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*From Multilateralism to Multiregionalism.
What Role for Regional Integration in Global Governance ?*

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What Role for Regional Integration in Global Governance?

By

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Introduction

Regional integration has acquired several meanings as successive waves of regionalism occurred during the last half century. After the Second World War, a first wave of regionalization focused on trade liberalization between neighboring countries in order to spur inter-country transactions. The current wave of regionalism is different, as it is increasingly no longer about trade only, but presents itself as a “multidimensional form of integration which includes economic, political, social and cultural aspects and thus goes far beyond the goal of creating region-based free trade regimes or security alliances. Rather, the political ambition of establishing regional coherence and identity seems to be of primary importance.” (Hettne, 1999a:xvi). This *New Regionalism* aims to promote certain “world values” as security, development, ecological sustainability, better than globalism. (Hettne, 1999)

Regional integration and globalization are the two phenomena challenging the existing global order based upon sovereign states at the beginning of the XXIst

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century. The two processes “deeply affect the stability of the Westphalian state system, thus contributing to both disorder and (possibly) a new global order.” (Hettne, 1999b:1). Global governance has to evolve nowadays in an international context deeply marked by the phenomenon of globalization framed in a world-wide process of changing and evolving levels of governance between: city-regions, states, macro-regions, global level.

The EU, is a good example of the *new regionalism* as it has managed to develop a model of integration that incorporates political elements in deep economic integration. We now have in Europe a complex multi-level governance system with a deep co-operation between states, with firm devolution of power within states and a strong international legal framework. This has created a political model, which challenges assumptions about governance all over the world.

New regionalism is a multi-faceted phenomenon, which touches therefore a much wider number of policies than the ‘old trade-based regionalism’ did. This brings us to a legitimate question: *what is the actual and potential role of regional integration in global governance?* In our opinion, regional integration initiatives should fulfill nowadays at least eight important functions (Van Langenhove, 2003:4):

- the strengthening of trade integration in the region;
- the creation of an appropriate enabling environment for private sector development;
- the development of infrastructure programmes in support of economic growth and regional integration;
- the development of strong public sector institutions and good governance;

- the reduction of social exclusion and the development of an inclusive civil society;
- contribution to peace and security in the region;
- the building of environment programmes at the regional level; and
- the strengthening of the region's interaction with other regions of the world.

The eight functions enumerated here can be grouped under three main headings: *trade, security and governance of global regimes*. The following sections will focus on each of these three main functions which highlight the importance of regional integration for global governance: i) Regional Integration as an instrument for peace and security; ii) Regional Integration as a tool for enabling free and fair trade; iii) Regional Integration as a tool for better governance and implementing of global regimes. Next, a series of policy recommendation towards Europe's role in the new emerging global order will be presented.

Regional Integration as a tool for enabling free and fair trade

Regional integration is, first of all, a tool for enabling free trade. This was the main function of 'old regionalism', with the creation of Free Trade Areas inside which members removed tariffs against each other and kept their own barriers against non-members, and, and which could evolve further on into customs unions possessing a common external tariff against non-member countries.

There has been a wide academic debate in the economic field aiming to measure the extent to which regional integration can increase free trade. At the beginning of "old

regionalism”, the creation of a FTA and CU were justified, in economic terms, as long as the trade creation induced by the tariff removal between member countries was exceeding the trade diversion brought by the displacement of imports from low-cost third countries producers to high-cost new FTA partners. (Viener)

The old regionalism theory was based on the concepts of trade creation and trade diversion derived from a partial equilibrium analysis of the welfare effects of tariff elimination.¹ The theory can give no definitive answer as to which effect will predominate. The customs union theory fails to take into account the dynamic effects of RTAs – arguably the most important in the long run. A larger regional market provides the opportunities for economies of scale, stimulated competition and provides incentives for investment. Achieving economies of scale is very important for firms in small countries and especially in developing countries. Economies of scale may occur through product specialisation enabling firms in two countries to specialise in particular product lines instead of producing the full product line (to rationalise production and to internationalise production).

Perhaps the most important effect of an RTA is the stimulus to competition and investment which it brings. Large firms in small countries protected by tariffs will lose their monopolistic quiet life as border protection falls forcing them to compete in the larger market. The investment stimulus will include foreign direct investment (FDI), which brings added competition. Customs union theory ignores transport costs, which can ultimately decide the fate of a RTA.

¹ The old regionalism is built upon the seminal work of customs union theory by Jacob Viner (1950).

New regionalism theory integrates the dynamic effects of economic integration, the interaction between trade and investment, and the role of institutional arrangements as incentives for regional integration.²

The new regionalism is determined by the structural changes in the global economy of the 1990s brought about by globalisation. Following successive trade liberalisation in the GATT/WTO, FDI has become much more important in the global economy as investment flows are now growing faster than trade flows. Firms have an incentive to switch from trade to FDI when trading costs (transport costs and government regulatory barriers) are high and investment costs (including communications costs) are rapidly declining. The size of the market is another factor, which encourages FDI. Experience shows that as countries converge in their factor endowments, technical efficiency and market size, there will be a move from intra-industry trade to intra-industry investment, provided that transport costs remain significant.³ The New Regionalism differs from the old regionalism in a number of important ways.

- Typically, the new regionalism has a number of small countries, which are willing to link up with a large neighbouring country, which plays the role of regional hegemon.
- The small countries are involved in a process of unilateral liberalisation and they want to consolidate it by linking up with a large anchor country.

² For the essentials of new regionalism theory, see R. Lawrence (1996), *Regionalism, Multilateralism and Deep Integration*, and W.J. Ethier (2001), 'Regional Regionalism', in S. Lahiri (ed.), *Regionalism and Globalization Theory and Practice*.

³ For an analysis of the interaction between trade and investment in the globalising economy, see B. Gavin (2001), 'Trade and Investment', in *The European Union and Globalisation Towards Global Economic Governance*.

- The new regionalism is about deep integration. It goes beyond liberalisation of trade in goods and deals with services and investment issues.
- There is no big bang trade liberalisation but rather a slow gradualist approach.
- The new regionalism occurs between countries that are geographically close to each other.
- Small countries consider RTAs as a means to strengthen their bargaining position in international trade negotiations.

Two questions arise here: first, how far is this new economic regionalism compatible with the economic multilateralism promoted through the WTO, and, second, is regional economic integration also positive for developing countries (in other words, is free trade also fair)?

The question whether regional trading arrangements hinder or contribute to the good functioning of the multilateral trading system is a very interesting one. As underlined by G. Sampson, it addresses two developments which appear to be paradoxical (Sampson, 2003:3): “on the one hand, non-discrimination is the pillar of the multilateral trading system, on the other, all but 2 of the 140-plus members of the World Trade Organisation (WTO) are parties to at least one – and some as many as 26 – preferential trading arrangements.”

A recent analysis on whether regional trade agreements are building blocks or stumbling blocks in the way of multilateralism, concluded that “what characterizes policy development in dealing with the regulatory issues in trade and investment regimes is a multi-level process rather than a choice between regional and multilateral

approaches. Regional agreements represent one aspect of this multi-level process. The question should therefore be about what role regional agreements play in this multi-level process". (Woolcock, 2003:315)

Multilateral trade liberalisation fosters global trade but it increases transport costs relative to regional trade. At the same time the dramatic fall in communications costs is driving the shift from exporting to FDI. So regional integration that fosters 'investment creation' is preferable to further multilateral trade liberalisation. Since the size of the market is crucial in attracting FDI, small countries compete to attract foreign investment by 'regionalising' their market. Small countries may be willing to pay a premium for this by making considerable economic reforms. By linking up with a large country small countries gain credibility in the eyes of foreign investors.

Regionalism seems to be compatible with multilateralism in EU's vision also. In the EU's external trade policy vision, the widening and deepening of the European regional integration is not at all incompatible with multilateralism. In P. Lamy's terms, the EU trade policy works on two complementary levels: the *bilateral/regional* level and the *multilateral level*, through the WTO: 'The basic assumption of our trade policy is that: i) unilateralism is not an option for us, ii) we have two options in order to integrate successfully into the world economy: multilateralism and regionalism. [...] regionalism and multilateralism are not mutually exclusive but complementary: regional arrangements are governed by the multilateral rules and disciplines of the WTO. How do we strike a balance between the bilateral/regional level and the multilateral level? The multilateral level, through the WTO, provides the set of rules that international trade requires and a level playing field. More importantly, this is the

framework that gives the EU the best means to influence global governance and to negotiate balanced arrangements. Achieving the objectives of the Doha conclusions remains therefore our top priority for the next few years. Our bilateral or bi-regional relations with third countries are a reflection of our priority to multilateralism and our commitment to regional integration.’ (Lamy, 2002:1)

Regarding the question whether free trade is also fair trade, one can say that at least in principle the New Regionalism has a lot of potential benefits for developing countries (Van Langenhove, 2003:4):

- it can contribute to a smooth and gradual integration in the world economy;
- it can create bigger local markets and more competition among peers;
- it can strengthen the bargaining power of developing countries in the WTO;
- it provides a framework for public investments in infrastructure and public goods;
- it allows to exploit complementarities where they exist;
- it provides a framework for promoting and sustaining stability and security.

Achieving these benefits is only possible in the context of open national economies. But, unilateral trade liberalization, as once recommended by the Breton Woods institutions seems no longer to be a popular strategy, as unilateral strategies do not automatically improve market access. North-South integration combined with South-South integration seems to be a valuable alternative, but the question is: should this

also imply a North-South symmetry in market access? The ‘Special and Differential Treatment’ (SDT) put into place by the WTO needs to be reformed to help the least developed countries and to graduate the advanced emerging market economies like Singapore. North-South regional trade agreements should be asymmetrical in terms of market access for the least developed countries. Also, North-South Regional Trade Arrangements need to be backed by increased assistance for capacity building. Therefore it is important that regional integration becomes an inclusive aspect of all development policies of donors.

Regional integration has the potential to promote free and fair trade simultaneously. But the wave of regionalisation of the 1990s implies more than trade integration, it brings also an important function of security.

Regional Integration as an instrument for peace and security

The 1990s have witnessed an increasing role of regional integration organisations as an instrument for peace and security. This is due to the change of the definition of security. In the aftermath of the Cold War, the security agenda has shifted from a bipolar confrontation to the spread of regional and local “low intensity conflicts”. At the same time, the security threats are no longer linked only to the military conflicts but also to political, economical, social and even environmental concerns, expressed in the term of “societal security” coined by the Copenhagen School at the beginning of the 1990s. (Weaver, 1993; Buzan, 1993; Wiberg, 1993)

This shift in the content of security has brought a change in the nature of international action, mainly UN-led, from classical operations of *peace keeping* (mainly interposition between parties in conflict) to second and even third generation operations, focusing on *peace building* after the end of conflicts and *peace enforcement*. The new security agenda became “considerably less monolithic and global, and considerably more diverse, regional and local, in character than the old one” (Buzan, 1999:12)

The post Cold War era security agenda can be analysed therefore according to Barry Buzan using the security complex theory, which considers that all the states in the system are “enmeshed in a global web of security interdependence. But because most political and military threats travel more easily over short distances than over long ones, insecurity is often associated to proximity. [...] The normal pattern of security interdependence in a geographical diverse anarchic international system is one of regionally based clusters, which we label security complexes” (Buzan, 1999:2). The security complex is defined as “*a set of states whose major security perceptions and concerns are so interlinked that their national security problems cannot be reasonably analysed or resolved apart from one another.*” (Buzan, 1991)

Aware of this transformation of the security agenda, several regional initiatives have extended their functions from economy to cooperation in security related problems.

The EU is a good example in this sense as it has developed its own Conflict Prevention and Peace Building Capacity and in the same has widened the scope of such actions extending crisis management beyond the military and police measures to

development co-cooperation and conditionality of aid (Laakso, 2002). According to Lehtinen, through promoting regional integration processes in Africa, the European Union aims to integrate the African countries in the world economy and to promote regional security and stability. (Lehtinen, 2002) Europe to promote regional integration in Wider Europe.

This evolution of regional initiatives to adding new security functions is visible not only on the European continent. In Africa as well, some regional organisations have gradually evolved from an economic role towards including security functions, with more or less success, as highlighted by Francis (2003) who has recently explored the nexus between economic and security regionalism in West Africa, through the prism of ECOWAS regionalism and its expansion into the complex security frontier in the form of the ECOWAS Cease-fire Monitoring Group (ECOMOG).

Which is the added value of having a regional rather than global security intervention? According to Laakso, “Evidence from ending intra-state conflicts shows that regional actors play a significant role. As “third parties” they can facilitate mediation between the warring parties and their active involvement can reduce the risk of a breakdown of the peace settlement. By sending troops to protect or separate the warring parties, or promising to do so if necessary, and utilising effective crisis management capabilities and economic pressure they can be pivotal for lasting peace. Regional actors can provide guarantees, particularly to the weaker parties that the peace settlement will hold.” (Laakso, 2003:5)

As highlighted by Kivimäki, there are several characteristics of regional integration which can allow for a positive correlation between regional integration and the lack of inter-state wars (Kivimäki, 2002:15-27):

- Trade-related, positive inter-dependence;
- Common identity;
- Common procedures of dispute-settlement inter-state;
- Prosperity and economic stability;
- Containment of violence by building up a structure of disincentives.

Of course, the existence of regional organizations in a certain area doesn't necessarily bring success in preventing conflicts. Africa is a good example in this regard; failures have been often explained, like in the case of the SADC Organ on Politics, Defence and Security, by the persistence of major political and strategic differences between member states (or the absence of common values), and the lack of commitment to a common security regime (Nathan, 2002). The analysis performed show that "The efficiency of a regional actor seems to depend on its credibility, as well as its political, military, and or economic power. This, however, is not always concomitant with the consolidation of democracy and can involve attempts to promote the agenda of the actor itself instead of those of the conflict parties." (Laakso, 2003:5)

But the potential of regional initiatives to foster security is very evident, to the extent that it has been gradually acknowledged by the United Nations, the principal provider of security at global level. The cooperation between UN and regional organizations in the security operations can be based on the UN Charter Chapter VIII, which mentions the possibility to empower regional organisations and arrangements for action in

regional disputes, but always in support to the primary role exercised by the UN Security Council. In the period 1993-2003, a formal cooperation between these organizations and the UN seems to have started developing throughout 5 official meetings between the UN Security Council and some Regional Organizations (namely OAS, CARICOM, Arab League, AU, ECOWAS, EU, OSCE, CIS, NATO, OIC), intended to develop this framework for joint action in the security domain.

The “Agenda for Peace” and the “Supplement to an Agenda for Peace” adopted in 1993 highlight the advantages and potential for the division of labor in using the regional arrangements for the mechanisms of peace discussed (preventive diplomacy, peacekeeping, peacemaking and post-conflict peace building). The Supplement outlines even different forms of cooperation and the principles that should govern it: the establishment of flexible mechanisms for consultation; respect for the primacy of the UN in the maintenance of peace and Security; a clear definition of the division of labor to avoid overlap and institutional rivalry; and coherence of member states of both organisations in dealing with a common problem.

In 2001 was established a “Framework for cooperation in Peacebuilding”, applying to the cooperation between the UN and the participating intergovernmental organisations, with guiding principles for action in this field in 5 key areas and activities. Overall, the emphasis is placed on the need for flexible cooperation and case-by-case approach. for peacebuilding, and no clear definitions established in the division of labor. Nevertheless, the dialogue between the UN and regional organizations is still on-going and needs still to settle down some important aspects

regarding the division of labor. For the moment, the only agreement existent is the one on peacebuilding.

In some regions the UN does not yet have viable interlocutors in the security field, as the regional organizations are still focusing on their economical functions. But even trade can fulfill a security function in the end, through its development dimension. Also, regional organizations, which may not yet tackle security matters as such, can play an important role in implementing global regimes (like Climate Change, which represents one of the new security dimensions mentioned earlier). This brings us to the third function of regional initiatives: the implementing of global regimes.

Regional Integration as a tool for implementing global regimes

Regional integration initiatives are becoming increasingly important elements for constructing global governance. Their situation as an intermediary level between the national and the global has brought macro-regions, together with local, microregional and national levels together as necessary for the efficient implementation of global regimes. On the one hand, globalization brought transnational flows and a number of challenges, which overpass the traditional functions of the states. On the other hand, although there is a need of finding global solutions to global problems, there is not sufficient global support for global institutions and regimes dealing with such problems, and regional initiatives could lead the way in the implementation of policies until such consensus is reached. Additionally, the most evolved forms of regional integration as the EU allow for the creation of systems of multi-level governance, with a new role for local and micro-regional levels which bypass the traditional

centralized state control and aspire to have their share in the macro-regional decision-making.

The Climate Change regime is a good example in this regard. Since the first conference on the Environment in Stockholm in 1970, the United Nations (UN) have played a leading role in developing a global approach to environmental problems and in creating common platforms of action on environmental issues. The UN pioneered the creation of a global climate change regime in 1992, with the Rio Earth Summit, which was a catalyst for public recognition of the planetary nature of environmental problems. The Rio Summit gave birth to the Framework Convention on Climate Change (UNFCCC), which aimed to stabilise CO₂ emissions in industrialised countries at 1990 levels by the year 2000, to set up global monitoring and reporting mechanisms for keeping track of greenhouse gas emissions, and establish national programmes for reducing emissions.

The UNFCCC entered into force in 1994 and under its framework the Kyoto Protocol (KP) was developed at COP-3 in December 1997, setting the target for the developed world to reduce its greenhouse gas emissions to 5 % below 1990 levels between 2008 and 2012. Four other Conferences of the Parties to the UNFCCC have followed until nowadays. However, the Kyoto Protocol has not yet become a global regime: it is not yet ratified globally and the rules of the game for reduction of greenhouse gases are still unclear.

The collapse of the COP-6 I negotiations in The Hague in November 2000 and the repudiation of the Protocol by the US administration in March 2001 could have

entirely compromised the move towards a global regime tackling global warming. Nevertheless, after the US withdrawal from the negotiations the EU has been catapulted in to *the role of global leadership*. The EU has managed to maintain the determination of the UNFCCC participants to work towards the implementation of the Kyoto Protocol. It has successfully pushed for the political commitment enshrined in the "Bonn Agreements" adopted in July 2001, and for concrete results in the following technical negotiations in Marrakesch COP-7 (November 2001) and New Delhi COP-8 (October 2002). The EU is currently pressuring Russia to ratify the Kyoto Protocol as this would lead to its entry into force.

Regional and Global approaches to Climate Change are not mutually exclusive but interdependent, and there is a need of having at the same time a system of Climate Change multi-level governance inside every macro-regional grouping. Climate Change is a global problem which affects simultaneously the local, municipal, regional, national, trans-national and global levels of government and only through effective co-ordination among those levels we can hope to achieve the ideal of having an "unified global approach". The EU's efforts show nevertheless that regional initiatives can represent the cornerstone for creating an integrated global governance system tackling Climate Change which would encompass *global, macro-regional, national and micro-regional approaches to climate change*.

In 2002, the Johannesburg World Summit on Sustainable Development (WSSD) confirmed the United Nations Framework Convention on Climate Change as "the key instrument for addressing climate change, a global concern", (Report of the WSSD, 2002:29) and reaffirmed the commitment to achieving its objective of reducing

greenhouse gases. One important outcome of the WSSD was the emphasis on regional initiatives and partnerships as stated in the *Plan of Implementation of the World Summit on Sustainable Development*,⁴ Regional Commissions, in co-operation with other regional and sub-regional organisations will be invited to undertake amendments and analytical work, based upon national reporting for CSD, for cooperation within the region. The Regional Commissions could also promote and assess partnerships in their regions. Also the UN Regional Commissions need more interaction with other relevant regional institutions such as the development banks. It is now proposed to reform the work of the CSD (two-year cycle) and part of this reform foresees organising *regional implementation forums*, to be organised in conjunction with UN Regional Commission.

The EU's leadership offers a strong incentive for building a multi-level Climate Change governance system in the future. A single regional grouping cannot prevent the planet from being damaged by harmful emissions but it can offer an example of action for other macro-regions and a useful support as a building block for the global regime.

Conclusions

The above analysis shows that regional integration can indeed play a role in advancing global governance. There are worldwide examples of cases where the so-called new regionalism has proved to be a powerful tool in building peace and security; in creating free and fair trade conditions and in governing global problems.

⁴ *United Nations Report of the World Summit on Sustainable Development 'Annex Plan of Implementation of the World Summit on Sustainable Development'*, Johannesburg, South Africa, 26 August-4 September 2002, p. 71-72.

Of course, regional integration is not a panacea that will solve all global problems, but we believe that it can contribute significantly to bridging the global divides, especially if the alternative is the American unilateralism. The question now is what Europe should do ?

In our view, the historical role for Europe in contributing to a multilateral world order adapted to the XXI century, can be summarized as follows : Europe has to promote and develop multi-regionalism as the legitimate and legal operationalisation of multilateralism. This implies at least four issues :

- Europe needs to further develop its own model of new regionalism;
- Europe needs to help LDC around the world to create their own forms of new regionalism
- Europe needs built its external relation primarily upon inter-regionalism rather than upon bilateralism;
- Europe needs to act as a change-agent within the UN.

Multiregionalism (or multilateral regionalism) is a concept coined by Hettne (2003) that refers to a world order based upon a global regionalisation, implying systematic relations between all regional organizations, ultimately making up a form of global governance that makes multilateralism more effective and efficient than it currently is.

Multi-regionalism could play a major role in providing the necessary legitimacy for multilateralism, as it is a mechanism that (i) allows small countries to have a voice next to large countries and (ii) allows poor countries to integrate more easily in the world economy. Also, regional integration can be a way of harnessing the larger

countries (superpowers) to recognize their responsibility in playing a constructive role in their region. This does not necessarily contradict the universalistic position of the United Nations. It may be considered, rather, as an attempt to “channel” globalization at an optimal policy level. Global governance structures need to foster more participation of developing countries in decision-making.

Also, there needs to be a global forum based upon international law that allows regions to interact with each other and settle their disputes. Here a new role for the UN might be envisaged. Indeed, we believe that the United Nations should become the forum in which the world regions can enter into dialogue with one another. As a matter of fact, this is already foreseen in chapter VIII of the United Nations Charter, wherein it is mentioned that there is a possibility to work with regional arrangements or agencies within the United Nations.

Today, regions do play a role within the UN system at different levels. First, there are the regional groupings and caucuses that function within the UN (as institutionalized by the Charter). Secondly, there are economic regional substructures set up by the UN. Thirdly, there are non-UN regional organizations that have obtained observer status within the UN. And, finally, there is the regional dimension of the composition of the Security Council. Thus, it should be possible to create, within the United Nations, a forum in which world regions engage in inter-regional dialogue and where responses to globalization can be agreed upon on a collective basis, and hence can be executed at the level of each of the regions separately. This, however, is not possible without a profound rearrangement of the present existing blocs within the United Nations. One should thus think about a system in which the existing regional actors, such as the European Union, become the building stones of a United Nations forum.

This corresponds to some extent with what has been said in the still very worthwhile report “Our Global Neighbourhood” of the United Nations Commission on Global Governance – namely, that the challenge for the development of a good working system of “global governance” consists in enforcing each other’s global and macroregional regulations: *“Decentralization, delegation and cooperation with regional organs can lighten the burden of global organizations, while generating a deeper sense of participation in a common effort.”* However, the Global Governance Commission thought of regional cooperation as kind of decentralisation of the existing model of multilateralism. We believe that there is more to it than decentralisation within multilateralism. In the long run, multiregionalism is about autonomous regions that meet in the framework of a global forum such as the UN.

In order to reach an efficient forum where responses to globalization can be formulated within the context of a strategic pursuit of the UN millennium goals, a “global governance” system needs to coexist with a mechanism of financial and economic support to develop a global public goods policy. Hence the necessity is to create *regional integration funds* at the level of the United Nations. Such integration funds can be conceived as instruments to facilitate the integration of small and poorly developed economies in an economic space at a regional level. This is not a new idea; it is similar to the so-called structural funds already used to guide European integration (cfr. the Structural and Cohesion Funds). Such regional integration funds could act as instruments of solidarity, facilitating the emergence of a more stable regional organization of the world economy.

Finally, it should be noted that the worldwide movement towards more regional cooperation and integration may not be restricted to merely economic integration but needs to contain political integration. As recently argued by Professor D. Rodrik (Harvard University), economic growth is in the first instance dependent on wellfunctioning institutions that accompany free trade and secure an efficient functioning of society as a whole. New Regionalism is about such institution-building at the level of regions, and it is our belief that such regional integration can be simultaneously a “building block” towards a worldwide-globalized open economy as well as a “dike” that protects countries from the negative aspects of globalization.

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