

**GLOBALIZATION VERSUS / AND REGIONALISM
-EU IN THE FACE OF GLOBALIZATION-**

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BY

SENCER YÖNDEM

**T.C. İKTİŞADİYE VE İŞLERİ BAKANLIĞI
DOKÜMANTASYON MERKEZİ**

T 105141

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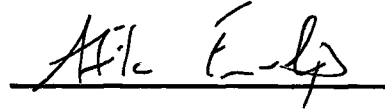
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Prof. Dr. Bahattin Akşit

Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Master of Science



Prof. Dr. Atila Eralp

Head of Department

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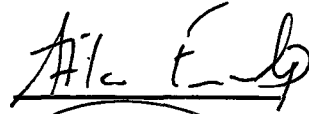


Prof. Dr. Atila Eralp

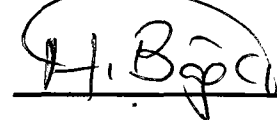
Supervisor

Examining Committee Members

Prof.Dr. Atila ERALP



Prof.Dr. Hüseyin BAĞCI



Doç. Dr. Mustafa AYDIN



ABSTRACT

GLOBALIZATION VERSUS/AND REGIONALISM EU IN THE FACE OF GLOBALIZATION

Yöndem, Sencer

M.S., Department of International Relations

Supervisor: Prof.Dr.Atila Eralp

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The focus of this thesis is the examination of the EU's position in the face of globalization as well as the rise of regional integration movements in the period that starts from the early 1980s and the effect of globalization on this rise. The aim is to show that globalization has considerable effects either on the emergence or reshaping of the current (starting from the 1980's) regionalism movements, mainly the EU, as it forces States to think regionalism as a political choice which can both ensure protection against the competitive forces of globalization that both the developing countries and the industrialized face and necessary means for the developing countries to better adopt to the globalized world economy. In accordance with this aim, the globalization appears in this case as a factor, which enhances regional integration movements while an interactive relationship between the regionalism and globalization starts to develop as the share of regional integration movements in the international economy augments due to increase in their number.

Keywords: Globalization, Regionalism, Regionalization, EU Economy.

ÖZ

KÜRESELLEŞME / BÖLGESELLEŞME KÜRESELLEŞME KARŞISINDA AVRUPA BİRLİĞİ'NİN DURUMU

Yöndem, Sencer
Yüksek Lisans, Uluslararası İlişkiler Bölümü
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Bu tezde, 1980'li yıllar itibarıyla yeniden ortaya çıkan ve uluslararası ilişkiler disiplini içerisinde giderek artan öneme sahip olmaya başlayan bölgeselleşme hareketleri ile küreselleşme arasındaki bağların ortaya çıkarılmasına çalışılmış ve bu çerçevede Avrupa Birliği ile küreselleşme arasındaki etkileşim incelenmiştir. Küreselleşmenin halihazırda varolan yada oluşum aşamasındaki bölgeselleşme hareketlerini yaratıcı etkisinin incelenmesi ve hem gelişmiş hem de gelişmekte olan ülkelerde karar alıcıların hangi şartlardan dolayı bölgeselleşme politikaları izledikleri hususunun açıklığa kavuşturulması tezde güdülen temel amacı oluşturmaktadır. Küreselleşmenin ortaya çıkardığı şartlar karşısında Avrupa Birliği'nin tepkileri ve tam olarak küreselleşmesini tamamlayamamış dünya ekonomisinin gidişatı/yönetimi hususundaki AB politikalarının ve uygulamalarının incelenerek açıklanması bu amaca ulaşılabilmesinde dayanak noktalarını teşkil etmiştir. Öte yandan, tezde, bölgeselleşme hareketleri ile küreselleşmenin birbirine zıt değil, tam tersine birbirlerini destekleyen süreçler olduğunun da altı çizilmiştir.

**Anahtar Kelimeler: Küreselleşme, Bölgeselleşme, Bölgesel Bütünleşme
Hareketleri, Avrupa Birliği Ekonomisi.**

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CHAPTER I

INTRODUCTION

1.1. Subject Matter and Aim

The analysis of regional integration movements as a factor of globalization or vice-versa is important due to the fact that the rise of regional integration models as new actors of the international system appear as if this trend will be more influential in the future international system as their current evolution continues. The latest economic crises as well as the transnational problems such as illegal immigration and environmental pollution seem to be resolved only by cooperation among states and hence augment the roles of international institutions or/and regional cooperation movements in the governance of such problems. In this respect, international institutions and their relations with states will probably define a new international system. Therefore, to bring up the reasons that lie behind this evolution will probably provide basic knowledge about the future of regionalism as an actor in the international system. The changes in the International relations study in the post-cold war era seem to support this thinking.

With the collapse of the bipolar system, it is observed that not only some facts of the international relations study changed but also some concepts and the priorities of States changed. A new vision, stressing the effects of the economic issues and economic security in the perception of States' policies, which this approach was already shaped during the late 60s and 70s, become more actual in understanding the post cold war era international relations.

Briefly, today's international system appears as a global system with the collapse of the Soviet Union. In this new setting, a large number of diverse forces -

or movements- such as particularism-universalism, integration-disintegration, micronationalism, etc... increase the complexity of establishing a commonly accepted international theory as well as social theories. Whatever the outcomes of these complexities are, the regional integration movements seem to be determinant actors of the international system both being as probable actors of the future system which would reshape the international system and as transnational entities that would contribute to maintaining the governance of global politics.

Accordingly, in this new era, it is observe that the classical realism and its presumptions on the nature of international system do not seem to correspond to today's realities. Even in the present realist approaches, a new quest for new methodologies is observed as departure from behaviorism increases. Parallel to the changes, new concerns of international relations field turned more to transnational actors and even the actors of a non-state system such as civilizations. On the other hand, it is also noticed that the division of the world economy among three powers, Nafta-EU-Japan, and the future governance of international economy, are taken as the main concerns by some thinkers such as Bergsten and Brzezinski. This undeniable approach reminds us to point out the coexistence of economic and geographical elements in the earlier world system approaches.

Conformably, the nation-state focused approach in international relations does not seem to appear as a sufficient model to understand really what is happening in today's international relations. First of all, the security and the balance of power concepts which played major roles in the IR field and the determination of foreign policies of states during the cold war reflect models that differ from the contemporary world. Another current methodological difficulty is to know the changes in the power construction of States as well as in the security perception of them and certainly the roles of States, international and regional organizations and their effects on international politics. In this respect, the regional integration entities as economic and political actors appear to be one of the most favorable level of analysis in today's IR study, where the importance of the EU and its evolution directly affect international relations. At this point, from the perspective of

globalization and regionalism, the EU example emerges as a critical one as it is also a factor for furthering globalization and regionalism at the same time. Therefore, EU's position in the face of globalization, namely its reactions and policies to handle it during the process of its deepening and enlargement can provide surely important data on what can be expected from both in the future. In line with this relation, the question that whether EU enhances globalization appears to be another outcome of the thesis.

Consequently, regional integration movements are becoming important actors of the current international relations as they become more complex and enlarged (the "deepening-widening" issue) like in the case of the European Union and NAFTA. Beside their economic dimensions, especially the EU appears as a more transnational entity aiming at the creation of a deeper integration among its members with the exercise of common policies to plan even some fields of the social life. Consequently, beside the reasons that gave birth to the rise of regionalism, a possible result of it would be a revolutionary step in the history of the human kind as it may even take us to the "security communities" of Karl Deutch who referred to integration as a process that may lead to a condition in which a group of people has "attained within a territory a sense of community and of institutions and practices strong enough to assure, for a long time, dependable expectations of peaceful change among its population."¹ In that context, regional integration movements appear as multidimensional stabilizers in their regions. In other words, the ramification of relations between States (or the process of spill over) due to the intensification of the economic and commercial relations may contribute to the world peace or at least to the regional peace by the creation of the security communities. Accordingly, the disarmament between Argentina and Brasilia (the most powerful countries of Latin America) launched after the establishment of the MERCOSUR or the end of the hostilities in the EU zone or the possibility of creating a common identity in the South Asia are, maybe, the biggest contributions of the regionalism movements to the welfare of nations. Like in these

¹ James E. DOUGHERTY & Robert L. PFALTZGRAFF, *Contending Theories of International Relations*, Harper and Row Publishers, New York, 1992, p: 434.

cases, the security concept is now perceived as containing more expanded fields than in the cold-war era. This is probably more related with the global social and economic changes than the fact the end of the bipolar system as these new forces (the changing economic conditions and so the societies...) were probably the principal reasons that had weaken the Soviet system, even for the former communist leader Gorbachov.

The liberalization of domestic markets due to such efforts of States that aim to take part in globalization process seems to be the only way to resist to the tough competition that globalization poses and which augments day by day as protectionist legislation of domestic markets begin to decrease. Briefly, it is possible to point out that national authorities are now act either to take part in the international market or not to loose their share. However, it is necessary to cite that not all the countries have similar chances to resist to the mentioned competition. Therefore, the logic of establishing regional integrations in the developing countries and in the developed ones or in other words, the effects of globalization on these two sets of countries differ according to the circumstances under which these countries are found in the face of globalization. Consequently, the reactions of countries against these forces are different and hence their policies of integration result from different purposes. In line with this assumption, the thesis roughly classifies regionalist movements as regionalism in the developed world and that of the developing countries.

1.2. The Method

As it may be understood from the previous paragraphs, the basic conceptual framework of this study is based on the concepts of the international political economy. Therefore, statistical data and comparisons and contrasts on national and regional economies will provide crucial information in supporting the thesis.

On the other hand, while dealing with international political economy which is a branch that has been developing and therefore the discussions on it still

continue, the thesis will not be based solely on economy's dynamics. However, this will not overshadow the fact that globalization has an effect on both international relations concepts and the role of States, both in the domestic and international settings.

One of the most challenging parts of this study is to define what globalization and regional integration signify. Yet, as the two processes are still evolving, normally there exist some ambiguities in the utilization of the two notions in the literature on international political economy. This is overt especially for the definition of globalization, which is more vague and political than the definition of regional integration. Yet, with the globalization term, mainly the economic aspect of it -rather than social and/or cultural aspects which are relatively new repercussions of structural economic changes what might be called as globalization- is focused in the thesis as one of the main idea is to find out, prove a concrete correlation between the periods where globalization and regionalism intersect each other. Therefore, in the first sections of the thesis, it will be focused on identifying the contents of the two concepts.

The study does not aim at explaining the current international economic system. However, the analysis of the economic changes that gave birth to the idea of regional integration movements will also be paid attention. In this respect, the thesis will contain many thoughts from micro-economy as well as the macro and from social to security policies.

The thesis will be composed of two main chapters. In the first section, while departing from an historic research as well as an evaluation of the current developments in the world economy, it will be tried to define what globalization specifically corresponds in the thesis. Secondly, the thesis will focus on the definition of regional integration and a brief history of regionalism will follow that. Section three of the first chapter will concentrate on the relations between globalization and regional integration movements in general as a preparatory part to the case study, namely the EU. In this part, a brief analysis on the significance of

regional integration movements both in the industrialized countries and in the developing countries will be made.

In the second chapter, more than being a case study, the position of the European Union in the face of globalization will be analyzed. As it has been mentioned, the method that will be followed in the first chapter of the thesis will be based on theoretical study as well as historical evaluation. However, the second chapter will be based on case studies.



CHAPTER II

A BRIEF LOOK TO GLOBALIZATION, REGIONALISM & REGIONALISM IN THE WORLD

2.1. Globalization

2.1.1. Towards a Globalized Economy

The popular usage of the concept *globalization* was first met in some of the American management schools and then in the Anglo-Saxon press in the middle of the 1980s. Here, it should also be underlined that the globalization notion, which comes from the Latin “globus”, consists also an ideological value in itself. Hence, even its frequent and forced utilization seems to express a way or will of interpreting international economic and social events.

Contrary to many thoughts, globalization is not a simple pursuit of internationalization (or international integration) aimed to be achieved with the help of the Bretton Woods system after the World War II. An experience of globalization is also prominent in the 19th Century.

On the eve of the World War I (1914), an international economic space that formed around Western powers like the United Kingdom, Germany, Holland and France was observed. However, certainly the UK was the dominant actor of this international economic space thanks to its grand accumulation of capital as a result of the surplus obtained since the industrial revolution.

The first industrial revolution was marked by the utilization of the steam engine, which facilitated mass production and provided an increase in productivity. Whereas the second revolution corresponded to the period where new innovations

in transport technologies, which had led to internal combustion engines, began to dominate every field of life. Thanks to this revolution (the end of the 19th Century till the first years of the 20th Century) that the construction of airplanes and other modern transportation vehicles, thus rapid transport was rendered possible.

After the 1840s, the first signs of a global economy in the form of a trans-continental trade and financial space under the leadership of the UK could be observed. The increase of wealth and the need for agricultural and other products boomed transactions, which was made possible by technical progress achieved in long distance mass transportation thanks to steam power and railways. Hence, in another sense, mass transportation corresponded also to the intensification of technology transfer to the overseas.² Certainly, another important characteristic of the period was the intensification of long term financial and industrial investments made possible by an existing peace, stability and cooperation atmosphere in Europe.

With the 1850s, the surplus obtained since the very first years of the industrial revolution forced the UK to invest abroad.* The capital flow was organized by a strong banking system.³ On the other hand, the English economy began to be dependant on international finance and trade progressively with its opening to the rest of the world. In the light of these remarks it is possible to say that innovations in communication had a considerable effect on the intensification of financial relations.

Briefly, contrary to general belief, international economy was also global in some respects especially during the period 1870-1914. To illustrate, some English banks have followed developments in major European markets on time with the help of telegraph in that epoch; or “Lever Bros (the precursor of Unilever) had

* the flow of direct foreign investments carried out by the UK was hardly 6 million Sterling per year in the aftermath of the Waterloo War. Whereas it was 30 millions per year in the middle of the century and 75 millions per year in the period 1870-1875.

² Paul KENNEDY, *Yirmi Birinci Yüzyıla Hazırlanırken*, (çev.) Fikret Üçcan, T.İş Bankası Yayınları, Ankara, pp: 169-173.

³ *Ibid.*, p: 183.

carried out its production in its factories that extended from Africa to India in the 19th Century.”⁴

Some other examples seem to support this fact:

- the share of goods exportation in the GNP of the UK was around 20% in 1870, which is equal to the one in 1997.
- and in the United States it was a little more than 6% in 1870 and 7,6% in 1997.

(Source: l'Année Stratégique, Paris, Iris-Arléa, 1997)

Today globalization is used to express the way the world economy has been transforming since the 1980s. However, it does not prevent certainly the critics on its conceptualization. Therefore, it is hesitated to use globalization in a strict way throughout the thesis.

If globalization concept is taken as “an ideal type”, then it is perceived as consisting the following characteristics:

- “- the international economic system becomes autonomous and supranational as markets (also consists labor market) and the production become global, as the inter-dependence increases the national level would be penetrated and transformed by the international level,
- the transformation of the multinationals into the transnationals would occur. In this case, firms would act at the global level with global opportunities and strategies without a feeling of liability to a national location,
- the problem of its governance prevails as it is difficult to regulate global markets for the benefit of national policies, decrease in the political and economical influence of the labor as a result of global markets,
- and the erosion of state power.”⁵

⁴ KENNEDY, *op.cit.*, p: 61

⁵ Paul HIRST and Grahame THOMPSON, *Globalisation In Question*, Polity Press, Cambridge, 1996, pp: 359-369

However, today it can easily be pointed out that some of the above said conditions are not totally realized. For example, the free movement of labor stands under the control of national authorities despite illegal immigrations or “there are little evidence that support the idea that multinational corporations are replacing nation-state as the principal actors in international policy”⁶, moreover contrary to what the globalists think, welfare state system does not stop being social as challenges intensify. In Rodnik’s study, a positive correlation between state spending to social security and openness to international trade⁷, which certainly proves the increasing role of governments to protect their citizens against external risks, can be observed even today.

Nevertheless, transformations in the world economy since the 1980s can be summarized as follows;

*starting from the 1970s, (especially after the collapse of the Bretton Woods system and the institution of the floating currencies system), progressive internationalization of monetary and capital markets was observed beside the emergence of an “international capital finance”. Here, the fact that the world economy had also witnessed an internationalization of capital during the gold standard period, a century ago, comparable to the one that we currently face⁸ should also be underlined. Whereas the *sui generis* character of the present case seems to be the high momentum of monetary flows, which are capable of paralyzing domestic policies of each country. According to P. Drucker, money, the control of which has always been a central element of sovereignty, has become transnational. Today, none of the national central banks can control these capital movements.

⁶ Miles KAHLER, “The International Political Economy”, in David Balaam (dir.), **Readings In International Political Economy**, Prentice-Hall, New Jersey, 1996, p: 13.

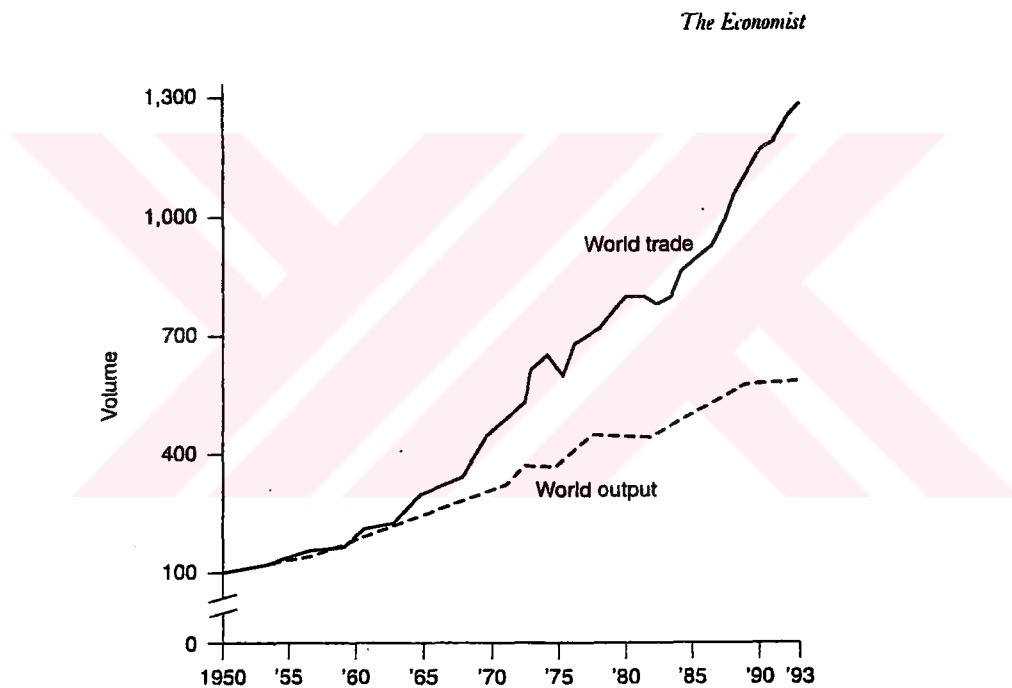
Robert GILPIN, “The Politics of Transnational Economic Relations”, in George T. Crane & Abba Amawi (dir.), **The Theoretical Evolution of International Pol. Economy**, Oxford University Press, New York, 1997, p: 193

⁷ Dani RODNIK, **Has Globalisation Gone Too Far?**, Institute Of International Economics, Washington 1997, pp: 49-66.

⁸ Daniel VERDIER, “Domestic Responses To Capital Market Internationalization Under The Gold Standard”, **International Organisation**, 52/1, Winter 1998, pp: 1-34.

“The amount exchanged each day in the transnational markets* of New York or London exceeds normal needs to meet the costs of international transactions in such huge sums that it has become inconceivable to limit and manage them.”⁹ These monetary flows were made possible thanks to the liberalization and deregulation of financial markets by national governments since 1983, which also corresponds to Reagan period in the USA and Thatcher in Great Britain (and Özal in Turkey). On the other hand, one should also mention the roles of the computer revolution, the debt problems and the floating currency system of the time, in this period.

* an increase in exchange volume of manufactured goods among industrialized economies is observed.



This dynamism of international trade can be explained on the one hand by the increase in the foreign direct investments and one the other by the increase in

* “...more than 90 % of monetary flows have got nothing to do with the international trade or investment”, Paul Kennedy, 21. Yüzyıla Hazırlanırken, p: 62.

⁹ Peter DRUCKER, *Au-Delà Du Capitalisme*, Dunod, Paris, 1993, pp: 155-156.

trade between the subsidiaries of multinational companies.¹⁰ “This dynamism causes a globalization of industries under the effect of two movements:

- firms search for new markets to conquer,
- and some firms had to delocalize some portion of their production to cut form labor costs.”¹¹

On the other hand, it should also be mentioned that this financial, industrial and commercial globalization (but not labor) appears as a regional phenomenon when the following table is taken into consideration:

-Origine of Marchendises Exports-

	1960	1973	1989
Developed C.	80,0 %	82,0 %	80 %
New Ind. C.	2,6 %	6,5 %	11 %
Planned Econ.	13,5 %	10,0 %	9 %

Source: Le point sue la mondialisation, p:73.

Consequently, as the table shows, globalization takes places among the most developed countries.

Another reality in the international economy in the post 1970 period was the emergence of new regional integration accords.

Briefly, the global economic system is characterized by the globalization of production and finance. However, beside this fact, it also signifies the internationalization of political, social, cultural norms and also some common threats like environmental pollution. Today, globalization of production is capable of using territorial divisions in international economy, fiscal, environmental and labor laws of different countries against one to another in order to minimize costs.

¹⁰ Peter DRUCKER, *Gelecek İçin Yönetim*, T.İş. Bankası Yayınları, Ankara, 1996, pp: 341-344.

¹¹ Michel ALBERT, *Capitalisme Contre Capitalisme*, Editions du Seuil, Paris, 1991, pp: 212-213.

In this respect, State is now considered as a factor of competitiveness by multinationals. The political consequences of this economic effect is that the state sovereignty weakens as its fiscal, environmental,...laws relax in this global competition environment.¹² Besides, state policies on economy are now influenced also by monetary flows (the hot capital) stimulated by currency trade. Hence briefly, global production requires certain stability in politics and finance in order to expand.

Another point that should be underlined in this setting is that, “there is, in effect, no explicit political or authority structure for the global economy. There is, nevertheless, something there that remains to be deciphered, something that could be described by the French word *nebuleuse* or by the notion of *governance without government*”¹³

The idea that globalization is an outcome of natural evolution of capitalism takes one to the idea that “the globalization is a microeconomic phenomenon. It represents integration of a cross-national dimension into the very nature of the organizational structure and strategic behavior of individual companies.”¹⁴ Certainly, the alliances in the micro economic level contributed to globalization process as “40% or more of goods exported from any developed country go to overseas subsidiaries affiliates of domestic companies.”¹⁵ Contrary to what is thought, generally, these exports do not only carried out between the subsidiaries of multinational companies but also inside the medium-sized firms. Called as “the global paradox” by John Naisbitt, that is, each time the world economy expands the power of the small actors increases, underscores, for sure, the augmenting role of small and medium-sized companies in the world economy as lifting of commercial obstacles have favored rather these.¹⁶

¹² William GREIDER, “The Global Marketplace : A Closet Dictator” , in.David Balaam, **op. cit.**, p: 323.

¹³ Robert W. COX ,“ Global Perestroika”, in George T. Crane & Abba Amawi (dir.), **op.cit.**, p:162.

¹⁴ Wolfgang H. REINICKE, “Global Public Policy”, **Foreign Affairs**, Vol: 76, No:6, November/ December 1997, p: 127.

¹⁵ Peter DRUCKER, “The Global Economy and The Nation-State”, **Foreign Affairs**, Vol: 76, No: 5, September/ October, 1997, pp: 165-166.

¹⁶ John NAISBITT, **Global Paradox**, Sabah Yayınları, İstanbul, 1994, pp: 35-36.

2.1.2. Global Social Costs Of Globalization

The social costs of globalization seem to augment its importance in the agenda of States' and regional integration policies in the world as threats sharpen. The critics on globalization concerning social issues focus briefly on the following remarks:

- the increasing inequality among developed and developing countries.

- the obstacles to free movement of labor,

- the existence of tensions between social stability and the global market, that is, firstly, reduced obstacles to trade and investment intensify the asymmetry between the groups which can traverse international borders and which can not. Secondly, local workers, especially the less qualified, may be substituted by other foreign workers for a lesser cost, either by means of direct investment or by trade. The consequences of this problem, which appears more as a problem of developed countries, would be social disintegration and its protectionist and nationalist repercussions in the political arena. Hence, the rise of social democracy as well as nationalism in Europe and in the USA seems to be comprehensible in this respect. Thirdly, child workers problem is still an issue that occupies the international agenda.¹⁷

To conclude, it can be said that what we call as globalization is an incomplete globalization in spite of the internationalization of financial markets and the production. The world economy -with the help of experiences- is governed imperfectly due to limited cooperation between major regional entities and the nation states.

¹⁷ Dani RODNIK, *op.cit.*, pp: 1-28.

2.2. Regionalism

Since the end of the 1980s, regional integration agreements increase with a changing nature that does not focus only on responding to economic problems but also questions on collective security, social issues, environment, etc...

2.2.1. Definition

The regional integration notion presents certain ambiguities in its definitions. Simply, integration can be described as the union of parts as a whole. According to a mostly accepted definition “regional integration is a relationship among units in which they are mutually interdependent and jointly produce system properties which they would separately lack.”¹⁸

After this theoretical definition, a slighter one posits that, “Economic regionalism is a simple creation of preferential trade arrangements in order to deal with economic problems at the inter-state level which is geographically limited.”¹⁹ This definition certainly points to the fact that regional integration can be assessed both as a process and as a “state of position”. This process signifies the measures, which would abolish discrimination among economic units belonging to different States. Whereas in the case of a “state of position”, the absence of discriminatory measures among national economies is expressed. On this point, cooperation in the form of policies oriented towards reduction of discriminatory practices can take place in the process but once the suppression of discriminatory measures is meant, integration emerges as the just notion to describe the phenomenon. Consequently, the elimination of discriminatory practices in a region constitutes the principal characteristic of an economic integration.²⁰ From the economic point of view,

¹⁸ Karl W. DEUTSCH, *The Analysis of International Relations*, Prentice Hall, Englewood Cliff, 1988, p: 212

¹⁹ Michel BELANGER, *Institutions Economiques Internationales*, Economica, Paris, 1989, p:87.

²⁰ Bela BALASSA, *The Theory Of Economic Integration*, Greenwood Press, Connecticut, 1982, pp: 1-10

integration is built on the development of privileged commercial, financial, economic and social relations among certain number of countries.

Another important characteristic of integration is the transfer of sovereignty (whether political or economic). This item makes also clear the distinction between a cooperation organization and an integration organization. In the first case, the State is not tied by a decision to which it has not agreed on, while on the contrary functions that are considered as the outcome of the exercise of sovereignty are transferred to supra state instances in an integration organization.

Regional economic integration movements can take several forms:

-Free trade zones imply only the elimination of custom tariffs and other measures that restrict free trade in a definite zone.

-Customs union consists also the practice of a common trade policy vis-à-vis the third countries in the form of a common customs tariff to the rest of the world.

-Common market consists free movement of capital and labor.

-Economic union contains the harmonization of national economy policies at the common market level.

-Total economic integration implies the unification of monetary, fiscal and social policies. Thus, it is the most advanced model of economic integration concept.²¹

According to these definitions, it can be understood that regional economic integration concept presents several ambiguities in itself, from which one may also add that regionalism is not necessarily limited with the economic fields but also it can contain political, social and the security dimensions. The form of these inter-state relations depends generally on the will of the participants, the intensity of the integration and the mutual interests that are expected from integration. Hence, while

²¹ Halil SEYIDOĞLU, *Uluslararası İktisat*, Güzem Yayınları, İstanbul, 1996, pp: 201-202.

social integration can be mentioned as one of the preconditions of a total economic integration, the same may not be necessary for a simple free trade zone.

2.2.2. Contemporary History Of Regionalism

Multilateral liberalization has been progressing since the World War II. At the same time, various regional integration arrangements arise or deepen. In this new international trade system, the famous “the most favored nation” clause has been in force to prevent that the world economy does not act with a mercantalistic mind.

The history of economic regionalism in the post-war years can be divided into two main currents. The first came out in the beginning of the 1960s as the European Economic Community (EEC) was taken as an example by regionalist ideas in Africa, Latin America and other parts of the developing world. With the 1970s, a stagnation was observed in this regionalism process.

The second wave of regionalism was observed starting from the midst of the 1980s. A remarkable increase in regional integration agreements characterized the late 1980s. The signing of the European Single Act in 1987 marked also the deepening of an economic integration model for the rest of the world. On the other hand, a free trade agreement between the USA and Canada was put into force in 1989, which would be replaced soon with NAFTA (this time with the participation of Mexico), in 1994. However, once again, with its dynamism and complex structure, Europe was the leader of the regionalism idea and practice all through the 1990s.

2.3. Does Globalization Stimulate Regionalism?

The European initiative marked the principal and unique step in the first wave of regionalism. Certainly, the conditions that encouraged Western Europe were far from the thing, which we call globalization. At the time, the politicians and

the elites paid considerable importance to the establishment of links among Western European countries in order to accomplish an European construction which was driven both by an economic reasoning (the reconstruction of the destroyed Europe) and the international setting, namely, the bipolarity. Hence, "...the unification appeared as the best choice for the Europeans to ameliorate the utilization of their economic and technical capacities, augment their efficiency under the conditions posed by the modern world."²² Nevertheless, it is also possible to state that the future of the security in Europe was another essential concern of the European decision makers of the time. Considering this reality, the Schuman plan, which proposed the control of the whole French-German production of coal and steel by a common High Authority in order to put an end to the possibility of a German-French war by integrating their heavy industries, prepared the foundations of an economic community which would soon become a political community in a functional way.

Apart from Europe, Latin American and some African countries have also witnessed regionalist movements whose reasons and results clearly differ from the European practice. In 1969, The Andean Pact has gathered Colombia, Equator, Bolivia, Peru, and Chile. In Asia, the establishment of ASEAN in 1967 and the Economic and Customs Union of Central Africa in 1964 were prudent movements of the time although they could not produced effective moves in the years ahead. Accordingly, the 1970s were marked by a stagnation in the movement.

The second wave of regionalism commenced in the second half of the 1980s. The United States signed free trade agreements with Israel in 1985 and Canada progressively and finally the NAFTA agreement in November 1993, which integrated Mexico to the zone that has already established between the USA and Canada since 1987. At the same time, the European integration continued its enlargement processes to South (Greece, Portugal, Spain) and North (Sweden,

²² Louis CARTOU, *L'Union Européenne*, Editions Dalloz, Paris, 1994, p:38

Ireland, Austria). Another initiative came from Brasilia and Argentina in 1988 with the creation of MERCOSUR that gathered also Paraguay and Uruguay.

Before drowning into the analysis of these two waves of regionalism, it is convenient to explain what economic integration signifies for member and non-member countries in the following section.

2.3.1. The Effects of Regional Integration for Member and Non-Member Countries

The economic effects of integration for the member countries have been the basis of researches on customs unions, which were first presented by Jacob Viner in 1950. Briefly, he focused on static effects of customs unions on collective welfare. For the theory, the static effects consist effects that come out as the consequences of redistribution of production factors in an economic integration.

The level of static effect resulting from the accomplishment of a customs union is measured by *trade creation* and *trade diversion* terms. Hence, lifting of obstacles to free trade inside the region would increase intra-regional trade and concentrate production in more efficient producers inside and the practice of a common custom tariff to the rest of the world (in the case of a customs union) would favor intra-regional trade to the detriment of trade with the third parties as trade with the rest of the world is reduced due to the negative cost effect of the common custom tariff added on prices of goods imported.

This theory states that such a union would be more efficient as long as the number of participant countries, as well as the number of lifted custom taxes, are kept high, and that the economies of the members are complementary with each other's economies, that is, an identical degree of development.²³ The Theory also puts that the net contribution of custom unions to the global welfare depends on the

²³ Alain BUZELAY, *Intégration et Désintégration Européenne*, Editions Economica, Paris, 1996, pp:19-20

rate of trade creation compared to the one of trade diversion. Consequently, as long as trade creation stands higher than trade diversion, a net gain in the global welfare would be assured. However, such unions, which are limited to a group of countries can only be an example of a “second-best theory” as the best policy to augment the efficiency of economic sources could be achieved, theoretically, by free trade at the international level.

Other static effects include the increase in the welfare of the consumers due to the reduction in prices of imported goods from the member states and in addition an increase in the production. Consequently, the increase in welfare in member states of a customs union, which is successful in creating trade can also increase the welfare of the thirds, as a portion of the additional income will be spent for extra imports from the rest of the world.

One of the weaknesses of the Viner’s theory was to neglect the dynamic aspects of integration. These aspects, often conceived as more significant than the static effects include effects that gradually influence national income, the growth and the welfare in the long run.²⁴ The dynamic analysis takes into account the *economies of scale* related to the effects of size resulting from a larger market and technical progress related to the effects of innovation induced by competition. The removal of barriers to trade makes it possible to produce more significant quantities starting from the same infrastructure. The drop of costs and prices obtained thanks to the economies of scale supports also investment in the pursuit of benefiting from a larger market and facing the increased competition. Apart from these dynamic effects, such an integration would also orient foreign investments towards the interior of the region to overcome trade barriers imposed on the products that are imported.²⁵ Hence, one can explain the increase in the massive American investments in Europe after 1955 (the year of the Messina meeting -June 1955-. This meeting of the Foreign Ministers of the six members of ECSC marked the beginning of initiatives which would end with the signing of the Treaties of Rome)

²⁴ SEYİDOĞLU, *op.cit.*, p:208.

²⁵ Dominick SALVATORE, *International Economics*, Prentice-Hall, New Jersey, 1998, p:307.

and 1986* (the decision of the commission in 1985, the *white book*, determining the list of policies for the creation of a domestic market and the declaration of the European Single Act in February 1986 which aimed at the progressive realization of the European Union.)

In short, the effective use of economic resources would be an outcome of free trade. Admittedly, the welfare obtained from the concentration of production in more effective (talented) hands would be much more significant in an integration aiming, therefore, free movement of services and labor, that is, all factors of production.

The principal goal of regional integration movements among developing countries (primarily in Latin America) in the 1960's was to accomplish economic growth and industrialization with the help of the principles of classical theory, namely the customs union theory of Viner. It was also alleged that the establishment of a union could promote economic development as a result of an increase in the capacity of bargaining (bargaining power) of member states in the face of the rest of the world and reduce vulnerability towards abroad.²⁶ Whereas in Europe, since the very first moment of the signing of the treaty constituting ECSC economic integration was conceived as an instrument serving to accomplish political integration in a functionalist way.

Consequently, the first difference between regionalism of the Third World and the one of Europe in the first vague was that the Third World did not have an objective of political unification in spite of dependentists' efforts that focused on pursuing a common political action in the fields of security, trade, assistance, etc. Thus, the néo-functionalist approach appeared insufficient to explain regionalism

* Annual flows of direct investment to the EEC was multiplied by 4,25 in current dollars in the period 1986-90 and 5,8 in the period 1990-92, compared to the period of 1976-85 (annual flows of FDI were 12,8 billion dollars between 1981-85 and 86 billion dollars in 1990). Source: Statistics on Balance of Payment- IMF.

²⁶ Bela BALASSA, *The Theory Of Economic Integration*, Greenwood Press, Connecticut, 1982, p:6.

among the least developed due to the fact that it envisaged socio-economic conditions different from what existed in those countries.²⁷

The second difference is marked by the failure of the Latin American essays resulting, on the one hand, from unequal redistribution of profits of integration and the polarization of development of industries within the interior of the integration (the theory of polarization) and on the other hand, the characteristics of existing industries and the bankruptcy of the theory of customs union which requires conditions of a modern industrialized economy for success. Thus, the intra-regional trade, the engine of Viner's theory, remained weak in explaining the situation in these developing countries, except perhaps the Central American Common Market (the CACM), which succeeded to increase intra-regional trade from 7 % to 25,7 % in a period of ten years time contrary to what we have seen in Europe (the EEC and EFTA) and in Asia (the ASEAN). Hence, in short, regionalism presented (and still presents at our time) different characters in the industrialized countries and in the developing countries.

2.3.2. Interaction Between Globalization and Regional Integration

International economy of the 1990's was marked by extensive capital flows and liberalization of national regulations regarding FDI (foreign direct investment). Since the 1970's, the western economy was characterized by a weak growth rate, unemployment and unstable prices due to the reduction in the rates of profit and the accumulation of capital, being the consequences of global competition, which favored execution of protective measures in national economies even at the sectoral and regional levels. Under these conditions, the internationalization of production, the development of financial and commercial relations force States having similar characteristics to unite their capacities under a regional structure. This second wave of regionalism is different from the first one of three aspects. Firstly, this second wave presents an action which exceeds simple agreements of trade preferences as it

²⁷ W. Adrew AXLINE, *The Political Economy Of Regional Cooperation*, Fairleigh Dickinson University Press, Madison, 1994, pp: 180-181

contains institutional aspects, secondly institutional variations within the areas are remarkable, thirdly it takes place in an environment, in an economic system, different that the period when the first wave took place. For the period 1980-2000, the developing countries pursued policies of liberalization in their exchanges (trade) and deregulation of their financial markets as a policy of opening to the global market in order to maintain a sustainable development as the premises of the traditional approach of *industrialization by invitation* on a regional basis is made ineffective by the mode of *global production* which splits up and distributes the production process on the world and contributes to the disintegration of production based exclusively in a single country or an industry.²⁸ Certainly, this logic and trend of production was among the major reasons that urged 63 developing countries to decide liberalizing their markets gradually during the Uruguay round (1986-1992).²⁹

Whereas at the same time, it was noted that the developed countries pursued economy policies that aimed at the protection of their labor intensive industries with protectionist measures such as voluntary exports restrictions, laws that restrict free movement of goods -like anti-dumping laws-, equal effect taxes, etc, that is, measures that are usually called as invisible. Thus, from the very beginning of the 1980s, the modifications in the world economy influenced policies of regionalism in different ways both in the developing countries and in the industrialized ones.

While some see regionalism as a substitute of multilateralism and that it represents a transition period or a new step towards total liberalization (as barriers to trade between countries are lifted with the completion of a regional integration), others accept these trends as obstacles for such liberalization and prefer using *block* or *fortress* concepts to define or at least to stress the protectionist character of some regional integration initiatives (primarily those of North countries). However, contrary to this last assumption, the analysis of goods exchange and the international economic relations in general suggest that regional integration practices do not sharply contradict with the globalization process. “In other words,

²⁸ W.Andrew AXLINE, *op. cit.*, p: 221.

²⁹ *Dünyada Küreselleşme ve Bölgesel Bütünleşmeler*, T.C. Başbakanlık Devlet Planlama Teşkilatı Yayınları, Ankara, 1995, p: 39

regional integration agreements do not represent a movement of regionalism in the sense of creation of zones isolated from each other by protectionist measures."³⁰

Share of Extra-regional trade in GNP, mean of exports and imports a percentage of GNP.

	1958	1963	1968	1973	1979	1983	1991
<i>Western Europe</i>	15,8	12,2	12,5	13,8	16,1	15,3	12,8
<i>North America</i>	6,3	5,7	6,0	8,5	13,6	11,0	13,2
<i>Latin America</i>	24,8	20,6	17,4	10,6	21,3	20,9	23,7
<i>Asia</i>	15,5	11,4	13,5	13,6	16,1	15,4	15,2
<i>World</i>	12,9	11,8	11,6	14,2	18,8	17,4	16,1

Source: RAMSES 97, p: 241.

These tables clearly show that the share of interregional exchanges progresses in the world trade parallelly to an increase on the behalf of intra-regional exchanges. According to Jagdish Bhagwati, a particular characteristic of this second wave of regionalism can be explained by conversion of the United States,³¹ i.e., in the precedent years, the principles of the international economy was stemming from multilateralism basis, therefore a widening of the applicability of the MFN clause (the most favored nation) and reciprocal concessions (reciprocity), always supported by the United States since the end of the War. Multilateralism, in theory, was antagonistic with the creation of regional entities, except the EEC, within the international economy. However, this attitude of the United States concerning regionalism begins to change slightly in the 1980s, primarily with the disappointment due to the lack of progress in the negotiations of GATT. This departure from multilateralism, or at least the decline of American hegemony, took

³⁰ RAMSES 97, Ifri, Paris, p: 231.

³¹ Jagdish BHAGWATI, "Departures From Multilateralism : Regionalism and Aggressive Unilateralism", *The Economic Journal*, No: 100, December 1990, p: 1310

place in an international economic environment which was characterized by global competition intensified with the reappearance of Japan, the emergence of the Asian tigers later on and the progress towards total integration in Europe. Consequently, it can be noted that a parallelism between the decline of regional multilateralism and the reappearance of integration, stimulated by the United States exists.

On the relations between GATT and regionalism, three points of view highlight the case. "The first assumption puts that the GATT is finished and regionalism appears as an alternative of multilateralism. The second supports that regionalism is a supplement of multilateralism and that regionalism speeds up the multilateral process."³² In line with these points, it seems that regionalism would not be an alternative of multilateralism as long as those regions remain open in line with the process of liberalization which the world economy has been witnessing and that this open regionalism is supported by inter-regional dialogues. On the other side, it can also be observed that insufficiencies within regional movements and the GATT system in itself exist preventing the international economy operate in an unproblematic way. According to F.Roessler, regional integration agreements provide access to the markets, which are not available under the GATT system but in addition to that, no regional integration agreement can cover all the fields covered under the GATT. Thus, the regional and multilateral approaches appear complementary with the liberalization of the international trade.³³

Four reasons explain the problems experienced during the GATT negotiations that forced countries to turn their faces, in a sense, to the neighboring countries:

- " the number of the participant countries in the negotiations increased considerably in a way that paralyzes the decision-making process during the negotiations,

³² Jagdish BHAGWATI, "Regionalism and Multilateralism", in De MELO & PANAGARIYA (dir.), *op.cit.*, pp: 29-31.

³³ Frieder ROESSLER, "Regional Integration Agreements and Multilateral Trade Order", in Anderson KYM & Richard BLACKHURST (dir.), **Regional Integration and The Global Trading System**, St. Martin's Press, New York, 1993, p: 324.

- the character of economic protectionism has changed (the new protection measures include now the voluntary restrictions of exports, anti-dumping measures, the equivalent effect taxes, and others like subventions, etc.) in a way that made negotiations more complicated,
- the decline of the predominance of the United States both economically and politically made it difficult to control and govern the international economic system that was based mainly on the premises of the Bretton Woods system,
- the institutional differences among major countries have also paralyzed the negotiations." ³⁴

This last remark is significant from the point of view of the governance of international system as those differences determine the characters of the established regional entities and the future global competition. Thus, the same logic helps to understand the character of commercial relations between the United States and Japan, which is directly influenced by Japanese economic tradition (of mercantilist type) that allots to the Japanese government to manage and develop industrial structure for national objectives.

Up to now, it was tried to underscore that the insufficiency of the GATT system in the face of new modes of protectionism on free trade carried out by industrialized countries has been a significant factor in the quest for commencing regional integration initiatives or widening of the existing ones. The globalization of competition and the modification of its nature had, undoubtedly, significant effects on the emergence of protectionist economy policies. Called as *offensive/aggressive trade* by P.Drucker or the *mercantilist competition* of R.Gilpin, Japan and the new industrialized countries (NIC) accelerated their competitive exports while reducing their imports at the same time stimulated by the mercenary attitude in these countries. This mercenary attitude of the 1970s and 1980s was different from that of 19th century. Today, Japan's principal goal is, at least, to survive in the world

³⁴ Paul KRUGMAN, "Regionalism Versus Multilateralism", in De MELO & PANAGARIYA, *op. cit.*, p: 74.

market and optimally to achieve economic supremacy.³⁵ This attitude of Japan and the other countries of the region eroded, in fact, the principle of reciprocity, therefore a significant principal of the international economic system aimed by GATT.

According to this principle of reciprocity, two countries trading which each other liberalize their exchanges in a reciprocal way. Hence, the principle appears as a simple instrument that is used for preventing protectionism in the international economy. Under these conditions (on the one hand protectionism and on the other the unfair competition) regionalism aims to create an economic entity, which provides a rather large market enough to help industries to develop and become competitive enough to play the card of reciprocity. Therefore one will see the creation of vast free trade areas that would be capable of reciprocity adopting the same attitude with regard to the others, being open to trade and protectionism at the same time. This vision of regionalism explains primarily the attitudes of the developed countries in the second wave of regionalism. However, among the developing countries the establishment of new regional integration arrangements and the renewal of the ancients were stimulated by not only with the desire to integrate with the international market but also with the fear to be excluded from the markets of developed countries in the case of an increase in the protection measures that they apply to counter the competition between these developed countries. Thus, in the South East Asia, it is believed that only a regional arrangement could resist the challenge posed by Europe and North America. However, the applicability of the idea favoring the establishment of such a regional solution was limited on the one hand by fears and the hostilities of the regional NIC in the face of China and Japan and on the other hand, by cultural and ethnic differences of which the evidence can be the two separate active regional integration in the continent. The AFTA (ASEAN Free Trade Area) created in 1992 between the countries of the

³⁵ Robert GILPIN, *The Political Economy Of International Relations*, Princeton University Press, Princeton, 1997, p: 396.

ASEAN* and the ANZCERTA (Australia-New Zealand Closer Economic Relations Trade Agreement) created in 1983 and which aims to be integrated to the AFTA but always, in a sense, expelled as it is conceived as a conspiracy instrument of the West and secondly because of cultural and ethnic reasons.

Anyway, today, the APEC (Asia-Pacific Economic Co-operation) that is, an open co-operation agreement, i.e., a co-operation agreement that does not intent discrimination against third parties, created in 1989, which gathers six countries of the ASEAN, China, Taiwan and Japan in the South East Asia, the CER (Australia, New Zealand and New Guinea) in the South-Eastern Pacific, the NAFTA and Chile in America appears as "a transpacific economic forum which was established as a result of the awakening consciousness of developing interdependency within the zone and the difficulties met during the negotiations of Uruguay Round at the end of the 1980s. The APEC intends to promote co-operation in various fields such as technology or transportation, but its efforts especially related to the liberalization of trade and foreign direct investments "³⁶

Consequently, it can be said that the APEC is a product of the interdependence posed by globalization, which has increased considerably thanks to the commercial flows and the foreign direct investments carried out primarily by Japanese multinational firms within the zone in 1980s and by the companies of the new industrialized economies of East Asia whose investments set out ramification of structures of economic interdependence in the region. Consequently, Japan and the Asian developing countries secured access to the American market, which has been the principal purchaser of the products coming from South East Asia, while the United States could have a chance to accelerate the opening of Asian markets. On the other side, with the initiative of ASEM (Asia-Europe Meeting) which takes APEC as a model created in 1996 "to cure the weak economic relations between

***Association of South East Asian Countries; Thailand, Singapore, Malaysia, Indonesia, the Philippines and Brunei, established in 1962 as a tentative to create an economic cooperation area for the NIC of the region, freed from the guardianship of a grand power whether it is Japan, China or the United States.**

³⁶ Thierry De MONTBRIAL & Pierre JACQUET, **RAMSES 97**, Dunod-Ifri, p:236.

Asia and Europe, the Asian countries could hence guarantee that the EU remains open to trade with the region. Reciprocally, the ASEM exerts an attraction on the European side owing to the fact that they are excluded from the process of APEC and it offers an opportunity of confirming and balancing the tripolar relation North America-Europe-Asia."³⁷ Here, it is possible to posit that, with the creation of the APEC and the ASEM, Asian States and governmental organizations have gained some international power and a significant factor of collective identity which would certainly back regional and multilateral diplomacy in the region, which has always been a wish of the political élites of the region after the collapse of the Soviet Union and with the emergence of the signs of a new opening policy towards China. Nevertheless, what is, perhaps, more interesting is that the reformulation of the Japanese foreign policy according to these regional developments appears as a clear sign of Japan's consciousness -being a country of island having little natural resources, Japan has always been, by nature, feared from an insulation or to be sieged by clubs of countries- about its geo-strategic position.

Whereas in Latin America, the situation initially appears different because these countries did not have means like competitive industries or a capacity of qualified work, etc., which can threaten the international market in case they liberalize their markets to integrate with the world economy. Moreover, there is no future of an integration within the Latin America "even if it seems consistent for Argentina to integrate with the Brazilian market, which is still one of the greatest economy of the Third World but much smaller than that of Canada."³⁸ Thus, it is understood that in Latin America, the possibility of a regional integration with the United States or the NAFTA maintains its attractiveness as the countries of the continent conceive such an integration consisted of fear, that is a *defensive regionalism* or *regionalism of association* of Serge Sur, as an instrument which ensures access to international market in the future. According to this logic, for example, it is not astonishing to observe the Chilean request for accession to NAFTA, which is blocked for the moment but soon to be associated with NAFTA

³⁷ Richard HIGGOT, "Mondialisation et Gouvernance : l'émergence du niveau régional", *La Politique Etrangère*, Editions Ifri, Paris, no: 2/97, été 1997, p: 289

³⁸ Jaime De MELO & PARAGINAYA, *op.cit.*, p: 21

under the Free Trade Area of the Americas or the Mexican proposal on the creation of NAFTA between CUFTA and Mexico which, this latter, was already before 1993 dependant on the American market from the aspect of trade and the structural basis led by American firms located in Mexico and the southern border of the United States. Accordingly, with the initiative of The Summit of the Americas concluded on April 22, 2001 calling to create a free-trade area linking the democracies of the American continent and their 800 million people by Jan. 1, 2005, the idea to unite the American continent under a waste regional agreement would be realized. However, this initiative would not be as facile as expected due to various reasons like protectionist attitudes such as Brazil's or social and economic potential problems inherent to developed countries of the region. Parallely, with the possibility of a rising unemployment, President Bush did not hesitate to pronounce in his speech that the trade proposal must be matched by "a strong commitment to protecting our environment and improving labor standards"³⁹ which probably is a factor that decreases competitiveness of developing countries.

Thus, one can say that the emergence of new regional integration initiatives (the free trade agreement between the United States and Canada -CUFTA 1989-, and the treaty of Maastricht in Europe establishing the European Union) among the developed countries, accelerated by the failure in the practice of multilateralism principle due to protectionist remedies caused by fear of failure in the face of global competition and the decline of the hegemonic power of the United States, had affected regional integration movements of the developing world, primarily, which are located at the periphery of developed countries. Thus, first of all, one can note that the creation of NAFTA had direct effects on the future of MERCOSUR (established in 1991 by Argentina, Brazil, Paraguay and Uruguay and became the new center of attraction for non-members of the region with its success. Hence, Chile and Bolivia signed free trade agreements with MERCOSUR in 1996.), in a way that forced this latter to search modalities of cooperation which would be structural enough to keep it durable. A good example of such a quest is the "initiative aiming to merge MERCOSUR and NAFTA under the name of Free

³⁹ "The Selling of Free Trade", *New York Times*, April 24, 2001.

Trade Area of the Americas (FTAA) up to the year 2005. On the other hand, the European Union had signed agreements with twelve Mediterranean countries (the EUROMED) in 1995 for the completion of free trade by 2010.”⁴⁰

The tendency of the developed countries to intensify their direct foreign investments in the areas which are located in their zones of influence - or future zone of influence (for example, the United States has always been the largest financier of investments in Latin America –in line with the doctrine of Monroe- or the same thing is also valid for the explanation of the increase in Japan origin investments starting from the 1980s in Taiwan, South Korea or in Singapore) can be explained by:

- Firstly, by economic reasons; the developed countries want to benefit from the geographical proximity and relatively cheap resources in their peripheries in order to achieve certain economic benefits whether it is to reduce their costs, to penetrate to the markets of these countries in order to better adapt to the preferences of that market, to maximize their markets, etc. As it was already mentioned, one of the characteristics of today’s globalization is the fact that trade follows investments and that they continue to augment more quickly than exports.*

Under these conditions, it is significant to take into account the geographical distribution of FDIs to explain one of the roles of globalization as factor of regional integration. The most outstanding example on this matter seems to be the "regionalization" witnessed in the East Asia.

As it was already mentioned, the East Asian economies were perceived as a serious challenge to the Western economies, primarily in the 1980s. Besides, they

* in the period 1973-1995, direct foreign investments were multiplied by 12 in dollars whereas merchandise exports could increase 8,5 times.

⁴⁰ C. Fred BERGSTEN, “ Globalizing Free Trade “, **Foreign Affairs**, vol: 75 no: 3, May/June 1996, pp: 106-107

appeared as a grand market, which is integrated into the international market not only with its trade but also with the FDIs attraction. In the period 1980-1991, the share of intra-regional exports in total exports in the East Asian economies have increased from 26% to 46,71% and the FDIs in the East Asia increased from 2,1 billion dollars to 18 billions of US dollars per year in the same period. These quantities prove that the FDI can contribute to increasing intra-regional exchanges.⁴¹ "In Asia, regionalization progressed in a pragmatic way in the absence of a formal framework; this phenomenon was primarily fed by initiatives of the private sector thus through a rationalization of the production. Hence, this phenomenon can be a good example to help us understand the existing links between the process of globalization and the dynamics of growth."⁴² Nevertheless, it would be difficult to posit that all the initiatives had their sources from this dynamism of the private sector, when the role of the State, for example in the Japanese economy or the massive German direct investments to Eastern Europe are taken into consideration.

In fact, it was mainly the Japanese and American companies that delocalized their productions in Asia in accordance with the logic of internationalization of production, which is to draw advantage primarily from the low costs of labor. A second wave of investment was started, this time, by newly industrialized economies of the region with their enrichment due to the intense Japanese and American investments leading to the creation of a wider and a more complex regional interdependency structure in time. Consequently, "the passage to a mode of production characterized by a greater parceling of various stages of the production process necessities regional integration of the markets and production since the need for a greater proximity between producers and consumers is stronger today than in the past and that it is not any more a question of organizing the networks of production on a scale to be strictly global."⁴³

⁴¹ T.C. Başbakanlık DPT Müsteşarlığı, *Dünyada Küreselleşme ve Bölgesel Bütünleşmeler*, p:94,104

⁴² Françoise NICOLAS, "Mondialisation et Régionalisation Dans les Pays en développement", *La Politique Etrangère*, IFRI, 2/1997, ÉTÉ 1997, pp: 298-299.

⁴³ *Ibid.*, p: 300.

- Secondly, recent researches carried out by realists stressed the importance of the politico-military relations and note that it is probable that States prefer to liberalize their commercial regimes with their political and military allies in place of such a liberalization with their potential adversaries and puts that the erosion of hegemony in the international system had given rise to the evolution of regional integration movements⁴⁴ as the objective of States is now reshaping on the basis to be the sole powers in their geographical areas.
- Thirdly, common cultural values, ethnic groups, common history and identity can facilitate the establishment of economic links.

According to P. Drucker, under the reality of global competition, the march towards regionalism is irreversible as it successfully corresponds to the new economic reality. Thus, neither protectionism nor traditional free trade understanding can alone ensure the correct functioning of the information economy. What one needs for this new economy is an economic entity large enough internally to free trade and hence competition make sense there and that new high technology industries, that is, high tech industries in which production cost drops as quantity produced increases and that it can be in the position to resist competitive importation, while being strongly protected by regional regulations. Conformably, the information economy needs economic units larger than a Nation-State but it also needs to be able to protect these industries and to organize trade with other blocks on the basis of reciprocity, which is neither protectionism nor free trade.⁴⁵ It was one of realities that pushed the Westerners to pursue protectionist measures, which this time, oriented the FDIs to these countries and accelerated -appearing paradoxical- globalization.

⁴⁴ Edward D. MANSFIELD & Helen V. MILNER, **The Political Economy of Regionalism**, Columbia University Press, New York, 1997, p: 9-10.

⁴⁵ Peter DRUCKER, **Au-Delà du Capitalisme**, Dunod, Paris, 1993, pp: 160-163.

CHAPTER III

ON THE EU AND GLOBALIZATION

3.1. EU and Globalization

European integration is rooted in the past, and ultimately draws its legitimating force from the realities of a destroyed Europe in the aftermath of the World War II. The driving idea in those days was to prevent another possible French-German war that might be rooted in competition for steel and coal production. Hence, it was this idea that European communities' idealists designed the High Authority to put French-German coal and steel production under the control of a supranational institution. Therefore, unlike regionalist movements in Asia and Latin America that we have studied, the European regionalism idea is originally far from being under the influence of globalization initially. Despite this fact, during the enlargement and deepening processes of the European regionalism, or what might be called as *renewed European integration*, globalization appeared as one of the energetic forces towards a more complex European system. The accomplishment of the common market and the idea of European monetary union are the outcomes of essays to establish durable and competitive economy in Europe. The coming into existence of supranational institutions can be seen as efforts to remedy the particular contemporary challenges associated with globalization as we have tried to make clear in the previous part. By globalization we meant mainly the internationalization of certain production factors rather than globalization of all the factors. In particular, we are experiencing a growing economic globalization, the internationalization of the economy or the further development of global capitalism, as we might call it. In the following sections the economic aspect of globalization - rather than social and/or cultural aspects which are relatively new repercussions of structural economic changes what might be called as globalization- will be focused and other aspects are slightly touched upon as one of the main idea in this study is

to find out / prove a concrete correlation between the periods where the first signs of globalization –which is originally an economic phenomenon- and regionalism came out respectively.

The ongoing internationalization *démarche* is not a new phenomenon as it has been going on at least for two centuries. However, it has gained pace in new dimensions, not least related to the internationalization of capital markets. Globalization brings forth new and magnifies old challenges to legitimate governance. The state is not able to control international capital flows or technological developments. Nor it stems the negative social and environmental effects of an increasingly global capitalism. It has become increasingly evident that many problems such as nuclear waste, illegal immigration, cross-border financial flows, international organized crime problems, and technology transfer need to be solved at the international level. In addition, in such a setting, it has become increasingly difficult for the state to uphold the socio-economic compromise which has long been the primary concern of the welfare state system and which has been consisted of measures to sustain economic growth on the one hand, and measures to ensure social protection, on the other. Today, the policy makers of the EU seem to focus on this particular problem of sustaining the European welfare state system, mostly challenged by globalization.

The European Union is a unique type of entity. It is unique not only because it has developed a unique set of institutions. The EU is a complex entity without a clearly defined core yet, and compared to a state, with a far less hierarchical system of governance. It is a mixture of supranational, transnational, transgovernmental, and intergovernmental structures mostly shaped with a functionalist way. In search of mechanisms, which can counter or minimize perverse effects of globalization, the EU could not act rapidly. An important reason of this standstill lies in the fact that the European Union seems to be in a new and a decisive phase at the edge of taking further steps towards more intense economic and political integration. The EU has undergone important changes in several important areas in the latest years and the EU is in a process of transformation challenged with a heavy agenda such

as social policy, enlargement, security, etc. Bearing in mind that the renewal of European regionalism that started in the second half of the 1980s was merely a strategic idea to revitalize European integration rather than a crisis management quest at the age of globalization, it is only with the first years of the 1990s that an understanding started to reign EU's decision-making structures as a result of perverse and challenging effects of globalization like unemployment. The clear proofs of this new attitude or consciousness on globalization came in the form of a 1990 Commission study, which was followed by a White Paper presented by the Commission to the Council in 1993 and policy amendments on common economy, competition and social terms.

Briefly, one can find out that there are two different perspectives on the relations between the EU and globalization. These consist the main discussion point that whether regionalism contradicts globalization or it furnishes this latter. For many, the EU appears as an initiative that furthers globalization as it has established the "four freedoms" that enhance the free movement and competitiveness on the markets and so the common European currency the Euro and also the EU has a function in regard to the regulation of globalization. By insisting on concerns about social aspects of labor, environment protection, health, employment, regional development etc. the EU is able to regulate aspects, which could otherwise be neglected. On the other hand many perceives the EU as a fortress that only liberates its own markets inside, while making difficult for outsiders to penetrate in.

What ever be the conceptualization, the EU's response to the challenges posed by globalization mainly shaped around policies aiming to improve competitiveness of the EU economy in the face of the thirds, that is to better resist against traditional and new economic rivals, as for the EU's decision makers at the first sight, the increased competitiveness highlights as the main challenge to the EU welfare state system mostly threatened by the augmenting unemployment figures that has to be dealt with. Though, there is also an image in the minds that the globalization is an opportunity for Europe to seize, rather than a threat. For these latter, far from being the cause of unemployment in Europe, it is a potential source

for employment creation. There is a close link between the development of world trade, economic growth and employment when the fact that a major part of the Union's prosperity today is based on trade and international investment.

Bearing these points in mind, first, we are examining the performance of the EU economy and hence making an evaluation of its success in a globalized economy, then comes the analysis of the challenges under banners of “consequences of challenges” and “reactions to those challenges”. The most striking consequences are the increasing unemployment rate, which comes as a result of a retard in growth, regional development gaps and the governance of the system. The reactions to those challenges will then be analyzed under liberal policies such as policies aiming liberalization and competitiveness in order to revitalize growth. On this point, while the EMU, industry, trade and science policies appear as the elements for extensive competition strategy, protectionist measures such as quantitative restrictions, anti-dumping practices and negotiations under WTO system highlight the character of a European fortress.

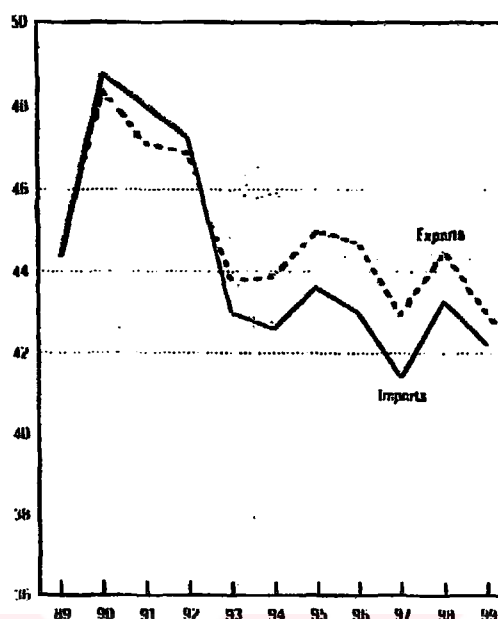
3.1.1. European Economy

As we have tried to show, the “globalization” does not only signify a bigger openness of economies to international trade but also it signifies interpenetration of national production structures. Hence, deregulation and structural economic and social reforms are both facilitators and consequences of the globalization process.

Among the industrialized states, the USA has been recording well economic performance with a stable growth and declining unemployment rates. Whereas in Europe, growth rates smoothly decrease while at the same time unemployment increases. The following figures let us analyze the EU's performance in the world economy and its performance when compared with other regional integration entities.⁴⁶

⁴⁶ “World Bank Trade Report 1999”, World Bank Editions, Washington, 2000.

Share of EU in World Merchandise trade, 1988-99
(% based on value data)



Growth in the volume of world merchandise trade by selected region, 1990-99
(Annual percentage change)

Exports				Imports		
1990-99	1998	1999		1990-99	1998	1999
6.5	5.0	5.0	World	6.5	4.5	6.0
7.0	3.5	6.0	North America ^a	8.5	10.5	11.0
8.5	7.5	7.5	Latin America	10.5	8.5	11.0
6.0	6.0	4.0	Western Europe	5.5	8.0	4.0
6.0	6.5	3.5	European Union (15)	5.5	8.5	4.0
4.0	5.0	-1.5	C./E. Europe/Baltic States/CIS	3.0	4.5	-9.0
7.5	3.5	7.5	Asia	7.0	-8.5	11.5
2.5	-1.5	2.0	Japan	4.5	-5.5	9.5
10.0	5.0	9.0	Six East Asian traders	7.0	-14.5	14.0

Growth in the value of world merchandise trade by region, 1999

(Billion dollars and percentage)

Exports					Imports			
Value	Annual percentage change				Value	Annual percentage change		
1999	1990-99	1998	1999		1999	1990-99	1998	1999
5473	5	-2	3	World	5729	6	-1	4
934	7	-1	4	North America	1280	8	5	11
297	8	-1	6	Latin America	335	11	5	-3
2353	4	4	0	Western Europe	2418	4	6	1
2180	4	4	-1	European Union (15)	2232	4	6	1
214	6	-5	-1	C/E Europe/Baltic States/CIS	214	5	-2	-12
102	7	9	1	Central and Eastern Europe	1331	10	11	-1
112	-	-14	-2	Baltic States and the CIS	83	-	-14	-24
112	1	-16	9	Africa	133	4	1	0
170	3	-23	24	Middle East	150	5	-3	3
1394	7	-6	8	Asia	1200	6	-18	10
419	4	-8	8	Japan	311	3	-17	11
195	14	0	6	China	166	13	-1	18
546	8	-7	8	Six East Asian traders	485	6	-25	11

Source: World Bank 2000 Report.

Towards the end of the 1990's, although European Union's total GDP growth strengthened, it remained much weaker than the one of the world economy especially when compared with the North and the Latin America. The trend in the European Union economy shows that the creation of the Single Market had significant positive economic gains for member countries by creating a more secure and stable trade environment. As the following figure puts, intra-EU zone exports compared to total exports slightly augmented for about %15 after each enlargement processes.⁴⁷

⁴⁷ L'Année Strategique 1999, Dunod, Paris.

Intra-zone Exports (% of total exports)

	1980	1985	1992
<u>First 6 countries</u>			
Belgium-Luxembourg	73,2	70,2	74,8
France	55,4	53,7	63,1
Germany	51,1	49,7	54,1
Italy	51,6	48,2	57,7
Netherlands	73,5	74,7	75,4
<u>First Enlargement</u>			
Denmark	51,6	44,8	54,5
Ireland	76,0	68,9	74,2
G. Britain	45,0	48,8	55,5
<u>Second and third enlargements</u>	48,2	54,2	64,2
Greece			
Portugal	58,6	62,5	74,8
Spain	52,2	53,3	66,3
<u>Intra-zone Exports</u>			
EC 6	46,1	42,2	44,9
EC 9	52,4	51,4	53,7
EC 12	55,7	54,9	61,3

Source: RAMSES & L'Année Strategique 2000.

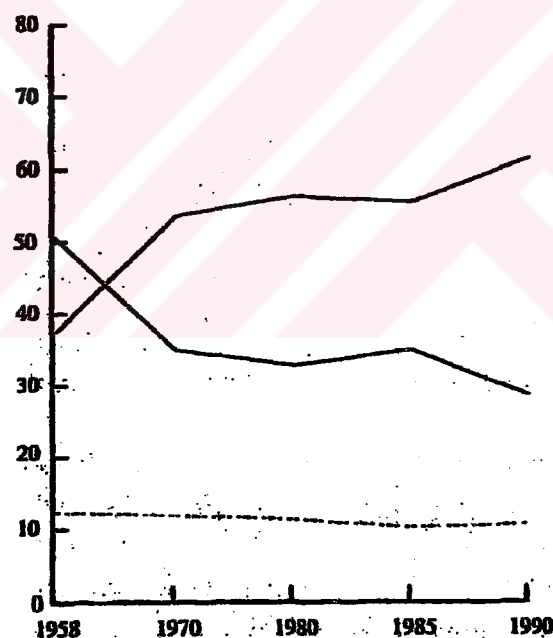
3.1.2. Trade Diversion in the EU

As we have stressed in the first chapters, the most common indicator to measure the degree of integration in an economic zone has been to grade the intensity of merchandise trade. As the theory postulates, the establishment of a

common market augments trade among members while at the same time a trade diversion effect towards the rest of the world is witnessed. In other words, trade diversion increases intra-region trade at the expense of trade with the outside countries, while trade creation does not have this negative effect. In the case of the EEC, the following table puts clearly the evolution of intra-community trade since 1958. What this point signifies for our subject is that, although globalization increases interdependence between national economies, a regionalism like in Europe maintains its economic durability and stability in the face of countries that are outside the region as the level of interdependence towards the outside remains relatively low when compared with pre-integration period.

From the point of trade with the rest of the world, trade diversion of the EEC can be observed in the following figure.

*Structure of Exportation of the EU Countries
(in % of total exports)*



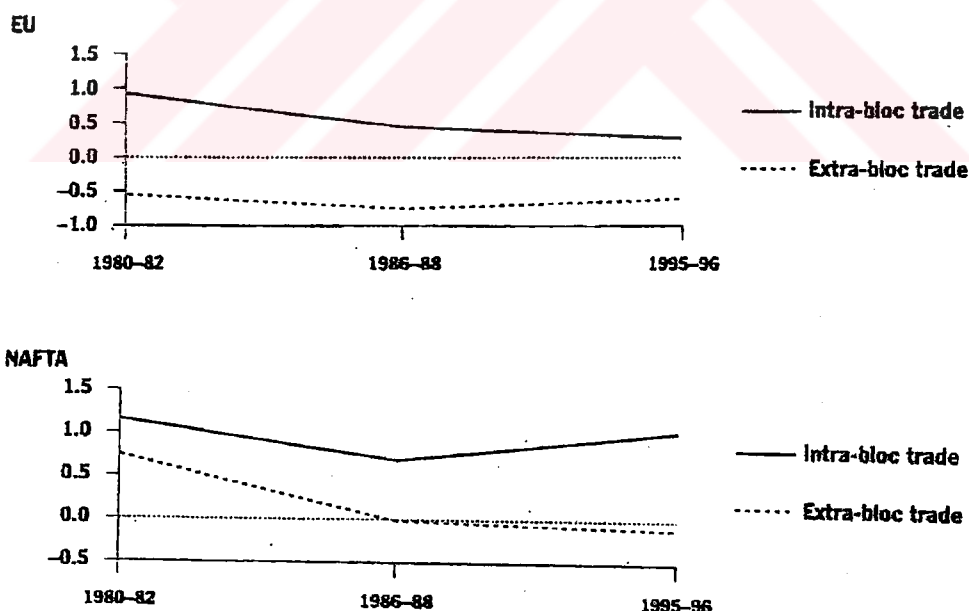
Intra-EC12, — EFTA, extra-EC

(source: RAMSES 96, p:294; adapted from Eurostat data)

As the graphic suggests, the creation of a common market increased strongly intra-region trade, while at the same period member's trade with the outside

countries weakened. Although this figuring seems to neglect many factors by only taking into consideration of trade values, a more comprehensive method used by the World Bank produces also the same results.

According to the technique developed called “gravity model” the results do not seem to change for the EEC’s trade diversion. The gravity model used in the following table estimates bilateral trade between countries for different periods of time. “It explains trade between pairs of countries as a function of their GDP’s (larger economies trade more), populations, the distance between them (as a proxy for transport costs, cultural similarity and business contracts) and physical factors such as sharing a land border, and being landlocked or an island. According to the model, researches add to the list dummy variables that capture whether or not countries are in a particular regional integration area. If these show up positively for pairs of countries in a regional integration area, then they indicate that these countries trade more than would be suggested by other factors...”⁴⁸ The following figure based on the said technique puts the estimates of trade effects over the period 1980-1996 in NAFTA and EU. A positive value on the vertical axis of these figures indicates that a country is trading more than would be suggested by other factors.



⁴⁸ “Trade Blocs”, World Bank Policy Report 2000, Oxford University Press, p:47.

It is seen that for the EU and the NAFTA, although there are high levels of extra-regional trade, the coefficients fell over the period stressing that a trade diversion occurred while the changes in the coefficients for the intra-regional trade are either small or negative.⁴⁹

3.2. Responding To The Globalization

3.2.1. The European Monetary Union

An important step in the European integration was the agreement in the Maastricht treaty, which focused also on the creation of the Economic and Monetary Union. Following the treaty, with the EU Commission's Green Paper of May 31, 1995 on the practical arrangements for the introduction of the single currency, a three-phase reference scenario was presented.

Accordingly, with the realization in the beginning of 1999 of the third phase of the EMU, a new area within the EU will be established by 2002. The Euro area, having a population of 292 million, which is slightly larger than the 270 million of the United States, and a GDP of EUR 5,773 billion – somewhat smaller than the EUR 7,592 billion of the United States, while its sum of exports and imports of goods and services, amounts to 33% of GDP, in the United States, the corresponding figure is around 24%, will be the second most important currency in the world. Thus, it is overt that the Euro and the single monetary policy will fulfill major roles in an increasingly globalized financial world.⁵⁰

It is generally accepted that the most likely development in the EU with the implementation of the EMU is that the Euro will lead to a much closer economic cooperation among the EU members which will enhance regional rentability, hence competitiveness, although analyses might differ concerning the prospects for the Euro-cooperation. In other words, as it was the case for other common policies like

⁴⁹ *Ibid.*, p: 48.

⁵⁰ "The International Role of the Euro," *ECB Monthly Bulletin*, August 1999, pp: 31-53.

the CAP, the outcome of introducing a single currency would be a deeper political cohesion. Implementation of a common currency between the EU member states would have a politically binding effect. In strict terms, even the creation of a central bank whose goal would be the use of common policies for macro-economic stability in the EU will have an effect on political cohesion which will make the Union more durable in the face of challenges posed by the global economy.

In other words, even at the very first stages of the EMU the convergence criteria for EMU certainly requires optimal public finances, exchange and interest rates that provide favorable economic conditions in the way of assuring growth, competitiveness and employment in member countries. Consequently, it is more or less accepted that the single currency will have implications both economically and politically.⁵¹

Briefly, what can be resumed from the literature on EU's expectations from the full implementation of a common currency clearly points out responses and methods of the EU in overcoming the challenges posed by an interdependent international economy. These can be presented as follows:

- * Consumers within the common currency area will be able to directly compare in the same currency unit, hence eliminate uncertainties in trade,
- * Workers will be able to contrast wage rates between other country's workers and their own wage within the same industry, this facilitates labor mobility,
- * The single currency would increase aggregate demand and thus create more employment,

⁵¹ Ashley B. INGLIS, "The goal of the Euro is not mainly an economic one, but is also politically driven", www.singlecurrency.co.uk

* As the risk of an exchange rate fluctuation would no longer be applicable, the Euro would allow business transactions between member states to take place with a greater degree of certainty and confidence, which could stimulate growth.

*A single currency would unite Europe trade wise and increase market size massively. The increase of market size which would stimulate trade and investment flows may result in economic growth.⁵²

When these rough lines are analyzed, looking from the point of view of overcoming the difficulties posed by globalization, it is observed that the Euro will mainly augment European economy's competitiveness by creating a more stable economic environment that would be capable of ensuring a sustainable growth. However, with one single phrase Euro's role is simple; as laid out by Central European Bank, "the most important contribution to economic growth, employment and financial stability that the Eurosystem's monetary policy can make in a context of financial globalization is to fulfill its primary objective of maintaining price stability in the Euro area, as laid down in the Maastricht Treaty."⁵³

An overwhelming idea also suggests that the Euro will be a tool letting the Union to work for greater stability in the international monetary system by allowing it to make its voice felt on the international scene. In this sense, along with European issues, while the Euro will further the strength of Europe in the face of globalization, it will also contribute to the governance of the international financial markets. In the same vein, the introduction of a single currency, which will create a stronger union among its member states, would surely strengthen EU's political position with respect to non-European countries. Therefore, another political goal of the Euro, besides establishing a deeper union, could be assessed as the strengthening of the EU's political position in the global market. Apparently, the

⁵² INGLIS, *Ibid.*

⁵³ Prof. Otmar ISSING (the member of the Executive Board of the European Central Bank) "The ECB's monetary policy in the context of globalization," conference organized by the Center for European Integration Studies, Bonn, November 11, 1999.

Euro aims to attract transactions that would normally have taken place by means of other currencies, such as US dollar, to take place in Euro. In addition, as a factor of governance in globalized financial markets, “the Euro could help diminish Europe’s vulnerability to inflation and monetary instability created by American inability and/or unwillingness to anchor the international monetary system.”⁵⁴

In parallel with this latter statement, Michele Fratianni conceptualizes the Euro as a regional response to the challenges of globalization in the monetary sphere including the dollarization of international economy. He asserts that the EMU and the Euro will improve the abilities of the Euro countries to respond to exogenous shocks for two reasons. First the EMU will have fewer linkages to the outside world than the individual economies. Second, the domestic component of the EMU’s financial portfolio will be larger than the domestic portfolio of the constituting economies, thereby insulating them from shocks in exchange rate fluctuations, especially between the US dollar and the Euro.⁵⁵

Jacques Delors, the former president of the EU Commission, took the attention to a more concrete fact that Europe has been facing. He stressed that the EMU was needed because the Single Market “which could set up internally open European regional economy in which business and other actors gain economies of scale, broader strategic vision and greater competitive challenge against the dangers coming from the Triad, primarily in terms of a growing disparity in competitiveness,”⁵⁶ would be precarious without it.

To conclude, bearing in mind the fact that the positive correlation between the size of an economy and the transactional domain of a currency favored up, although the first reactions of the international monetary markets on the Euro are not well enough, with its total accomplishment the Euro having one central bank would certainly alter the international monetary system.

⁵⁴Roland AXTMANN(ed.), **Globalization and Europe**, Pinter Publishers, 1998, P:173.

⁵⁵ Aseem PRAKASH & Jeffry M. HART (ed.), **Responding to Globalization**, Routledge, 2000, pp:151-170

⁵⁶ Ibid.

3.2.2. Unemployment and Globalization

Globalization is frequently indicated as the main source of employment problems among the European countries. The increase in international trade, and the confrontation with the competition of other countries seem to be at the origin of modifications and problems that are faced today. As we have shown in the second part, the share of the developing countries in total exports of manufactured goods passed from 20 % in 1970 to 60 % in the 1990s. Even at the beginning of the last decade "...17 % of the employment in the Third World countries and countries having a planned economy in the past already had directly or indirectly was used in export oriented industrial sector."⁵⁷ Hence, a fundamental change in the structure of international trade thus occurred during the last twenty years and globalization began to influence all the fields of the economy. Naturally, this globalization of production had an effect on the employment, mostly in the form of unemployment in Europe rather than structural change as it did in the United States in the late 1970s. Just to highlight this point, US success in labor market flexibility in the period 1977-1980 is significant. In three years of time, although the United States lost one third of its industrial production in volume, no any reductions witnessed in its GNP. That resulted mainly from an organized transfer of labor, a structural change, from hardware industry towards high-tech knowledge and capital-intensive production.

Considering its gravity and its complexity, the problem of unemployment in Europe imperatively requires a political engagement in the EU. Taking into account the proportions that took in almost all the countries of the Union, it would be consistent to assert that it is the Union which should be engaged in global, and not the sole States at national level, as the European market is governed more or less by the *acquis communautaire* or at least it is represented by the common Commission at the international level. However, it is a fact that the unaccomplished free movement of workers within the Union certainly requires a coordination of

⁵⁷ <http://www.ac-reims.fr/datice/Ses/stage/Mondialisation-sommaire.htm>

employment policies. If we take into account the evolution of employment in the last 30 years and compare it with the one of the USA, the situation appears with a spectacular progression of unemployment in most of the western European countries especially in those that are economic giants of the EU. Just to mention, twenty years ago the Union's employment rate was 64%, whereas that of the United States was 62%. However, in 1997 the Union's employment rate had dropped to 60.5%, while the United States' rate had risen to 74%, - a spread of almost 12 percentage points, equivalent to some 34 million jobs. (source: Eurostat)

As figured out in the following table, between 1980 and 2000, while the rate of unemployment is 4,5 percent in the United States, 2,0 percent in Sweden, 2,3 percent in France, less than 1 percent in the Federal Republic of Germany in 1980, today, it is about 10 percent in these last three countries, while it remains once again lower than 5 percent in the United States. ⁵⁸

Unemployment Rates in Major Countries

	1980	1990	1995	2000
France	% 2.3	% 9.2	% 11,6	% 12
Finland	% 4.7	% 3.0	% 15.5	% 10
Germany	% 0.9	% 4.7	% 8.1	% 8.7
Sweden	% 2.0	% 1.8	% 9.0	% 7.1
Ireland	-----	% 13	% 12.2	% 5.8
USA	% 4.5	% 5.8	% 5.6	% 4.1

(source :ILO & OECD annual statistics)

In other words, according to Eurostat, average unemployment in the European Union was 9% in January 2000 and an estimated 15.5 million persons

⁵⁸ ILO World Labour Statistics & OECD statistics.

were unemployed contrary to almost 18 million in 1997. In 3 Member States - Germany, France, Italy - that together represent 50% of total EU employment, growth in employment in these countries has been below average. Hence, today, unemployment emerges as the main social problem in the EU area mostly affected by the increased competition of the developing world due to low domestic wages in labor-intensive sectors. Conformably, "in 1993, according to a research which is known as the *Arthuis report* made by a French senator, J. Arthuis, at least 2,5 million of industrial or tertiary jobs were threatened in France due to the competition of the developing world and that it was absolutely necessary to react."⁵⁹

Similar works followed the *Arthuis report* especially in France where unemployment problem hit left-wing governments. One of the researches using a method that is based on analyzing trade balance/employment relation was made by a French economist, Claude Vimont. He finds out that an increase in trade with the developing countries is, a priori, causing unemployment. According to Vimont, a 1 billion Franc of additional trade causes 1000 jobs to get lost in France. Departing from the results of the years 1988 and 1995, Vimont analyzed the foreign trade of French manufactured goods over a period of seven years in order to show that unemployment might emerge due to evolutions in foreign trade. Vimont finds out that, "...while the evolutions in balance of trade of French made manufactured products create a surplus of approximately 120.000 jobs in 1995, it was approximately 240.000 jobs in 1988."⁶⁰ For sure, the results of such a report is contrary with the pessimistic forecasts which had made at the very beginning of the implementation of the European Single Market with respect to the level of employment in Europe which was calculated as "...1.8 million additional jobs to be created after the achievement of single market thereby reducing the average rate of unemployment in the EU by 1.5 percentage."⁶¹

The composition of the manufactured goods that are subject to trade with the outside of European Union shows that not all the branches in the European

⁵⁹ <http://www.ac-reims.fr>, *ibid.*

⁶⁰ "Le Commerce Extérieur Français: Créateur ou Destructeur d'Emplois", *Economica*, Paris, 1993

⁶¹ Dominick SALVATORE, *International Economics*, Prentice Hall, New Jersey, 1998, p:311.

economy are affected in the same way. The negative effects are thus concentrated on some activities, which suffer particularly from competition such as textile, clothing, electronics and paper work, causing strong reductions of jobs in the period 1980-1990. The fall was around 40% in major European countries like France and Germany. The following table figures out the evolution of employment in clothing sector which is traditionally rich in labor than capital and which has been one of the major subjects of dispute between *North and South* during the talks held under WTO and mostly challenged the EU economy by the competition of the developing world.⁶²

The evolution of employment in clothing sector

<i>Countries</i>	<i>1980</i>	<i>1990</i>
Germany	226,737	143,234
France	255,400	152,900
Italy	172,000	163,147
G. Britain	276,684	203,253
Belgium	54,300	38,700
Sweden	14,098	6,815

(source: OECD)

During the period 1980-1995, total clothing and textile imports dramatically conquered domestic production in most European countries in a way that the ratio of imports/national consumption in clothing and textile sector increased around %20 and %30.⁶³

⁶² RAMSES 95, p:247.

⁶³ RAMSES 95, p:246 & OECD statistics.

Ratio of imports/national consumption in clothing and textile sector

<i>Countries</i>	<i>1980</i>	<i>1995</i>
Germany	% 64.8	% 84.6
France	% 33.3	% 59.4
Italy	% 21.5	% 33.1
G. Britain	% 41.9	% 56.7

(source: OECD)

On the other hand, it is observed that “as the level of qualification of the employees in industrial production increases, employment in sectors such as information and communication increased by 400.000 in the period 1988-1995.”⁶⁴ Certainly, this evolution is an outcome of the fact that today the international trade relates more and more to products with high value added. The gradual decrease in unemployment figures and the growth of the economy in the last decade in Ireland appear as the success of both the implementation of policies regarding information technology investments and EU policies towards the region.*

For the EU Commission, reversing this trend would be beneficial for at least three main reasons:

- “First, there is the economic reason. The low employment rate in Europe means that there is a high level of unused potential labour stock. Employing these resources could help to significantly increase growth in the EU;
- The second reason is linked to demographic developments and the ageing of the workforce in the EU. Higher employment would help to greatly alleviate difficulties in Member States' public finances;

* In the period 1988-1995 the share of agriculture sector in the GDP of the Irish economy decreased from 9.9 % to 5.7 % while at the same time industrial income increased from 38.4 % to 43.4 %.
(source: OECD)

⁶⁴ <http://www.ac-reims.fr/datice/Ses/stage/Mondialisation-sommaire.htm>

- The third reason is linked to social cohesiveness. It is important for as many individuals as possible to have an attachment to the world of work “⁶⁵

As stressed in the Commission’s report, apart from economic aspects, unemployment, which prevails today in Europe has multiple effects on the European society. For the communities, its compensation is a heavy load, one of principal, which weighs on the European economies. For the individuals, its consequences can be infinitely more serious than the statistics of the distribution of income tells. Away from the loss of income, Amartya Sen lists at least ten points corresponding to damages that unemployment causes in Europe.⁶⁶

The list includes points like loss of production -as unemployment touches the income of the unemployed persons in two ways: as it involves a fall of the national production and thus a decrease in welfare which is transferred to the social transfers-, loss of freedom and social alienation, which orient individual towards radical ideologies like ultra nationalism and xenophobia as it has been witnessed all around the Europe in the cases of Le Pen in France, Haider in Austria and racism in Norway or social problems like increase in the rate of suicides in periods of strong unemployment. Hence, the unemployment both as a result of globalization and of other domestic problems is a phenomenon that challenges social security in Europe. Parallel to this, in communication [COM(2000) 154 final], the European Commission points out that, “as unemployment is the main cause of poverty and social exclusion, it is an unacceptable burden on European society.”⁶⁷

In fighting with unemployment caused mainly from augmenting internationalization, the EU decision makers thought of implementing new policies, which would enhance EU’s competitiveness in the world economy and hence decrease unemployment rates. They also kept in mind that new enlargements would jeopardize the EU labor market and that a high level of employment is a

⁶⁵ see: “Employment Rates Report of the Commission (1998)”.

⁶⁶ Amartya SEN, “L’inégalité, le chômage et l’Europe d’aujourd’hui,” **International Labor Organization Revue**, 1997, p: 172-176.

⁶⁷ <http://europa.eu.int/scadplus/leg/en/s02000.htm>

prerequisite for social justice and social cohesion in Europe. Therefore, job creation remains one of the Union's new policies while some degree of intervention at the international level remained as a choice. At the Vienna European Council (11 - 12 December 1998) it was decided that the new employment policy should fit in with a comprehensive approach embracing macroeconomic policies geared to growth and stability, economic reforms designed to increase competitiveness and employment and that a European Pact for Employment be developed, whose main innovation would be the setting up of a dialogue between those responsible for budgetary, monetary, wage and structural policies.⁶⁸

On the way of improving an European employment policy, the European Councils have also called for more effective actions that mainly focus on active measures, lifelong learning and making the most of the job creation potential of the services sector. Certainly with an initiative on lifelong learning and focusing on services sector, the EU policy makers aim at a structural change -which would guarantee a better competitiveness for the EU in the world market by increasing R&D spending and investing more on knowledge based new economy in EU labor market as well as in the EU economy as did the USA in the late 70s, for one simple objective which is to increase European competitiveness in a globalized world economy.

Apart from domestic problems that cause unemployment, employment trends in Europe also depend on external factors, notably the effects of interdependent world economy. Employment policies in the age of a global economy were the subject of a meeting held in Washington in April 1999. After the meeting, the Commission presented an information note [SEC(1999) 988] in which it reaffirms the importance of intensifying international cooperation and the continuation of national efforts to put in place effective employment policies.

Among these efforts in the international scene, labor standards have been a significant consideration for the EU especially in the last decade during foreign

⁶⁸ www.europe.eu.int

trade negotiations. As the competitiveness of the developing countries mainly augments as a result of a governmental stand still, which might be called as *social dumping* –this concept was first used during negotiations under WTO, often denounced by some developing countries mainly in Asia and Latin America despite, for example, the child workers fact that is faced in many countries including Turkey-, regarding the implementation of new workers rights or laws on environmental protection, etc., urging the governments of those countries in a way that they implement internationally accepted workers' rights emerges as a tool that increases costs of merchandizes imported from the developing countries which would thus correspond to a lesser challenge for the European markets. Hence, such an erosion in developing countries' competitiveness serves mostly the EU workers.

Departing from this logic, "the EU has already exploited a system of premiums according to which the countries being entitled to the advantages of trade under the Generalized System of the Preferences can obtain additional profits if they convince the EU that they put into force and that they respect international labor standards and the key conventions of ILO."⁶⁹

In the same vein, the EU does not only take precautions against distant countries regarding migrations, and the foreign workers issue. In the April of 2001, the EU stated that even at the time of full membership the EU labor market would be closed for 10 years to the Polish workers, "which is considered as the biggest threat in the near future of the EU."⁷⁰

In fact, this European attitude is not the sole policy of its kind. Parallel to this initiative, a similar policy was also implemented by the Clinton Administration in 1993, when the USA signed two agreements aiming to establish "a legal authority which would record the complaints in matters such as, hygiene, work safety and the employment of the minors in NAFTA..."⁷¹

⁶⁹ Speech of Leon Brittan, Vice-President of the European Commission, during The First Symposium on Europe at the age of globalization Vien, April 29, 1999.

⁷⁰ "L'Union européenne fait peur aux Polonais," *Le Monde Diplomatique*, January 2001, Page: 5.

⁷¹ J. ADDA, "La mondialisation de l'économie", Repères N° 198 et 199, *La Découverte*, Paris, 1996.

Briefly, the new employment title of the EU, which is highly affected by the trends in the international economy, mainly focuses on the promotion of employment that is fully accepted as a "matter of common concern" of the Member States and one of the Community's goals.

3.2.3. Enlargement As a Strategy in the Face of Globalization

Bearing in mind what we have pointed out in the previous part, since J. Viner's writings on regional integration models, regional integration can simply be assessed under three main points:

- regionalism represents an extension of what the multilateral trading system,
- regionalism is a political strategy pursued to improve and enhance the member states' competitive position and power in the world economy,
- it represents a structural response to the problems emerging due to the globalization of the world economy.

Hence, certainly, any form of regional integration emerge as the only legitimate policy in the sense that these are allowed by the conditions posed by the GATT system, which provides both a secure area against dense competition of outsiders and an economic zone big enough to ameliorate intra-regional competitiveness so as to cope with the external challenges. In that context, although new enlargements might be a concern for some issues, especially for unemployment, an increase in the number of member states of the Union provides certainly much more advantages for the EU economy than it would be for the rest of the world. Parallel to this assessment, establishing firmer inter-regional and third country collaborative relations started to be seen as an external policy that has always been influenced by external trade policy of the EU. Consequently, the growing number of inter-regional arrangements signed with ACP countries, ASEAN, MERCOSUR as well as the transatlantic forum initiative points out a quest for secure trade relations with those countries where the amount of EU origin investments are undeniable. Furthermore, it is also observed that in recent years, EU

has been following a policy that aims assisting regional integration initiatives undertaken by non-European countries. In his book, Christopher M. Dent assess this policy as a EU strategy to “..befit an increasingly globally interdependent world economy involving recourse to measures conducive toward investment and export promotion, the extending of influence over governing international rules and the building of collaborative links with other regional arrangements.”⁷² He also stresses that this encouragement of the EU is likely to “ lead to a growth-induced increase in import demand and enable foreign investors better to rationalize production and distribution and gains benefits which will be forthcoming for European firms by the technical, financial and other forms of assistance being granted by inter-regional agreements.”⁷³

3.2.4. Competition Policy and European Competitiveness in the Face of Globalization

The objectives of the European Union’s competition policy are both economic and political like the EMU policy as we have mentioned. Like the EMU, the ultimate goal of a common competition policy is to maintain a sustainable development, which is supported by innovation and technical progress in the EU by establishing a better competition environment in the single market area, while the political goals that will be attained are enhancing the EU welfare democracy by furthering its main corporosants like free enterprise, individual freedom, etc. and other gains attached to being an effective economy. In this framework, “EU competition policy must guarantee the unity of the internal market and avoid the monopolization of certain markets by preventing firms from sharing the market via protective agreements.”⁷⁴

The positive economic and political effects of such a competition policy that covers certainly a new industrial policy, as employment strategy, monetary and fiscal policies and many others, will rather be by-products than directly intended

⁷² Christopher M. DENT, *The European Economy*, Routhledge, 1997, p:22.

⁷³ *Ibid.*, p:23.

⁷⁴ <http://europa.eu.int/scadplus/leg/en/lvb/l26055.htm>

results. In short, the simple economic goal of a competition policy is the same of regionalism's, that is, to augment economic efficiency and consumer benefit. In line with Viner's custom unions theory, total market integration has been the essential objective of the EU competition policy as there are still many problems in establishing total integration within the EU when, such as, disparities of income among regions, low rate of mobility in labor, etc. are taken into consideration. This latter fact is an important signal that the regionalism policies might not work consistently as it was designed due to the fact that at least the human factor is open to many uncertainties.

To sum up, the dominant goal of a competition policy is to promote an efficient allocation of economic resources and therefore such a policy focuses on market behavior of firms and control of mergers. In contrast, "...in developing countries or countries in which a favorable environment for a market economy to develop are not fully established, the immediate goal of a competition policy is broader in the sense that less concerns among policy-makers about the desirability of competition policy...competition policy in a developing country often takes a more regulatory approach, thereby allowing it to contribute actively to transformation of economic structures and behaviors..."⁷⁵

When the competition policy is analyzed, it can be seen that the Article 81 of the EC Treaty has a special importance in achieving those objectives that are outlined above. The Article 81 was the object of many arguments that focused on the need of a change. During the late 90s, the criticisms mainly stressed the need to adopt traditional competition policy to changing circumstances, where the potential damage caused by cartels is increasingly severe, bearing in mind the integration of markets within the EU and globalization of markets at the international level, together with the perspective of further enlargement of the EU.

⁷⁵ see: "Second Workshop on European Competition Law," held at the Robert Schuman Center of the European University, June 1997.

Briefly, the Article 81 (formerly Article 85) of the EC Treaty prohibits agreements and concerted practices between firms, which "may affect trade between the member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market". This ban applies both to horizontal agreements (at the same stage of production, processing or marketing) and to vertical agreements (the firms concerned operating at different stages of the economic and commercial process and not being in competition with one another).⁷⁶

Pursuant to the criticisms, which are backed formally by the Commission's Green Paper published on January 22, 1997 focusing on Vertical Restraints in EC Competition Policy, debates intensified on the application of Article 81 of the Treaty to vertical agreements, while the response to the Green Paper from the member States has been generally in favor of reform of Community's competition policy on vertical agreements. When we refer to the above definition of a vertical agreement, the significance of a change in favor of a reform seems to make EU economy to better meet with the challenges posed by the increased globalization of the economy and new technological developments creating new markets and business practices. (see also: Commission Regulation (EC) No 2790/1999 of 22 December 1999 on the application of Article 81(3) of the Treaty to categories of vertical agreements and concerted practices).

Besides an agreeable stance in amending the Article 81 in favor of vertical agreements, the Commission also made innovations on horizontal arrangements by adopting revised block exemption regulations for research and development agreements and specialization agreements. The horizontal guidelines recognize that companies need to respond to increasing competitive pressure and a changing marketplace driven by globalization, the pace of technological progress and the generally more dynamic nature of markets. Cooperation can often be a way of sharing risk, saving costs, pooling know-how and launching innovation faster,⁷⁷

⁷⁶ <http://europa.eu.int/scadplus/leg/en/lvb/l26055.htm>

⁷⁷ see: EU Commission's 2000 Competition Report, p:13.

hence a way of creating better setting to augment competitiveness in the face of challenges bearing in mind that cooperation is an important mean of adapting to the changing marketplace in particular for small and medium-sized enterprises, which are seen as the main creator of employment as we have mentioned while analyzing unemployment in EU. (see: Commission Regulation (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements).

The attempts to reorganize competition policy so as to respond the new economic environment were not limited only in the domestic policies of the EU but also they called for taking initiatives at the international level. Hence, due to the increased international dependence between globalized economies of the world as an outcome of globalization, several agreements were made between the EU and major economies of the world, such as the USA, Canada and Japan.

Hence, “agreement between the European Communities and the Government of the United States of America on the application of positive comity principles in the enforcement of their competition laws” and the agreement with the Government of Canada regarding the application of their competition laws as well as negotiations with Japan on concluding a bilateral cooperation agreement on antitrust issues in 2001 appear to be the overt signs of a search for resisting challenges of globalization especially those causing parties to think of implementing any restrictive measures to free trade like anti-dumping measures. Accordingly, the purposes of these agreements were stated by the EU as agreements “...which are to help ensure that trade and investment flows between the parties and competition and consumer welfare within the territories of the parties are not impeded by anti-competitive activities; establish cooperative procedures to achieve the most effective and efficient enforcement of competition law.”⁷⁸

⁷⁸ http://europa.eu.int/eur-lex/en/lif/dat/1998/en_298A0618_01.html.

Commission's special emphasis on the international dimension of competition policy in particular comes from the fact that "the geographical scope of competition cases is widening means that more commercial transactions are falling within the jurisdiction of the growing number of countries that have adopted competition rules. To analyze these cases properly and avoid conflict, the Commission intensified its co-operation with the competition authorities of the United States and Japan."⁷⁹

An important aspect of the competition policy for the EU market in the context of globalization is certainly the augmenting number of transnational mergers and their control and conformity to the EU competition policy whose main preoccupation is to prevent cartels in the single market to sustain competitiveness. As witnessed already in 1999, the globalization of markets, the introduction of the Euro, the completion of the single market and the forthcoming enlargement continued to generate high levels of merger activity in Europe. "Overall, 345 new cases were notified during 2000 (+18%) and in total, 345 formal decisions were taken during the year, 28% up on 1999."⁸⁰ Therefore, bilateral cooperation was particularly intensive with regard to these global merger cases.

To sum up, EU reforms on competition policy both at the domestic and international dimensions points out the fact that the EU economy is currently under the influence of challenges posed by globalization that are mainly forcing European decision makers to focus on competition policies aiming at augmenting European firms' competitiveness at the domestic plan while protecting them, with the help of bilateral agreements, from giant multinational mergers established between European and foreign companies that tend to become cartels in their sectors.

Besides Commission reports and amendments on the legislation on competition, as a specific subject, competitiveness of the European companies in the face of globalization has been a concern for European Commission.

⁷⁹http://europa.eu.int/rapid/start/cgi/guesten.ksh?p_action.gettxt=gt&doc=IP/01/698|0|RAPID&lg=E

⁸⁰ EU Commission's 2000 Competition Report, p:11.

On January 20, 1999, a communication to the Council, EU Parliament and the Economic and Social Committee under the heading “The Competitiveness of European Enterprises in the Face of Globalization-How it can be Encouraged?” was presented by the EU Commission in which it is provided a focus on structural problems that the EU economy suffers in the age of globalization as well as the analysis of new key factors of competitiveness, a new industrial policy search pointing to the need to develop in new sectors such as telecommunication and information technology. With the words of the paper, “This communication is a reflection document which describes the principal challenges that the European Union must face up to in order to benefit from globalization.”⁸¹

In fact similar works of a more coherent approach to improve European competitiveness were also made in 1990 and 1993 by the Commission. The first one’s main idea was to determine responsibilities between business and public authorities in creating a dynamic environment favorable for industrial development while the next communication (1993) set out a medium-term development strategy for growth, competitiveness and particularly for employment, which are perceived as mutually reinforcing economic objectives.⁸²

In the following paragraphs, departing from Commission’s 1999 communication, we are going to examine the competitiveness of the EU economy, its reaction against the globalization, that is to say, the EU strategies in overcoming the challenges posed by globalization.

In its opening pages the communication puts that globalization is an opportunity to seize rather than a threat for the EU, while it is a potential source for employment creation. The paper also takes into consideration the need to get adjusted to globalization without delay and equip itself as a major part of the Union's prosperity today is based on trade and international investment.

⁸¹ “EU Commission Communication to EU Council & Parliament”, Com (98) 718 final, Brussels, 1999, p:4.

⁸² DENT, *Ibid.*, p:15.

As it was mentioned in the previous papers, in this recent one, employment was the main concern for the EU as the industrial policy suggested in the communication is specifically “designed to boost the competitiveness of the EU enterprises in an open, competitive economy in a way that contributes to reinforcing the employment policy.”⁸³

Considering the whole of the paper, one can put that the need for a restructuring towards high-tech, knowledge based traditional and communication sectors appear as the essential point that is emphasized. In many chapters of the paper, in order to cope with competition posed by globalization the idea that the true yardstick for competitiveness does not seem to be sectors but activities and markets is mentioned. Hence, the new key competitiveness factors, which are quality, speed, customization, a product's image and after sales service rather than traditional cost factors are considered as significant factors which should be maintained by intangible investments such as organization, human resources and R&D. But overall, the need to get specialized on knowledge-based industries, and notably industries based particularly on copyright or know-how is underscored in the globalization age believing that the EU's main competitors are not developing economies with low labor costs but rather those partners controlling the most advanced technologies, mainly the USA and Japan.

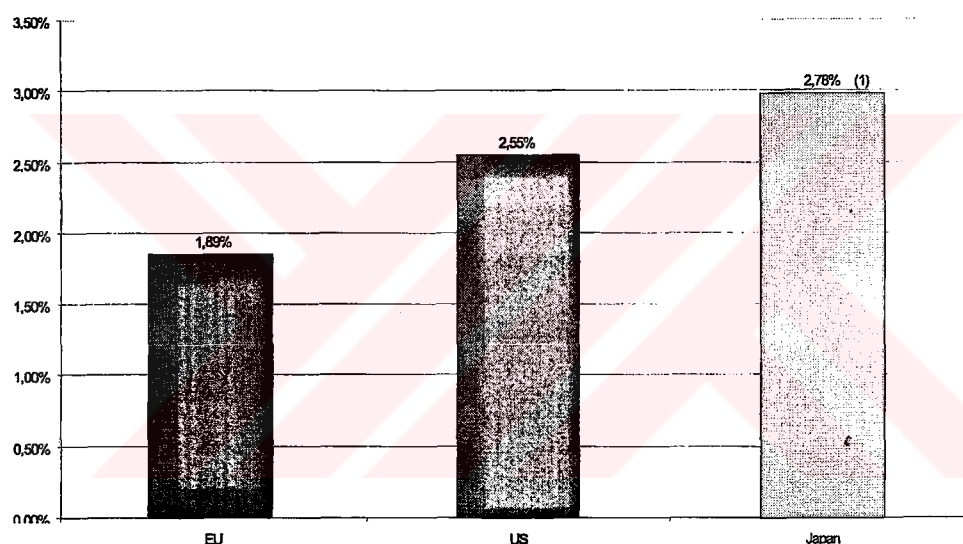
As we have pointed out, creating employment stands as the main preoccupation of the paper as it did in previous communications. In that context, the EU takes the example of US' - which is in that sense an admirable competitor-employment strategies in many parts of the paper. Hence, a restructuring in the EU economy as did the USA by intensifying its investments in knowledge based economies in order to compete in the global market stands as the core subject of the communication.

The need to get specialized on knowledge intensive sectors is due to the fact that the EU has lost its competitive advantage in labor-intensive sectors for a long

⁸³ Com (98), *Ibid*, p:4.

time ago with the emergence of the developing countries. On the other side, it is faced with the fact that the structural change in developed world economy characterized by services business, high-tech products and communication technologies enhances rapidly each day making every indifference a challenge to the European welfare system. In that framework, the paper insists on the need to revise the EU R&D policy, which, in terms of EU GDP, is still below that of its principal global economic partners, namely, the USA and Japan. As a remedy to this problem, the commission urges that a more extensive collaboration between industrialists, researchers and users would be maintained while a concentration of R&D efforts on a restricted number of economic objectives would be rational.

R&D expenditure as percentage of GDP in the Triad, 1996



Source: Second European Report on S&T Indicators, 1997.

Concerning European enterprises and their approach to new technologies, the communication posits that European industry is insufficiently specialized in those high growth market segments characterized by a fast technological progress and that the European industries make insufficient and traditional use of information technologies. To deal with these issues, the Commission proposed to enhance education by removing the barriers between public education organizations and enterprises in order to develop technological competencies and human capital,

while favoring education and life long learning and increasing individual mobility. The Commission also notes that adaptation of the rules to the context of the information society and electronic commerce is crucial.

Beside the stress on a new industrial policy based on research and technological development, the analysis of world trends and Europe's position are also the arguments used in order to highlight the need to adapt the EU's industrial policy. In this respect, departing from the analysis of growth in the US economy, the communication, giving the first donés of its future growth policy, emphasizes the importance of small and medium-sized enterprises in growth by defining them as new global players. The fact that lies underneath this emphasis is the need of transforming the structure of the EU economy in a way that it increases employment in the minimal period of time benefiting from the dynamism of SMEs which is fuelled by easy access to capital at every stage of their development making them able to rapidly leap from a simple idea to world leader in their field. As it has been witnessing in the USA, the new (digital) economy is building on an important mass of SMEs, which supplied half of the jobs created in high-tech companies over the past four years.*

Briefly, in order to promote competitiveness of the European firms in the global markets, the communication stressed taking initiative in at least three domains, which are to make reforms and innovations in internal market structure, the competition policy and the trade policy.

On internal market reforms, reinforcing the internal market by implementing European standardization, coordination of fiscal policies, continuing the liberalization of the industrialized public sectors (notably electricity, gas,

* *The role of the SMEs and internet in US employment figures:* Between 1995 and 1996 the information technology and electronics industries added 250,000 jobs to the American economy. Two million jobs are generated currently from the software industry, which accounts for more than 44,000 companies. In 1996 the internet generated 1.1 million new jobs throughout the world, 760,000 of them in the USA. (source: Com (98) 718 final)

telecommunications, and transports) and taking advantage of Economic and Monetary Union are the priorities.

On the innovations suggested for competition policy, the need to continue to modernize competition policy in order to keep up with globalization, such as revision of policies controlling vertical agreements, treatment of horizontal R&D agreements between enterprises were underlined, while developing international principles in the area of competition which are mainly to focus on maintaining fair trade is mentioned.

On trade policy, like in the competition policy, action at the international level to defend European positions by following up the multilateral and bilateral agreements for the opening of third markets, consolidating agreements on the dismantling of barriers to international trade, as well as establishing a « level playing field » and fair rules of the game at international level were advised.

To conclude, it is possible to assert that the communication was written with a philosophy adhering to liberal thinking which favors a relatively more open stance in regulatory framework of the EU in the face of the global market as the main concern for such an orientation is caused by the fear of getting left behind globalization or in other words, the USA and Japan.

3.3. European Union's Trade Policy

European Union's foreign trade policy and its practices are, without hesitation, clear evidences of how globalization, that is, specifically the threat of labor intensive and low cost products affects the Union. The Union's position during the GATT negotiations as well as its handling of trade issues, sometimes contrary to its international commitments, are the subjects to be focused on in the following paragraphs.

Although the European Union seems to have been the champion of trade liberalization, it is also the most known economic entity with Japan to apply non-tariff barriers to international trade. The examination of the WTO annual reports of the late 1990's⁸⁴ that we are going to focus for a while suggest that EU's international trade practices seldom fall apart from its commitments under the WTO-based multilateral trading system.

3.3.1. GATT and the EU Regionalism

The main purpose of the GATT has been to "provide a framework of rules for the orderly conduct of world trade and supply a vehicle for the negotiated reduction of barriers of trade"⁸⁵, via upholding the main principles of non-discrimination, reciprocity, and transparency.

Non-discrimination principle required the spread of the *Most Favoured Nation Clause* (MFN) to each member of the GATT system, and combined with transparency, called for certain declared levels of tariffs for each product that would apply to all members in desire of export to that certain country. Fancied by the United States, tariff protection was allowed as the only approved restriction to free trade, while the tariffs were subject to reciprocal reductions gradually.⁸⁶

These gradual reductions have been applied via seven Rounds under GATT, with the last one named as Uruguay Round trade fields covered by the GATT system was expanded so as to cover textiles, intellectual property rights, services, foreign investment and agricultural goods. This final Round has also lead to the establishment of the World Trade Organization, which would deal with resolving trade disputes and monitor and portray the international trade system with the help of Trade Review Policy Mechanism.

⁸⁴ World Trade Organization Annual Reports 97,98,99.

⁸⁵ R.C. HINE, *The Political Economy of European Trade: An Introduction to the Trade Policies of the EEC*. Wheatsheaf Books, Sussex, 1985, p.39.

⁸⁶ for a detailed comparison of various effects of various trade restrictions, see: Hine, p:41-42.

By these new mechanisms, it is also argued that the GATT system has created a threat to itself and to its principles by its vaguely written articles that are open to different interpretations. Article XXIV, which has provided a broad exemption of MFN clause to regional integration agreements is at the focus of these arguments.

Departing from this statement we will try to assess the European Union's foreign trade policy practice and evaluate its level of consistency with the GATT/WTO system or multilateralism that is the active idea behind what we call as globalization. Hence, the consistency of EU's trade practices can directly be related to its position in the face new interdependent world economy. But before drowning into details of the EU's trade practices, it would be necessary to mention positions of EU and concerns of non-EU member states under WTO system.

3.3.2. Positions of EU and Concerns of Non-EU Member States in WTO

During the negotiations under WTO, the high level of State aid and its concentration on relatively few sectors, limitations in the opening of public procurement and EU health, safety and environmental directives that constitute unnecessary obstacles to trade as non-members claim, have been points of discussion between the EU and other member states. For most member states, further efforts by WTO to ensure that all EU regulations respected the principles of transparency, non-discrimination and their proper notification to the WTO are compulsory. Another concern expressed by some non-EU member states focus on the increase of the share of intra-EU trade in manufactures during the past few years at the expense of extra-EU trade in manufactures. In reply, the EU representatives emphasized that the internal process of harmonization could be equated with liberalization. In response to this argument it is possible surly to state that such a liberalization is valid only inside the region.

Anyway, different kinds of protection, various forms of assistance and the use of contingency measures remained important in sensitive sectors, some of particular interest to developing countries. "While average industrial tariffs were now below 5 per cent and should be under 3 per cent in 2000, significant peaks remained in textiles and clothing, automobiles, and certain consumer electronics. In agriculture, very high rates still affected important products such as cereals, meat, dairy products, poultry, sugar and tobacco. In addition, the EU's tariff structure continued to display some degree of escalation. The trade-restricting impact of tariff reclassification was also raised. Some participant countries regretted the high incidence of anti-dumping, the concentration of recent actions on textile products and the use of anti-circumvention provisions; the combination of high tariff protection and quota limitations for textiles with intensive use of anti-dumping actions added further uncertainty in access to an already protected market."⁸⁷

Although anti-dumping practices* of the EU is said to be intended to restore fair trade and are in conformity with the WTO, it remains still the question that who decide whether it is to restore fair trade or not. On this point the new structure of the WTO, which aims at solving such questions appears innovative.⁸⁸

Uruguay round leaded to the acceleration of trade liberalization by contributing new dimensions to the process with the help of a specific effort for opening new markets that are the merchandizes of the developing world as well as the services market. Briefly, the Uruguay round brought a notable vision of multilateralism with the help of the elimination of unilateral trade measures and the establishment of an authentic international organization to monitor international trade and find peaceful solutions to disputes between member states.

* Approximately 240 investigations were initiated in 1998. The most active Members during the year, in terms of initiations of anti-dumping investigations, were Australia (42), the European Community (41), South Africa (23), the United States (16), Argentina and Korea (15 each), Canada (14), India (13) and Brazil (11). In response to that, products exported from the EC or its member States were the subject of the most anti-dumping investigations initiated during the year (59), followed by products exported from China (31). (*source*:WTO annual report 1999.)

⁸⁷ **Annual Report 98**, World Trade Organization, p: 149.

⁸⁸ see: www.wto.org

The extension of the GATT system to new sectors such as services and intellectual property -that shows a parallel objective of the USA- appeared as an European objective as the EU with the USA is the primary exporter of intellectual properties and that “80% of luxury goods that circulates in the international market is of EU origin and protected by a trade mark.”⁸⁹

During the negotiations and in the following years, due to the lack of a common trade policy, the EC's position had been to follow a policy that aim to satisfy Portugal's trade policy with the Denmark's at the same time or French agriculture sector's interests with Netherlands's. Hence, the lack of an absolute common trade policy in defining a foreign trade policy has been a source of vulnerability in international trade talks. In other words, while dealing with globalization, institutional structuring of the EU in decision making so as to define common policies in the face of perverse effects of internationalization appears as a primary mechanism needed to resist such effects.

3.3.3. European Union's Foreign Trade Policy Practice

The article XXIV of the GATT agreement allows member states to establish economic integration arrangements like free trade areas and customs unions in the sense that these arrangements radically liberates trade among members, hence contributes to global liberalization, which has been the main preoccupation of the GATT system.

Besides, such an exemption given to customs unions and free trade areas would appear as if it is a breach of the MFN clause. Therefore, in order to protect the outside countries, the GATT has linked this permission to the following conditions:

⁸⁹ H. PAEMEN & A. BENSCH, *Du GATT a l'OMC: la Communauté Européenne dans l'Uruguay Round*, Leuven University Press, Leuven/Belgium, 1995, p: 98.

- that a customs union or a free trade area should be completed within a reasonable time.
- that the said arrangements must cover substantially all the trade between the member countries,
- the tariffs of member states should not be higher and more restrictive than they were before the creation of such arrangements.

Although the “reasonable time” clause is imprecise enough, the “substantially all trade” clause seems to be more problematic in the European integration, as it did not cover all the trade between members for a long time. This is certainly a fact that politics has always gone different than it would be. When it is taken within the framework of globalization, even though the GATT system aimed at a global liberalization, the trade diversion effect of the European integration clearly act as a protection in favor of domestic producers without being limited with clauses of the GATT.

Anyway, problematic issues in regional integration practices and European Union’s participation in the WTO system do not arise only from vague and misinterpreted utilization of the GATT rules as the Union’s trade practices are sometimes quite contrary to its international commitments under the WTO system, which are violated generally to resist against more competitive products of the rest of the world.

As we have mentioned, liberalization of trade has been one of the main objectives of the members of the European Union and the Union's itself since its foundation. Just to mention, article 110 of the Treaty of Rome aims at the progressive abolition of the restrictions on international trade and lowering customs barriers and article 113 describes the Common Commercial Policy by referring to trade liberalization as one of its targets. The Union and its member states were always interested in being able to penetrate foreign markets. Therefore the

European Union has always played a major role in trade liberalization, particularly in the framework of GATT.⁹⁰

However, the European Union's practice under the GATT/WTO over the years has quite a lot of diversions from its rhetoric. Parallel to the tariff reductions concluded within the GATT mechanism, the Union was one of the geographies where the non-tariff barriers have emerged quickly. The Union did not accept to talk (until the Uruguay Round) sensitive products like agricultural goods, steel, and textiles, which the developing world has a cost advantage, within the framework of GATT and tried to solve the problems in these issues, bilaterally, where they had more bargaining power which has augmented with each enlargement process.

3.3.3.1. Common Agricultural Policy and the GATT System

The Common Agricultural Policy (CAP) for the European Union had always been one of the strategic policies for almost all of the candidate members of the customs union and a total liberalization of this field did not seem feasible. Not being very difficult, the solution was found: a common approach to agricultural support policy under the CU⁹¹, and this was formalized in the Article 38 of the Rome Treaty.

The idea was to keep the agriculture prices well above the world prices and secure the farmers from price fluctuations in the world market while granting higher profit level for agricultural production to keep up with the profit level of industrial production. The system depends on applying an import levy for the cheap non-EU productions and keeping the prices at a relatively fixed level. In case of export, the Union grants export subsidies to the exporters in order to make exports possible to the cheaper world market.

⁹⁰ C. PIENNING, *Global Europe: The European Union in World Affairs*, Lynne Reinner Publishers, London, 1997, p:14.

⁹¹ Hine, p:101.

Agriculture had been left outside the GATT system until the Uruguay Round since liberalization was not compatible with the CAP for various reasons under the name “unfair competition.” The inclusion of agriculture in the GATT and with the implementation of the CAP reform and of WTO commitments, EU’s policy was seen as a step in the right direction. This is probably due to the EU’s policy called as “Globalité” (original in French, which is the philosophy that reigned the policy of the EU during the Uruguay round. According to the said principal, “the negotiations should be considered as a whole, both during their launch and management as well as during the implementation of their results”⁹² that is to say, during the negotiations, EU’s policy was to depart from the agriculture vs. services bargain so that a loss in one of the area should be compensated with a gain in the other. Hence, as the average tariffs had been reduced in the EU for agro-products, it was seen that services liberalized with a parallel understanding with the USA during the negotiations.

Consequently, as the agriculture has also been inserted into the WTO system, like other GATT members, the EU has committed itself to a number of limitations over the years 1995-2000.⁹³ However, the subsidies in agriculture seems like it will cause more trouble within the WTO framework than when it was outside before.

3.3.3.2. European Union's Steel and Textile Policy: the Use of VERs

Using subsidies for all sensitive production fields was clearly not an affordable policy considering the CAP's consumption proportion of the Union's budget* Therefore, the Union went on for different policies that would get around the GATT rules without clearly breaching them such as the Voluntary Export Restraints (VER).

* The CAP still takes up about 50% of the total EU budget.

⁹² H. PAEMEN & A. BENSCH, *Ibid*, p: 101.

⁹³ For detailed information, see: K.J. THOMSON, "The CAP and the WTO after the Uruguay Round Agreement on Agriculture", *European Foreign Affairs Review*, Vol. 2, 1996, p. 171.

VERs were designed, by Article XIX of GATT, to offer emergency protection' to trading nations in cases of fair but unduly strong import competition. These "gray area measures" were informal and they were negotiated bilaterally outside the GATT framework.

However, the VERs were not as "voluntary" as parallel to their name. Such agreements were proposed by the strong partner of the bilateral agreement, and in case of a refusal, the European Union might well imposed restrictions.⁹⁴

This was more or less what happened in 1970s in the steel industry of the EEC. The high production costs of the steel industry caused a considerably important problem for the EEC economy, therefore Community intervention was necessary and the solution was once again found in increasing the Community prices as well as taking some structural measures. However, during this healing process an import pressure was not affordable. This immediately necessitated the use of VER agreements with the principle suppliers of steel that would limit the exports of the countries of concern to the EEC in return for a guaranteed share from the limited export.

On the other hand, the above mentioned style of VER agreement clearly causes a restriction similar to a "subdivided quota" although the GATT system explicitly bans all trade restrictions apart from tariffs, which are also subject to abolition gradually. Furthermore, subdivided quotas lead to imports from inefficient producers as well as efficient ones, and increase the trade cost.⁹⁵

The European Union's trade policy practice in the textiles sector is also not much different from its trade policy in steel; with one exception, this time the VER relationship was formalized within the agreement named Multi-fiber Agreement (MFA), signed in 1974.

⁹⁴ Hine, p. 109.

⁹⁵ Tilmur, JAN, "GATT Rules and Community Law: A Comparison of Economic and Legal Functions", *The European Community and GATT*, M. Hilf, F.G. Jacobs, E.U. Petersmann (eds.), Vol.4, Kluwer, Deventer/The Netherlands, 1989, p.4.

Being a labor-intensive production field, production costs in textile industry heavily depends on labor cost, and this was the main reason why the textile producers in the EC sought for a Community protection for the industry from the exports coming from developing countries, where labor was remarkably cheaper than the EC. Textiles were not also covered properly under the GATT system possibly because of the same incentive.

The 1962 agreement, namely the Long Term Agreement on Cotton Textile Trade (LTA) committed the developed countries to end their import restrictions and to allow progressive increase in low-cost imports. In return, developing countries agreed to apply VERs, while rich countries could adjust their textile industries to the changing circumstances.⁹⁶ On the other hand, this adjustment is never completed while more and more restrictions followed the previous ones as the developing countries stress under WTO.

3.3.3.3. Cooperation Agreements of the EU from GATT Perspective

Qureshi categorizes the European Union's trade relationships with the third countries into two different levels from the GATT perspective⁹⁷; the ones in accordance with the MFN principle, and the ones conducted on a non-MFN basis. The second type of relations involves free trade area treatments, international or unilateral preference agreements, and association agreements.

In order to legitimize this second group of trade relationships, the Union exploitatively uses the Article XXIV of the GATT, from where itself is also legitimized.

Using the Part Four of the GATT 1994, which permits favorable treatment to the developing countries, as well as the Art XXIV of GATT, the European Union has constituted preferential trade relations with the third countries which clearly

⁹⁶ HINE, p:108.

⁹⁷ A. QUERSHI, *The World Trade Organization: Implementing International Trade Norms*, Manchester University Press, Manchester, 1996, p:169.

undermines the GATT / WTO system. A warning from the GATT Secretariat to the European Union, related to its pursuance of bilateral trade relations is overt:

"Certain provisions of Europe Agreements have no reference to international obligations except in the areas of dumping and subsidization. Thus imposing bilateral restrictions on steel imports from Czech and Slovak Republics in 1992, the European Union used the safeguard provisions under the Agreement in a way that seem to suggest that not only bilateral preferences, but also GATT obligations have been suspended."⁹⁸

Parallel to this statement of GATT Secretariat, during negotiations under WTO, the enlargement process of the EU, which would supply the EU new markets in a sense, has caused anxieties for the outside countries. Hence, the criticisms came mostly from the developing world on the enlargement that a further enlargement of the EU and the continued expansion of its regional and other preferential agreements like MEDA or PHARE programs, would affect trade with the third countries in a negative way. Such concerns do not appear baseless, as a potential trade diversion, which was experienced, as we have figured, would affect firstly the trade with the developing world. In this respect, tariff and non-tariff barriers with respect to sectors such as textiles, agriculture and automobiles will be mostly influenced which are the main sectors that developing world is highly competitive. In fact, this point had been one of the primary questions discussed during the Uruguay round where many of such concerns were considered and based on new policies focusing on the reorganization of WTO rules to better deal with the growth and new structure of preferential and regional agreements.

⁹⁸ M. WOLF, "Co-operation or Conflict? The European Union in a Liberal Global Economy" *International Affairs*, Vol. 71. 1995, p: 332.

It is tried to show that the above outlined practices of the European Union do not seem complementary with the GATT/WTO system, which tries to establish free world trade. The increasing use of trade preferences of the Union has increased the use of non-tariff barriers and resulted in discriminatory trade practices.⁹⁹

Hence, as I have tried to demonstrate, the European Union's foreign trade policy within the international trade system may be quite restrictive contrary to its commitments. Considering the overall practice of the European Union under the GATT / WTO system, the position of the Union's external trade policy characteristics appear as what is quite fairly described by M. Wolf as: discrimination, restrictiveness, bureaucratic discretion, and pursuit of reciprocity.¹⁰⁰

Although the above-mentioned criticisms would be misleading if we disregard the trade liberalization efforts of the member states in particular and the Union as a whole, attempts for trade liberalization on one hand, and undermining the system in issues that are not in the Union's interest on the other does not seem to be a free trade policy style. This issue has also been addressed by A. Qureshi where he claims "the Trade Policy Review Mechanism exercises in relation to the EC provide insights into both EC adherence and non-adherence to GATT rules".¹⁰¹

In line with this statement, despite our listing of concerns of non-EU members under the WTO system may highlight EU's non-liberal intent in some fields, the deepening of European integration, -with single market completion, preparations for the introduction of a single currency and the reform of Community institutions,- was interpreted at the end in a way that the EU had not reduced its involvement in the multilateral system. On the contrary, it was recognized that the EU had contributed to the success of post-Uruguay Round negotiations, promoted the use of dispute settlement procedures, and supported the development of new issues on the WTO agenda.¹⁰²

⁹⁹ K. HEIDENSOHN, *Europe and World Trade*, Pinter, London, 1995, p:176.

¹⁰⁰ WOLF, p:334.

¹⁰¹ QURESHI, p:191.

¹⁰² *Annual Report 98*, World Trade Organization, p: 150.

CHAPTER IV

CONCLUSION

It was seen that regionalism and globalization appear closely associated both in the developed countries and in the developing ones. Regionalism also appears as the coordination of national economic policies in a way to decentralize the administration of international economy. Globalization which is characterized primarily by internationalization of production, financial markets and competition rather represents a limited marketization of factors of production as free movement of labor is still perceived as a taboo by the developed world especially by those where unemployment is becoming a chronic problem like in the EU. Beside, other reasons that have already mentioned reinforce the idea that globalization is an incomplete globalization. In spite of the existence of various perceptions on the definition of globalization, it is generally accepted that it increased interdependence between States, went hand in hand with multinationals and global competition. In such an international economy, co-operation within a group of states emerges as an instrument to meet the requirements of international economy as well as the challenges posed, and surely orient and control it as much as possible at least in a limited territory.

In a setting where regionalism of the years 1980 and 1990 corresponds to a decline in the hegemonic power of (thus end of hegemonic stability) the United States and the erosion of multilateralism, the study mainly focused on EU and globalization relation. It was shown that regionalism appears as a second best in a world where integration of the world markets have not completed yet. The inter-regional co-operation, free trade areas and new international agreements aiming at creation of international norms on competition policy and others are necessary in order to maintain that the world does not return to the experiments of the 1930s (bilateralism, protectionism and devaluation).

In the thesis, the difference between regionalism and regionalization was also paid attention. Hence, it was shown that regionalism is, in fact, a simple creation of the geographically limited arrangements of trade at the inter-State level as a result of the consent of States' policies. On the contrary, regionalization signifies the regional concentration of economic activity often independent from state policies but achieved as a result of evolutions in the economic order due to geographical proximity or other factors. Therefore, in the thesis while the EU or MERCOSUR as well as NAFTA correspond to regionalism, ASEAN appears as a model, which refers more to regionalization than regionalism.

It was also mentioned that not all the countries have similar chances to resist to the said competition. Therefore, the logic of establishing regional integration in the developing countries and in the developed ones or in other words, the effects of globalization on these two sets of countries differ according to the circumstances under which they are found in the face of globalization. Consequently, the reactions of countries against these forces are different and hence their policies of integration result from different purposes. In line with this assumption, regionalist movements were roughly classified as regionalism in the developed world and that of the developing countries in the thesis.

As it has been illustrated briefly in the study, the logic of regionalism idea in developing countries was formed on the one hand around fear and on the other, by the will to integrate with the world market thus feeding the dynamics of development. In other words, the liberalization of domestic markets due to such efforts of States that aim to take part in globalization process seems to be the only way to resist to the tough competition that globalization poses and which augments day by day as protectionist legislations of domestic markets begin to decrease. In this struggle, the developing countries either chose to be a member of a regional integration movement of the developed world or establish a new regional integration with the developing countries. The integration of a developing country with the regional integration models of the developed countries has always been more attractive for the developing countries as this integration, which is a *defensive*

integration, is assessed as an instrument that would provide rapid access to the international market.

Yet, only the main regionalist movements of a definite period that corresponds to the beginning of globalization were analyzed. Moreover, with the globalization term, mainly the economic aspect of it -rather than social and/or cultural aspects which are relatively new repercussions of structural economic changes what might be called as globalization- was focused and other aspects were slightly touched upon in the thesis as one of the main idea is to find out / prove a concrete correlation between the periods where the first signs of globalization – which is originally an economic phenomenon- and regionalism came out respectively. Conformably, the history of regionalism is divided into two waves in the thesis. The first wave of regionalism commenced with the signature of the Paris and Rome Treaties in Europe. This practice was soon taken as an example by some of the third world countries in the 1960s mainly in Latin America. The second wave of regionalism commenced in the 1980s. Meanwhile, the European integration continued to enlarge towards South and North by the accession of Greece, Portugal, Spain, Sweden, and Ireland to the EC. Another initiative came from the USA, Canada and Mexico with the creation of NAFTA while Brasilia and Argentina in 1988 agreed to establish MERCOSUR. This second wave of regionalism is different than the first one. These differences were reduced briefly to three distinctive aspects in the thesis:

First, the second wave of regionalism goes beyond simple preferential trade agreements. Second, institutional constructions in the regions became considerable. Third, the second regionalist movements occurred in a setting, in an economic system which is totally different than the ones of the period where the first wave of regionalism took place.

Departing from the study made on EU's position in the face of globalization, as the most complex regional structure of both the developed and developing countries, it was shown that in developed countries whose economies have been

characterized by weak growth rates, unemployment and unstable prices due to the decrease in the profit rates and accumulation of capital as the outcome of the global competition since the late 1970s, regional integration means an instrument that can both protect themselves from the unfair competition of the labor intensive sectors of the developing countries and provide necessary methods to govern international economy with the help of inter-regional negotiations and mutual trade liberalization. But scale advantages of knowledge based economies appear to be more dominant with the 1990s as competition in such sectors have been getting tougher among the economies of North. On the other hand, while analyzing EU's position in the face of globalization, it was also found out that the common idea or the central idea in every regional integration is to benefit from the scale advantages of a large internal market. In the EU, departing from figures listed it is possible to posit that in manufactured goods the EU achieved so far the end concerning scale advantages when the evolution of trade among members is worked out. On the other hand, in services and knowledge based new economy sectors, which in fact have gone far from the point of competitiveness in the face of real competitors of the EU namely Japan and USA. It is witnessed that the result has been poor performance in Europe as mentioned in many papers and communications.

In finding out an answer to the question whether globalization is a factor of regionalism, the EU-globalization relation was focused extensively. Asking the question whether the main motive of the European decision makers was to respond globalization or not in its deepening and enlargement processes occupied a central issue in defining relations between the two. Although the answer to this question is far from having a definite answer, it is clear that the EU has some important concerns on the march of globalization as the EU system becomes more sensitive on unemployment and augmenting international competition. However, this concern could be politicized at the EU level only at the beginning of the 1990's as the first reports on improving European competitiveness came in the form of Commission studies. Another methodological concern faced in dealing with the EU and globalization is that these two in fact cannot be thought separately from each other. At this point, as George Ross rightly pointed out in his article "here, there is

obviously a chicken-and-egg problem, because it might just as easily be argued that financial liberalization in Europe was caused by transnational flows. Nonetheless, financial liberalization was clearly embedded in the Single Market idea, which is a purpose long before the term globalization became current.”¹⁰³

Frankly, at its roots the European Union idea was not a remedy to cure European problems in the face of globalization but mainly it was aimed to solve regional problems. Hence, the renewal of European regionalism that started in the second half of the 1980s was merely a strategic idea to revitalize European integration rather than a crisis management quest at the age of globalization. Hence, with the first years of the 1990s, an understanding among EU decision-making structure was also implemented as a result of perverse and challenging effects of globalization like unemployment as it was focused on. The most clear prove of this understanding seemed to be the communications, papers, etc. prepared by EU institutions and policy amendments on common economy, competition and social terms.

Although it is clear that the European idea was not a response to the globalization, the accomplishment of the single market, the decision to implement EMU were steps that surely reinforced liberalization and contributed to furthering globalization. Moreover, as long as the four freedoms are enhanced in the EU zone, a non-protectionist enlargement process is aimed and a more liberal trade policy is practiced in a way that it contributes to the governance of the world economy, it is possible to posit that the EU as a regional entity will enhance globalization.

Much of the European growth and employment boom of the late 1980's, as well as the wave of foreign direct investment (FDI) inflow into the EU can be directly associated with the expected growth opportunities of the Single Market as it was shown. However, with the increase of global competition, the economies of scale in many knowledge-based goods are getting even more significant than in the case of manufactured goods. Bearing this in mind, the actual economic integration

¹⁰³ AXTMANN, *Ibid.*, p:176.

process in Europe has long been compared with a gradual, import-substitution-industrialization-growth process whereby the extra-European competitiveness, particularly in high-tech sectors was gradually undermined. "It is what could be called the "fortress paradox" of European integration: as Europe thought it would become better able to defend itself through the creation of its own large internal market, it became weaker because it left the most dynamic external markets to its competitors."¹⁰⁴ Hence, one of the results that can be deducted on the future of integration appears to be that, the economic integration process is getting more vigilant on how European industrial and technological policies, intra-European co-operation in the field of pre-competitive R&D, university researchers and various support programs for particular technology fields should be shaped.

While the thesis point out the influence of globalization on the decisions of the policy makers who favor establishment of the regional integration, it is also understood that the established regional integration models soon become indispensable actors, most probably the EU, that affect globalization process as the governance of the international economy for the prevention of protectionism can be achieved via inter-regional solutions. Yet, the thesis indicated that regionalism would be an alternative of the multilateralism as long as the regions remain open in line with the liberalization process that the world economy has been witnessing and that open regionalism is supported by inter-regional dialogues. Besides, regionalism does not create a super State whose governance replaces national governments for today. Moreover, it is rather conceived by States, generally, as a mean to increase national interests. But what seems to be certain is that the ramification (or the process of spill-over) of relations between States, due to intensification of economic and commercial ties, can contribute to world peace or at least to regional peace while creating, perhaps, future communities of security. Thus, disarmament between Argentina and Brazil (the two most powerful countries of Latin America) stimulated by the creation of MERCOSUR, non existence of hostilities within EU or the possibility of formation of a common identity in South Asia were, perhaps,

¹⁰⁴ Luc SOETE, "Les Paradoxes de la traversée de l'Europe", *Le Monde*, November 28, 1992.

the largest contribution of regionalism to the well being of the nations of those areas. Thus, regional integration movements emerge also as a significant actors from the point of view of security. In conclusion, one can say that regional integration models are now key economic regulators in an international economy. Perhaps the creation of new regional integration initiatives or deepening of existing ones can make the States reconsider the importance multilateral liberalization. But it appears to us that the future of the world economy resides rather on the answers to the question of inequality between North and the South, labor rights and ecology. In this context, in such an era of globalization, innovation across a single market of 350 million consumers so as to respond challenges posed by international economy, have been slow. The most likely development in the future of the EU seems to be that rather great changes are to take place, and that there will be a pressure for more integration as the welfare state system threatened. This obviously presents a challenge to all the European states for formulation of their policies towards the future European integration possibly implying that the demands for problem management through the EU-system will increase, a process which might lead to further integration. If, on the other hand, the EU shows itself to be inefficient to solve the problems, a very likely development will be that local politicians will blame the EU favoring certain groups or regions to provoke different forms of "reaction" like political extremism and xenophobia as it was mentioned.

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