organisations (NGOs).

Shaheen Rafi Khan is Research Fellow at the Sustainable Development Policy Institute (SDPI), Islamabad, Pakistan.

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Foreword

Flat world or a world of regions?

While many have talked about globalisation and some suggest we live in a 'flat' world, regionalism has been a phenomenon that has been less remarked upon and studied. Yet, even with the lower costs of travel and transport, and the wonders of technology, there are still costs and constraints such as time and culture that lead globalisation to be incomplete. Thus, in a less than fully global world, there are many reasons that regionalism has continued and indeed grown.

The European Union (EU) has provided the boldest and perhaps most advanced example of regionalisation in the world. Yet we may equally note different efforts to link and prefer regional ties in North and South America, in Africa and across Asia.

Many of these are overlapping groups. For example, in Asia alone, there is the Association of South East Asian Nations (ASEAN), that brings together the ten states of Southeast Asia; ASEAN+3, with the North East Asian countries of China, Japan and South Korea; the East Asia Summit, with the foregoing plus India, Australia and New Zealand; and the still wider Asia-Pacific Economic Cooperation (APEC) process.

For these reasons, there is evidence to suggest that we live not in a flat world in which all points are equally accessible, but in a world of regions, with differing circles of proximity and identification. Such thinking underscores the current talk about the rise of Asia to a greater equality with North America and the EU.

While this book deals with regionalism in different parts of the world, allow me in this context to share some observations drawn from an Asian perspective.

Asian regionalism and trade

More and more people predict the rise of Asia with economic, political and other dimensions. However, this is not an assured and guaranteed outcome, as the crisis of 1997 showed us. Much depends on the policies and choices

that Asians make in facing the challenges ahead and dealing with potential conflicts. In this context, trade and the avoidance of conflict are key pillars.

Trade has been a central policy for many Asian states not only to drive its rise, but also to address diverse attendant challenges such as education and equity for the poor, and industrialisation and economic competitiveness in the private sector.

Given the modern patterns of trade, Asians have traditionally traded more with the developed economies than with each other. International trade remains of key importance to Asia, and many have hoped for progress in the Doha Development Round and the equitable representation of their interests and perspectives in the World Trade Organization (WTO).

Yet Asia has also witnessed a rising tide in regional trade agreements (RTAs). While early efforts among Asian economies like the Japan–Singapore Economic Partnership Agreement were doubted by both those within and outside the region, regional free trade and economic agreements have proliferated from the early 2000s. Today, there are few Asian states that are not involved in one or more trade agreements, either bilaterally or as a sub-regional group.

Some question these free trade agreements (FTAs) for their efficacy and efficiency, suggesting that an unwieldy and incoherent ‘spaghetti bowl’ of agreements has resulted. Notwithstanding this, we can see that these FTAs serve as political signifiers of the growing ties and sense of regionalism among Asians, and underline a real and underlying economic integration that already exists in Asia.

This growing regional trade integration can be seen in the rise in the volume of intra-Asian trade. A large part of this trade is in intermediate goods, with the final product meant for export to non-Asian markets, especially the US and EU. This signifies the creation of a regional production base as private sector actors rationally leverage on different competitive strengths in different Asian states, rather than producing any product exclusively and less efficiently in a single country.

Additionally, a growing part of the intra-Asian trade is not for export but meant for consumers within Asia. For this reason, as the US faces economic difficulties ahead, there is some talk of a decoupling of their economies such that Asia can and will keep growing even if the US is adversely affected. My own analysis is that such talk is perhaps premature. While Asian consumption is growing with the rise of a middle class, there is still considerable interdependence and exchange with non-Asian economies, especially the US and EU. What may be truer is that the dynamics in these interregional relationships are changing and becoming more equal as Asia grows and becomes more integrated.

Trade and conflicts

Peace or at least the avoidance of conflicts is a second important pillar in the rise of Asia. Differences over trade can and will be likely to arise. While the importance of trade is almost universally recognised, particular groups and sectors may well face losses, and drive political and social sensitivities to liberalisation. There can and have been disagreements on other issues too, such as the environmental impacts of trade in certain goods, or their impact on human and labour rights. Or about standards of safety, technical requirements and other areas.

Such differences over trade arise at different levels and scales and can lead to wider political differences and tensions between states. The resolution of such differences in the WTO has been developed and increasingly strengthened.

Yet regional approaches to trade dispute resolution are also needed in Asia and other regions. Efforts should be made so that trade relations can be dealt with in a wider context of relations and the need to avoid increasing tension and possible conflict between states.

Wider and more fundamental conflicts must also be managed and avoided at the regional levels, between neighbours and near neighbours. These include the political and security tensions that exist in Asia and other countries. Some relate to historical differences, narrow nationalism, ethnic differences (or indeed commonalities) and territorial claims. Others even more dangerously perhaps relate to political hegemony presently or in the future, whereby security, trade and other concerns are brought together in a heady and potentially dangerous brew.

What is the role of regional trade integration in such conflicts? This is one of the difficult questions that this volume makes an effort to address. This is most welcome.

Many regional schemes for cooperation and integration have proceeded on the faith that interdependence in the economic field can potentially soften political tension and competition between states. This has been the rationale in Asia and ASEAN, whether stated or implicit. Similarly, some see the intra-Asian efforts such as the ASEAN+3 as an effort to engage China as an emerging power, and the China–ASEAN FTA as, conversely, China's effort to reach out to its southern neighbours.

Bilaterally too, the high levels of investment and trade between neighbours often belies a relationship that can be tense, in other dimensions. Relations among the Indo-Chinese states and Thailand, between Singapore and Malaysia, and between these two triangulated with Indonesia, and perhaps most famously between Japan and China show this pattern.

This volume is therefore to be welcomed for more closely and critically examining the relationship between regional economic integration and conflict, not only in Asia but also across the world. For as economic and other ties bring us closer together, there are both opportunities for closer

cooperation and greater understanding, as well as dangers for increased frictions and envy between neighbouring states. The studies in this volume therefore bear close study for the observations they make and the implications they draw out about the reality of the world we live in, that is increasingly interconnected but not at peace.

Simon S.C. Tay
Chairman
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Preface

Economic interdependence as a means to attain peace is becoming increasingly important, as the evolving global security paradigm grows weary of purely military solutions to inter- and intra-state tensions. A concrete articulation of this is regional trade agreements (RTAs), which mushroomed globally during the 1990s. The ‘rush to regionalism’ generated considerable debate. While Jagdish Bhagwati dismisses these agreements as ‘spaghetti bowl situations’, at the other end of the spectrum, scholars and policy practitioners view RTAs as World Trade Organization (WTO)-plus arrangements to spur global trade. They also add potential value in inverting the historical dictum, ‘trade follows the flag’. In other words, RTAs have political relevance in as much as they can promote regional peace. Inspired by the example of the European Union (EU), aid donors and the international community have been particularly keen to promote regional economic integration in the developing world, anticipating both trade liberalisation and political stability.

This may be a reasonable expectation in the north given the enabling institutional environment. Southern dynamics are far more unstable, with the possibility that RTAs can actually implode; they can either trigger conflict, or they may not even be able to get off the ground in the absence of certain political preconditions. The range of possibilities suggests the need for empirical research to shed light on these questions. However, most of the existing literature is preoccupied with conducting a theoretical debate on the issue. There are relatively few attempts to test the theoretical premises through empirical studies. In an effort to address this deficiency, we have examined the issues of regional and bilateral trade and peace building under varying contexts and in different regions. The volume provides useful insights for students from a southern perspective, providing a counterweight in the debate, which has thus far revolved largely around Eurocentric premises and insights.

For instance, the evidence suggests possible reverse causality, with prior political conditions determining the scope for economic integration. Further, even the best-designed RTA can abort in the absence of trade and economic complementarities – the RTA can end up diverting rather than creating trade. These are important distinctions as they differentiate between those RTAs (mostly northern) that are politically and institutionally grounded, and those

(mostly southern) that lack an enabling environment. The message is that the optimism generated by the 'rush to regionalism' needs to be tempered with reality.

This volume explores the trade–peace–conflict linkage through a case study approach. Four regions: South America; the southern African region; South Asia; and South East Asia are the subjects of the case studies. The three key questions addressed are:

- What is the significance of the recent and rapid development of RTAs for peace building both within and between countries?
- To what extent do RTAs engender inter and intra-state conflict?
- Conversely, to what extent are trade and RTAs hostage to conflict? In other words, is regional political stability a precondition for economic integration?

The contrasting theoretical premises provide an introduction and a context for examining peace or conflict outcomes in disparate regions of the world. The investigative part of the study includes a mapping of extant RTAs in the region, an analysis of the factors that hinder or promote regional trade integration, and the consequent economic and political impacts. These aspects are examined in more depth at the bilateral level, between two countries in each region. The concluding section attempts to draw out synthesising as well as differentiated messages.

This book is the result of a two-year research collaboration involving four regional institutes and one northern institute. The International Development Research Centre (IDRC) funded the initiative. The Sustainable Development Policy Institute (SDPI), the Recursos e Investigación para el Desarrollo Sostenible (RIDES), the South African Institute of International Affairs (SAIIA) and the Singapore Institute of International Affairs (SIIA), Singapore and the International Institute for Sustainable Development (IISD) engaged in the research. SDPI and the IISD coordinated the global effort, in particular organising the consultative process from inception to stakeholder workshop to peer reviews. The research partners presented their initial findings at the WTO Ministerial in Hong Kong, followed by consultative workshops in Calgary, Canada and Johannesburg, South Africa. This book represents the final stage of the research process.

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Acronyms

ABACC	Brazilian–Argentine Agency for Accounting and Control of Nuclear Materials
ACM-ECS	Ayeyawady-Chao Phya-Mekong Economic Cooperation Strategy
ACPHR	AU Commission on Human and People’s Rights
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEM	ASEAN economic ministers
AFTA	Andean Free Trade Area
AFTA	ASEAN Free Trade Area
AIS	Andean Integration System
ANC	African National Congress
APEC	Asia-Pacific Economic Cooperation
ARATS	Association for Relations Across the Taiwan Strait
ARF	ASEAN Regional Forum
ASC	ASEAN Security Community
ASCC	ASEAN Socio-Cultural Community
ASEAN	Association of South East Asian Nations
ASEAN-ISIS	ASEAN Institute of Strategic and International Studies
ASEAN-MBDC	ASEAN-Mekong Basin Development Cooperation
ASP	ASEAN Surveillance Process
ATPA	Andean Trade Preferences Act
AU	African Union
BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Cooperation
BJP	Bharatiya Janata Party
CACM	Central American Common Market
CAN	Andean Community
CARICOM	Caribbean Common Market
CBM	confidence building measure
CENTO	Central Treaty Organisation