

Chapter I: Globalization and Regionalization

Over the last several decades, there has been a seemingly sudden increase of world attentions to “globalization”. As seen in many activist movements in recent years on anti-globalization or global-phobia, the term is starting to act on people's emotions more and more. The hostility towards globalization is mostly from the perspective that it is something to fear, and that it is a process instigated by the WTO or by rich countries for their own benefit. Some believe that globalization should be stopped because it creates inequality between nations, within nations, and in the lives of people. Specifically, it's viewed as harmful due to the effect on the distribution of wealth, which deteriorates standards of living by trading off people's jobs or basic rights. Others see it as an inevitable factor that is irreversible, thus an orderly regulation is needed to promote the beneficial aspects of it, and therefore, adjustments should be made to protect nations' interests. However, these sentiments or opinions exist precisely because of the increasing attention that globalization has received throughout recent decades. In the end, it could be said that the attention given to globalization is caused by an enhanced feeling of closeness on a global scale, drawn from technological advancement that facilitates the movement of things, people and ideas.

Globalization is a concept that has historically been a progressive element of socioeconomic human development. It is a process of integration between the

politically organized world of sovereign nation-states. Today's globalization is at a stage with more precise objectives, in which it adheres to certain basic values that the world has adopted throughout history. Specifically human rights, freedom, democracy, development, social welfare and environmental protection have their place in this globalization process, which represents the tendency of international relations after the Cold War.¹ These are unchanged values that human experience has achieved over time, throughout history. These values are also expected to be considered in the process of globalization today.

To achieve global governance with these global values, attention is on "economic globalization". This economic globalization is implemented with different approaches on global, regional, and national levels; it is implemented with an array of different policies and methods. This process is still undergoing and forming world economical governance with new institutions and organizations continuously being born. In other words, it can be said that globalism is an old process of trade between nations; one that developed through means of experience and historical change. This development of economic integration has come to a point, where a new structuring of organizations and sociopolitical implications have come to light.

"Economic globalization" is the current force in world affairs, which centers its attention on being implicated through sociopolitical side effects on a nation's development and on its people. "Economic Globalization is a historical process,

¹ Mushakouji, 1996, p.160

the result of human innovation and technological progress. It refers to the increasing integration of economies around the world, particularly through trade and financial flows. The term sometimes also refers to the movement of people (labor) and knowledge (technology) across international borders. There are also broader cultural, political and environmental dimensions of globalization”.²

Many scholars say that the movement of this integrating economy has its effect on the changes in the form of governance, and is diminishing the role of nation-states and international borders. According to Robert Z. Lawrence, “Cross-border economic integration and national political sovereignty have increasingly come into conflict, leading to a growing mismatch between the economic and political structures of the world. The effective domains of economic markets have come to coincide less and less with national governmental jurisdictions.”³ This sort of view stating that economic globalization affects the capability of a nation-state’s governance as a natural consequence of economic integration, or that it threatens the traditional national sovereignty of territorial governance, comes as a result of recent world structuring in the economic globalization movement. This sort of assertion that economic globalization affects and diminishes national sovereignty gives a sense of losing control and certainly invites genuine feelings of fear against globalism.

Some go even farther and assure that nation-states will eventually disappear when complete globalization is reached. Kiyohiko Fukushima’s belief

² <http://www.imf.org/external/np/exr/ib/2000/041200.htm#II>

is such, that with the reality of the economy today, it is already outdated that policy makers think for one nation's objectives, by reducing the trade surplus or deficit, or setting goals such as percentage increase of GDP etc. for its own economic success.⁴ It is indeed a fact that economic activities of production and distribution of today's multinational corporations (MNCs) have already been operating on a global basis with a global perspective.

The changes in international relations are observed in the sociopolitical effect of economic globalization through means of multilateralism, regionalism, and new formations of economic alliances. Jan Aart Scholte calls this recent effect of economic globalization *supraterritoriality*, acquired through global economic structures and formations with sovereign states' policies within it, or more so, by the globalized capital economy itself. "When conceived of as the rise of supraterritoriality, the concept of globalization offers distinctive and important insights into continuity and change in contemporary world affairs. With the spread of transworld relations, distance and borders cease to exert significant constraints on many circumstances of social life".⁵ Scholte says that nation-states have developed strong relationships of mutual dependence and support with other agents of global capitalism, and contrary to many assertions, the global market has not erased nation-states.

³ Lawrence, 1996, p.xvii

⁴ Fukushima, 1998, p. 116

⁵ <http://www.mtholyoke.edu/acad/intrel/scholte.htm>

Thus, globalization of today refers to the ongoing process of economic and political integration of nations with newly structured world agencies and organizations, yet significant roles are still played by nation-states and their means to construct them. As the economic globalization progresses through newly structured world agencies, it is also possible that nation-states' role as governance would even increase to maintain the global values within their territories. Globalism is a transition of world sovereign nation-states, forming an economic and/or political integration, and giving certain governance power to the larger organizations from their traditional territorial governance on the matter. Today's globalization is in another transition of being pursued principally within multilateral institutions to smaller regionalization context. Although in the process of it, nation-states' roles are increasingly important as the new structuring of the world economic governance is in its formation.

As previously stated, the motive of these discussions on changing international relations and the shift towards globalism comes from the new structuring of multiple multilateral institutions. This is most visibly represented by globalization of capital economy. The means used for economic integration through multilateralism, regionalism, or bilateralism taken by individual nations, are of increased attention and a source of confusion in understanding today's globalization process. Different approaches taken by international organizations, regional institutions, or individual nations, make the current global situation

seem fragmented. The debate over the formation of global trading systems and the economic regionalization within them is seen as a stumbling block or a building block towards economic globalization. However, it should not only be viewed from the economic perspective of the integrating economies, but also, it should be examined with its relevance to global values considering their direct or side effects. The reason for this is because globalism as a whole has certain global values importantly implicated in the process of it.

It is after the end of World War II that the structure of the world trading system was led and developed by the industrially advanced nations of the West. This movement towards globalization based on the concept of free trade with international rules owes much of its inception to the United States and England's idealism of the time. By taking the leadership in promoting free trade as one of the ways to maintain world peace through prosperity for all participant nations, they promoted the construction of institutions with the intention of enhancing global capitalism, immediately after World War II. This economic globalization process was originated through the framework of the Bretton Woods Agreement and negotiations of the General Agreement of Trade and Tariffs (GATT), which has now been replaced by an international binding function of the World Trade Organization (WTO). Through multilateral negotiations, these international organizations have upheld most favored nation (MFN), a non-discrimination policy.

Right after the agreement for open trade was established, the first economic regionalism was formed in Europe. The establishment of the European Economic Community (EEC) in 1958 was a strong shock and influenced rest of the world. The inward tendency of EEC as economic bloc was perceived as a formation pitted directly against non-discriminatory open market principle of globalization. Due to the downfall of political and economic power, which European nations experienced after having endured two world wars, the EEC was established with the intention of eliminating the rivalry that had existed between France and Germany along with five other neighboring nations. The other objective for these European nations' bloc formation was to protect themselves from the Communist expansion of the Soviet Union. This was another reason during the Cold War, which was recognized and served to earn support from the United States for its own political interests.

After the end of the Cold War, regionalization became a more evident factor of the political-economic movement in the world. The rapid change in the world trade structure had occurred in the past few decades. Today, there are three principal regional economic blocs centered in Asia, America and Europe, represented by APEC, NAFTA and EU, respectively. Numerous subregionalism and bilateral free trade agreements (FTA) make the world trade map even more complicated and intertwined with different strategies practiced by each of today's nations and regions. The three world economic blocs have different formations and means to advance towards global economic integration. However, there are

many debates whether the means practiced by the three different blocs are a building block or stumbling block towards globalization. Economic blocs are normally led by the core national economy with its policy and coordination, and their formations not only include the integration of their economies but also have sociopolitical implications for current and future participant nations.

To examine the manner in which the development process towards economic globalization in any part of the world today has taken place, it is necessary to go back and re-confirm the principal objective of this development in itself. Looking back at the history of globalism, changes can be observed in an individual nation's role played out in world affairs. The surge of regionalisms in recent decades and the implication of them in economic globalization are discussed in this chapter. Defining the formation of economic blocs as "stumbling blocks" for globalization, or as "building blocks" that may have complementary functions can be seen at the end of this chapter.

History of the Globalization of Capitalist Economy and its Experiences

Although the concept of having international rules for world trade is a product of the second half of the 20th century, world trade itself has a long history in human development. Trade itself has been a natural human activity of exchanges. Trade can be simply defined as the buying and selling of commodities or the bartering of goods through commerce.⁶ The history of trade activities

⁶ Webster's New World Dictionary, Second College Edition, 1980

between nations and overseas were present since the 15th century; ever since the world structure was divided into sovereign nation-states in Europe. International trade of commodities, people, knowledge and culture has occurred since the dawning of the Portuguese and Spaniard empires. As is today, trade at that time was a principal means for development, or enrichment of a nation. Developed nations of the time focused on the exploring of the unknown continents, of America, Asia, and Africa, then transferred or traded commodities that were exotic to them to enrich their own nations (import), or expanded their territorial control through religion and culture to colonize these newly found lands (export).

How world history can be seen through the eyes of international trade is well explained by Fukushima.⁷ Fukushima compares the development of international trade from the 15th century up to World War II, and World War II up to today in an accelerated form compared to the former period. Fukushima's theory of world trade history starts with the history of Portugal and Spain through the opening of new markets in the American continent by their advanced ocean voyages techniques in the 15th century. When the newfound land of America was used as the source for bringing abundant silver to Europe, Spain experienced a price revolution.⁸ With the advancement in world economy through Great Britain's industrial revolution in the 18th century, productivity for making

⁷ Fukushima, 1998, Chapter 9

⁸ Fukushima, p.188, With the huge amount of silver brought from American continent to Europe, then the currency of the silver value went down drastically. Between 1500-1600, the price of product said to have gone up 3 times of the original price in 150 years. Even though the variables are different in this devaluation comparing to that of 500 years ago, Fukushima

goods had increased tremendously instead of just moving the products from one place to another. European nations in the 19th century experienced fierce competition from industrialization. Each nation's entrepreneurs felt the resolute mission to develop their own nation by industrialization, with their strong nationalism and beliefs that the force of a nation is enlarged by the progress in industrialization. At this time, Britain was already a step ahead in the industrialization of its economy. And the United States, being separated by the Atlantic Ocean, was far from being affected by the fierce competition on the European continent. Thus, both could practice relatively free entrepreneurships and were able to focus on the development of their own domestic markets. This economic mechanism for development and progress of nations through trade and industrialization was already in place from centuries before.

Fukushima explains that this strong nationalistic spirit to catch up to advanced industrialized nations, and their wish to expand their markets to enrich their standard of living, were the cause that led the world to experience two devastating world wars in the 20th century. "When strong industrialized powers exist, disputes over the expanding market to export can easily happen between nations. Although competition over their market exploitation was not the only reason for the wars, it was the underlying one. Trade between industrialized powers at a time of peace enriches people's lives and works as a core mechanism to expand world trade, but when international relations become uneasy, it is a

points out the same factor to be found is the change in prices of goods caused by the change in

reason for the occurrence of wars. Thus, when industrialization happens in various nations, it becomes important to make international rules that each nation can adhere to with the finality of maintaining peace.”⁹ Before World War II, when there was no existence of international trade rules, agreements between two nations could be decided and carried out by the stronger, more powerful nations. Even though stronger nations still have the upper hand in terms of trade negotiations, the presence of international rules limits unfair conditions and control outrageous enforcement.

Trade is a way for a nation to develop and progress, and when that is held down or enforced on poor nations, those nations will try to impair that unfair international structure with all their worth, and sometimes resort to military forces. This would inevitably harm the stability of peace between nations. With this theory in mind, the placement of fair rules for international trade for the maintenance of peace should have been executed before experiencing the devastation of two world wars. However, European nations, being formed by industrial revolutions, lacked understanding of the importance of having free, open trade for the maintenance of peace in the region at the time. The economic and political imperialism of Europe was at its peak when its industrial development was able to colonize the American, Asian, and African continents and ultimately changed the world map for over 400 years. Europe’s imperialism fell due to each country's use of industrialized military power to win the

trade pattern.

competition between nations for their own interest, decimating their economic and political leadership in the world by the end of World War I.

Role of Industrialized Nations in World Economy

Whether or not the history of capitalist economic development repeated itself after two world wars as Fukushima explains, the world experience between the two world wars came to the point of setting international rules; a very important turning point in the political history of the world. Peace maintenance through the promotion of open trade and development of fair rules between nations was surely the most important experience learned in human history over the last several centuries. The role of a nation in this spectrum, especially of the industrialized developed nation, was then to be recognized within the world structures of nation-states.

The occurrence of World War II was not entirely brought on by the European nations. In the interim of World War I and World War II, the United States is known to have acted with enormous international irresponsibility as a nation, both economically and politically, taking its part in instability of peace at the start of World War II. Germany, who under the Treaty of Versailles (which formally ended World War I) had agreed to large payments to France and the other allies to compensate for damages, caused World War II by trying to undermine the treaty with its military power. The United States' neutrality

⁹ Fukushima, 1998, p.191-192

stance in international affairs was in effect until its entry into World War I in April 1917.

Although the United States actively engaged in the war for only 19 months, during that time, the federal government immediately managed mobilization of new agencies that attempted to regulate prices, set priorities, and allocate resources. “When the war began, the United States was a debtor, the normal status for a developing country, and when the war ended, the United States was a creditor who not incidentally held much of the world’s stock of monetary gold.”¹⁰ World War I had made the United States become the world’s wealthiest nation. World War I did not cause any damage on United States’ land. After the war, the country enjoyed increasing industrialized power with people’s standard of living rising to its height. The wealth of the United States was manifested by the construction of the Empire State building and the possession of luxury goods such as personal use of automobiles. The United States had an enormous trade surplus in the 1920s.

This newly industrialized and economically powerful nation, which was becoming a prominent member of the international community, took too long to realize what a rich nation should do as a member of the world economy, for itself and others. From the economical stand point that an open economy is a benefit to its own country and its trading partners, the United States should have opened its market and imported European goods, giving stock of foreign currency to

¹⁰ Walton and Rockoff, 1998, p. 473

Europe. If the United States would have had a policy for faster reconstruction of the European economy, Europe could have earned the economic power to pay the debt of war to the United States. England and France both had requested the reduction of debt owed to the United States in 1922, but President Harding rejected the request, and later President Coolidge also rejected the request of partial reduction of debts by European nations. England and France turned to Germany for the payment of the large compensations of war damages due to them, but Germany at the time lacked the economic strength and political cohesion to make its payments on schedule. By 1923, Germany was completely unable to pay its debt.¹¹ Having become the world's biggest creditor, the United States did not only lack international responsibility because of its naïve and counterproductive attitude in not having given more thought to its role in the world economy, but also caused the diminution of the development of world economy.

Examples of such economic acts by the United States are known as the “beggar thy neighbor” trade policy. In June 1930, the United States Congress passed, and the President signed, the Smoot-Hawley Tariff, which raised tariffs on a variety of goods, especially agricultural products. The purpose of the tariff raise was mainly to protect its domestic agriculture sector, though there were vigorous protests against the bill within the country. One thousand economists, including all the leaders of the profession, signed a petition urging President

¹¹ Fukushima, p.195

Hoover to veto it on the grounds that high tariffs would reduce imports, thus making it harder for other countries to earn the money needed to buy US export goods.¹² Such policy, instilled by the United States, indeed provoked retaliation by other countries. Within two years from the enactment of the Smoot-Hawley Tariff, 25 nations raised their tariffs, causing world trade to shrivel, making the Great Depression of the 1930s into an even more difficult, deeper problem to get out of.

On the international political relations' side, despite President Wilson's endeavor for the covenant for "a general association of nations" announced in his famous Fourteen Points, the country never ratified the Treaty of Versailles negotiated in the Paris peace conference. By the time President Harding took office in the administration, President Wilson's proposal for the League of Nations, which would have showed the spirit of collaboration as one nation in the world, was no longer a realistic possibility. Although the United States attempted to build safeguards against future wars, and began the Washington Conference in an effort of the New Era to protect world peace, it was also for protecting the international economic interests of the United States without accepting international obligations.¹³ Tendency of the United States foreign policy taking the neutral stance towards more a self-serving nature is apparent from its practices at this time.

¹² Walton & Rockoff, p.522

¹³ Brinkley, 1993, p.708

The United States, having become the world's richest country and largest creditor to Europe, bought a lot of criticism in Europe with the foreign policy practiced at the time of not importing European goods nor reducing their debts. European nations, experiencing neither the ability to recover economically nor the political stability to maintain peace within the region, were left with no choice but with a huge debt on their hands. Being the world's biggest economic power, the United States' irresponsible attitude of the time in solely seeking its own benefit and protection indeed caused a disaster in world economy, destabilizing the maintenance of peace. This was the world experience caused by multiple protectionist actions, which is recognized by many nations today, as a part of a history not to be repeated.

Globalization with GATT / WTO

Finally, after a long history of unfair world trade, wars, and the recognition of the importance of setting international rules for trade and peace maintenance, the birth of multilateral institutions took place. Led by England and the United States, the Bretton Woods conference held in 1944 became a blueprint in structuring world economic order. The agreement established international organizations such as the International Monetary Fund (IMF) and the World Bank. This was proof of world leaders' recognition that open trade and a stable international financial system were an important key to maintaining the successful world economic order. The multilateral negotiation rounds of the

General Agreement of Trade and Tariffs (GATT) became the principal means for the international negotiation forum in 1948. Since then, various rounds were held with participating nations to regulate trade and tariffs of exchangeable products. The other function of GATT was to resolve international trade disputes. Though over the years, as the sovereign control of national governments of their domestic economic policy became affected more clearly by the economies of others, coordination with the GATT on their at-the-border tariff reductions and regulations no longer functioned well.¹⁴

However, GATT achieved much influence on the liberalization process of participating economies through various rounds of negotiations. GATT negotiation to prevent the protectionist in-ward tendency of EC (formerly EEC), the Kennedy Round, was held by the United States in 1964-1967, resulting in the opening of the US market and lowering of tariffs of other member economies. Throughout the following negotiation rounds, such as the Tokyo Round in 1973-1979, and the Uruguay Round from 1986-1994, GATT increased its member nations and its topics of negotiation. Ninety-nine nations plus the EC participated in the Tokyo Round, which dealt with matters regarding non-tariff barriers. One hundred and forty-two nations plus the EC participating in the Uruguay Round expanded the negotiation areas to services and other non-product industries. As a result, through those various negotiations, GATT contributed to a more liberalized trade in the world and eliminated many trade barriers. To

¹⁴ Lawrence, Bressand, Ito, 1996, p.5

strengthen the binding power of GATT, the World Trade Organization (WTO) was chartered at the Uruguay Round. With this long negotiation that lasted almost 7 years, the WTO became the official international binding organization with the inclusion of trade of not only the “visible products” negotiated in GATT, but also with “invisible products” such as services and intellectual property. The WTO assumed the functions of GATT, and expanded its binding functions with its legitimacy as the core institution for the world trade system in 1995. As the world trade scale expanded and matters of national policies interested other trading partners, the GATT/WTO trade system’s focus also shifted from the shallow integration matters of economy to a deeper integration character, where it could affect a traditional domestic policy coordination.

The difficulties of these multilateral negotiations held through GATT/WTO became more evident as the number of member nations grew and the topics dealt with at the negotiation tables increased. The matters that were negotiated affected various nations in different economic development stages. One of the reason for which the Uruguay Round lasted almost 7 years, was because of its principal function of multilateral negotiation. It was obviously becoming more difficult for over a hundred nations with different development levels and interests to reach negotiation conclusions.

Regionalization

From the 1980s to the 1990s, the regionalization of the world economy was an evident factor while the difficulty of multilateral negotiations became more and more visible. As time went on, and the success of the first regionalism in Europe demonstrated its economic growth, and with the growing complexity of GATT/WTO negotiations, there was a surge of economic regionalization in the world. Several factors led the nations to pursue their interests in regional arrangements rather than waiting for their interests to be reflected at multilateral negotiations.

As mentioned earlier, the EEC went in effect in 1958, and was initially considered something completely against the GATT principle based on the most favored nation (MFN) provision. But this regionalism's result turned out to be rushed foreign investment into the region from non-member nations fearing the loss of their competitiveness in the closed market. This rush of foreign direct investment (FDI) and its effects directly caused economic growth and transition of trade within the region.¹⁵ Creation of the unified European market by 1992 and the establishment of the European Union (EU) today represent a closed economy in its policy, but is expansionary in its formation for its threshold entrance for more nations in Eastern Europe.

Regionalization of economy, which was a topic of many controversial debates when the EEC was created, was also a non-stopping factor in the 1980s and the 1990s. Nations following the MFN status within the negotiations of

¹⁵ Shiroishi, 1997, p.4-5

GATT/WTO system saw advantages of regionalisms in several ways. At the same time they may pursue multilateral negotiations within the GATT/WTO structure, regionalism offers them a better and smaller scale of negotiation options to pursue their national interests in trade. The success of previous regionalisms such as EU was shown to prove the attraction of its market within the regional frame to invite FDI. Regional framework could also offer them the ability to structure their own rules according to regional interests. Conflictive and difficult negotiations within the GATT/WTO structure (due to the large number of members in the world) often did not offer the same facility to reach agreements as the regional framework, with usually natural trading partners in the nearby region and cultural understandings between each other. Also, regionalism was seen as a way to develop each nation's trade diplomacy with the nearby nations, where otherwise, it would not have the close relationship.

The EU is an advancement of EEC with a type of unified market started in 1993. NAFTA (North American Free Trade Agreement) which included the developing nation of Mexico in its original Canada-U.S. Free Trade Agreement went into effect in 1994. Along with APEC (Asia-Pacific Economy Cooperation) formed in 1989, these make up the megaregionalisms¹⁶ of today.

¹⁶ First defined by Y.Yamamoto, Shiroishi, 1997, p.105. Also on the footnote 6 of Chapter 1, *New Regional Trading Arrangements in the Asia Pacific?* (May 2001) By Robert Scollay and John P. Gilbert points out, that the terminology used for the regional trading arrangement are becoming more confusing. The term "regional trade arrangement" (RTA) is continued to be used in the WTO and in much academic and official literatures to describe any preferential trade arrangement. The term "subregional trade agreement" (STRA) tends to be used within APEC circles to describe preferential trade arrangements involving subgroups of APEC members. The term "bilateral trade agreement" (BTA) has sometimes been applied to the new

Megaregionalism, or the current three principal economic blocs (APEC, NAFTA and EU) can be characterized with the following 5 tendencies. Megaregionalism is defined as, 1.) Various members that cover a broad area, 2.) Core members of several developed nations, 3.) Members are different in their economic development, market size, political system and culture, 4.) Functions of an “inward” and an “outward” system, and 5.) Takes different economic associations.¹⁷ These three megaregionalisms offer an interesting difference as compared to other regionalisms in the world, in a way that the core developed nations may lead it through the structuring and expansion, to become the model towards global integration of the economy.

With the above tendencies of megaregionalism in mind, NAFTA and EU are said to be “*de jure* regionalization”, a system-led type of regionalisms, and APEC is said to be “*de facto* regionalism”, a market-led type described by Shioishi.¹⁸ According to the difference in formations and degree of integration of these economic blocs, they are also characterized being either “shallow integration” or “deep integration”. Following Lawrence's categorization of those

initiatives involving pairs of countries. Trade arrangements involving large blocks of countries such as APEC, the European Union, and the proposed Free Trade Area of the Americas (FTAA) in the western hemisphere, are sometimes described as "megaregional" trade arrangements, and the term "transregional trade arrangement" is also sometimes used to describe initiatives designed to link the megablocks, eg, the proposed Transatlantic Partnership (TAP) The Asia-Europe meeting (ASEM) might also be described as transregional arrangement.

(http://www.iie.com/publications/files/chapters_preview/330/1iie3020.pdf)

In this thesis, term "megaregionalism" refer to APEC, EU, and existing NAFTA as it is often referred in Japanese academic literatures on world trading system.

¹⁷ Shioishi, 1997, p.105

¹⁸ Shioishi, 1997, p.145

economic blocs, “shallow integration” is trade liberalization of tradition national policy coordinated at the border, and "deep integration" is the integration that moves beyond the removal of border barriers.¹⁹ He clarifies this "deep integration" to be not necessarily good or bad, depending on the type of the policy that is applied to different countries. The example he gives for the harmful “deep integration” can be of imposing measures on nations that are inappropriate for their stage of development, such as excessively stringent environmental standards, which would reduce economic efficiency. The good “deep integration” can be policies that would enact measures that enhance efficiency, such as the international enforcement of competition policy.²⁰ According to this classification of regionalism, EU and NAFTA would fit the formation of “deep integration”, and APEC would fit a “shallow integration”.

As for the surging regionalization of different forms, there are debates on whether regionalism is a complimentary building block, or a stumbling block towards economic globalization. During the early phases of the regionalization movement, it was said to be a threat for globalization. Regionalism was seen as groups of nations setting up their own rules to discriminate the non-member nations from market access with the manipulation of raised external tariffs, an action which is explicitly prohibited by GATT provision. Multilateral negotiations under GATT/WTO sought an open free trade based on international rules that

¹⁹ Lawrence, 1996, p.8

would lead to development and distribution of global wealth, but its own article XXIV permitted regional formation. Even though the article was meant to be applicable for economically small nations to make regional economic arrangements, the ambivalent nature of GATT permitted the regionalization on the larger scale with economically powerful nations as well. Robert Gilpin states that “the movement towards economic regionalism that accelerated in the late 1980s threatens the survival of an open and integrated global economy. Regionalization has already diluted the postwar effort to use multilateral negotiations to create a world freed from import and other economic barriers, and it is likely to have a significant impact on the distribution of global wealth and on the welfare of people everywhere.”²¹

However, as the regionalization of Europe invited much FDI, which was needed to boost the region's economy, as a result, other nations in need of foreign capital started to look into the regionalization of their economy also. The new supporters of regionalization professed the prospect of this movement as a step forward and in another way, as an alternative way for globalization. As multilateral negotiations became stagnant at times in advancement of globalization, regionalization was an easier solution. The reason for the formation of NAFTA fits into this category in terms of forming the free trade agreement.

²⁰ Lawrence, 1996, p.8

²¹ Gilpin, 2000, p.193

There is also another supporting argument of regionalization as a way towards economic globalization. As long as the region is not a closed-economic bloc and it keeps its stance as an open-regionalism in its policies and formation, it is expected to create regions of open, liberalized economy to gradually integrate more economies. This will thus, at the end connect the web of interdependencies everywhere. After all, when economic globalization is defined to be the full economic integration of all participant nations, multiple RTAs (Regional Trade Arrangement) or bilateral FTAs in any form could be made in numerous areas to finally achieve a world of total interdependence. APEC seems to take its course on the path of this reasoning.

The perspective that regionalisms can be a building block means that the formation of regional economic blocs, through their expansion, have the capacity to include all participating nations in the WTO. Keeping in mind that the principal objective of the initiation of the GATT/WTO system was the maintenance of peace and development through trade, the focus of expanding inclusion of regional economic blocs would be on those non-members of regional arrangements, mainly the developing and under-developed countries. Solving the North-South problem between nations and problems within nations is the final objective of globalism today. Ongoing economic globalization takes on an important part of solving these problems from the economic prospect.

Regionalism or regionalization is a result of impossibilities for wealth making at a national level, which is a basic notion of the capitalist world economy. However, nationalism is the reason for trade disputes. Even though the WTO is the accorded multilateral negotiation ground for all participating nations, there is a sort of inevitability to join regionalisms for underdeveloped and developing nations. Today's regionalization gives a rushed sense of “not missing out” on the wave of economic integration, and the fast-paced liberalization to take advantage of the expected inflow of needed FDI for development. When regionalization is a recent factor, geographical closeness is considered since natural trading partners would facilitate the application of the agreement. On the other hand, the developing and underdeveloped nations are to examine the differences in the formation of regionalisms, and to decide which organization form will benefit their economic development the most.

In examining the regional formations, closer attention to its economic effect on the nation and its sociopolitical implications, spawn important matters to consider. In the case of the EU, in its North-South integration into regionalism, Lomé conventions have established political dialogues with nations of the South. The EU has established political dialogue with African, Caribbean, Pacific and Mediterranean states on reciprocity for development and cooperation, though the prospects of becoming a deeply integrated member of the EU are said to be unlikely.²² Even though the EU has its door open to the outside nations,

²² Haggard, 1995. pp.103

there is also a political implication, which makes it difficult for developing nations to fully become a member. The main difficulty represented by the EU is in its character of profound economic and political deep integration. Many developing nations around the region wishing to be members would have to make a considerable domestic policy adjustment to match its level of economic coordination to the already advanced member nations. To become a member of EU, a prospective nation has to be chosen by its organization's standards and rules. The sociopolitical implication is vast in this sort of integration and the resentment this causes to developing nations is substantial. The nations of the South may need much tolerant and special treatment, with which it could deviate from the character of the set institutions of the EU.

In the case of NAFTA, regionalism also takes a deep integration form through a strictly trade focused rule-based style. In principle, any nations willing to play by its rules are invited to this regionalism. Though existing clauses such as environmental provisions may not be suitable for many of the intended prospective South American nations. Leveling up their standards in many areas to play by the rules that already exist in the institution, may also implicate political insecurities, and invite suspicions which are historically characterized by the region's sentiment towards its northern neighbors.

There was as well, at least temporarily, possible expansion of NAFTA towards its Asia-Pacific partners; the United States, Canada and Mexico are also individual participating members of APEC. Relations of NAFTA and APEC will

be discussed in the following chapters. APEC, in effect since 1989, is becoming the only “*de facto* regionalism” with shallow integration. It is mostly led by Japan’s economic influences in the region and will be further analyzed. Furthermore, the role of Japan, the United States, and Mexico will be explored to see the future roles of those nations in the movement of Free Trade Agreements, and regionalization within the framework of economic globalization of the world economy today.

Gilpin states that "mutual economic interests among the three dominant economic powers could provide an excellent basis for a stable global economy".²³ Lawrence, Bressand, and Ito make a similar assertion for the vision of the future of the world economic system. They call for openness, diversity and cohesion for the future trade system of world economy, and state: "...from America, the most open of our societies, we take the lesson of transparency and an open system based on rules. From Europe, the most diverse, we take the principles of mutual recognition and subsidiarity. From Japan, the most cohesive of our countries, we take the principle of cooperation based on trust and consensus".²⁴

To reiterate, the success of regionalism in the world as a building block lies largely on its capacity to integrate the rest of world economies with the principle of open economy established by the multilateral system. In the transition of globalism, in which the world economic structure is shifting to the

²³ Gilpin, 2000, p.352

international organization at the level of *supraterritoriality* represented by international agencies such as the WTO, it is essential that the existing megaregionalisms use their formations and institutions at their best to fulfill this global integration.

²⁴ Robert Z. Lawrence, Albert Bressand, Takatoshi Ito, 1996 p.107