

OCCASIONAL PAPER 4
1996

**TOWARDS
ECONOMIC INTEGRATION
THROUGH
REGIONAL TRADE BLOCS**



SATINDER PALAHA
AND
H.L. SHARMA

INDIAN INSTITUTE OF FOREIGN TRADE
NEW DELHI

Dr. Satinder Palaha is one of the senior Professors in the Institute. She began her career as a lecturer in commerce in Delhi University. During the course of her career at Delhi University, she did her Masters in Philosophy (M.Phil) in Organization Behaviour and then Ph.D in Financial Management. Her areas of specialization include international finance and exchange rate management. She has conducted several studies at the Institute on India's foreign trade. She has earlier published a book, "Cost of Capital and Corporate Policy".

Shri H.L. Sharma is currently Research Officer at the Indian Institute of Foreign Trade. His areas of specialization are Customs Law, Excise Law, Duty Drawback and Freight Forwarding. Shri Sharma has worked as a team member in a number of research projects, studies and Export Potential Surveys. Shri Sharma has visited Canada while conducting a study on "Market Survey for Export Opportunities in Canada". He also participated in a Regional Workshop for Training of Trainers for Freight Forwarders organized by Economic and Social Commission for Asia Pacific (ESCAP) in Malaysia.

Series Editors: **B. Bhattacharyya**

Dean, IIFT

Anil K. Kanungo

Editor, IIFT

TOWARDS ECONOMIC INTEGRATION THROUGH REGIONAL TRADE BLOCS

**SATINDER PALAHA
AND
H.L. SHARMA**



**INDIAN INSTITUTE OF FOREIGN TRADE
B-21 QUTAB INSTITUTIONAL AREA
NEW DELHI-110016**

Rs 50

Printed for the Indian Institute of Foreign Trade by
Apex Printing House, New Delhi-110016.

FOREWORD

The world has changed significantly over the last half century. Two developments have been of major importance in the relative somnolence of GATT. The first concerns initiatives to liberalize trade at the regional level, which have now spread over the whole globe, encouraged by the success of European integration. This increasing interest in regionalism seems to have dampened former ardour for multilateralism. The increasing trend towards globalization of markets is one of the contributing factors for the formation of different regional trading blocs. The internationalization of the world economy has been rapid during the last two decades. Besides trade, there is now a greater flow of capital, labour, information, technology and organization of the production process itself across borders.

During the early 1990s, countries all over the world—especially in Europe and the Western Hemisphere—have been forming regional trading arrangements (RTAs) and intensifying existing ones at a rapid pace. Some of the increased emphasis on these blocs stemmed from frustration with the slow pace of the Uruguay Round negotiations. But there have been other reasons as well that suggest that the trend towards increased regionalism is likely to be pronounced. Some have questioned whether this trend is desirable as the best way to liberalize trade is on a most favoured nation (MFN) basis (i.e., no discrimination between trading partners) which can be done unilaterally ("autonomous liberalization") or in the context of multilateral trade talks. Formation of RTAs should not be allowed to divert attention from MFN liberalization and the ultimate goal of global free trade. Whether an RTA facilitates or impedes multilateral free trade depends on how it is designed—including whether procedures for joining the arrangement are liberal, whether it satisfies World Trade Organization (WTO) rules, and whether it is accompanied by some degree of openness and liberalization on an MFN basis.

So far, it appears that the rapid expansion of intra-regional trade within the world's leading RTAs has not been at the expense of non-members, although it is possible that trade with non-members might have grown ever faster without the RTAs.

These new developments are of riveting interest to the Indian sub-continent. Promotion of trade and investment now requires new alignments and fresh networks with both member and non-member countries. It is hoped that through this monograph, readers will find a cogent analysis of the new challenges to the continuation of a liberalized trade and investment environment.

Dr. P.L. SANJEEV REDDY

DIRECTOR GENERAL

New Delhi
April 1996

Towards Economic Integration through Regional Trade Blocs

Satinder Palaha and H.L. Sharma

THE BASIS of any economic grouping embraces the three pillars of sustainable growth, equitable development and national stability. The objective is to reinforce economic cooperation among the member countries through equal partnership, mutual respect, common interests and shared responsibility. The ultimate goal is to achieve enhancement of trade and investment liberalization within the region. The active participation of the business sector is encouraged and their role is integrated in the programmes chalked out to be undertaken concertedly by the member nations. Not only in Europe, but also in America and the Pacific, much more effort is put into trade liberalization at the regional level than into multilateral negotiations. This development has more or less fragmented the world economy into three blocs, dominated respectively by the European Community, the United States and Japan.

Contradictions in Global Economic Policy

Economic policy in the major industrial countries during the last couple of decades is characterized by several paradoxes. While in most countries, there was a withdrawal of the state from managing national markets (e.g. deregulation, privatization), there was also increasing intervention in external trade. At the same time, those who favour more protectionist trade policies claim that some countries have been far too liberal for far too long. From the point of view of traditional integration theory, regional integration is a cause for concern, free trade zones and customs unions are generally seen as inferior to multilateral free trade. The reason is that a unilateral reduction of tariffs based on the most favoured nation (MFN) clause improves the economy's

welfare in the same way as an equivalent reduction within a regional trading arrangement, but it avoids discriminatory effects against non-member states. The ongoing changes in the trading structure across the globe presage a very different world order. Trade is today driven more by technology and skill intensity between nations rather than by resource endowment and natural comparative advantage.

There are two pre-eminent actors on the international economic scene—the European Community and the United States. Each of these has an inescapable leadership role, which is shared by no other country or group of countries. *Second*, in both the Community and the US, as in other member countries of the OECD, there has been a clear trend towards economic liberalism, i.e., towards more market-oriented and less regulated economic systems. This has extended to international as well as domestic transactions, in part through regional arrangements for closer economic integration. *Contrary* to what is often asserted, these regional arrangements have not led to the establishment of inward-looking “economic blocs”, nor is such a development likely. *Third*, despite the broad trend towards liberalism, most though not all the OECD countries and the EC and the US, in particular, have continued to operate, and in some ways, even to extend a range of measures for selective trade protection. These measures are not consistent with the generally – and increasingly accepted principle that market outcomes should be decided by competitive processes rather than by administrative regulation. Hence, there is a conspicuous element of incongruity, of dualism, in official policies. *Fourth*, this reliance on selective protection is long established, and the main protectionist instruments are not new; in these respects, the trade policies of the EC and the US, as also of some other OECD countries, have changed little over the past two decades. But outside the OECD area, the world economy has been subject in recent years to remarkable and unforeseen changes. In particular (i) amazingly high rates of growth are being achieved now in a number of East Asian countries including China; (ii) many developing countries have substantially liberalized their trade and investment regimes; and (iii) the process of

transformation in central and eastern Europe, with the aim of establishing market economies linked to the rest of the world, is well under way. These changes have opened up the prospect of a generally freer and more integrated world economy, which would bring with it substantial and widely shared gains. *Fifth*, whether and how far these gains will be realized depends to a large extent on the external policies of the EC and the US. The entrenched protectionist elements in these policies have now become not only more anomalous but also more costly. Only by adopting a consistently liberal approach, can the Community and the US exercise effectively the responsibilities of world leadership.

Importance of Institutions in Regional Cooperation

In order to demonstrate the position, it can be argued that new regional institutions have to be established in order to make a common market function smoothly. Building new institutions provides a unique chance to overcome inferior regulations which are actually governing the economic life within the member states. The new framework, then, may well be conducive to the multilateral trading system. Integration and multilateralism are mutually dependent and reinforce each other within this scenario. The proponents of regional integration are optimistic with respect to the verification of these potentially growth-augmenting effects. They also believe that intensified political cooperation among the partner countries contributes to a better understanding of the positive effects of open markets on a global level. This, too, will help to strengthen the multilateral system. New empirical investigations of growth effects of regional integration seem to support the view that dynamic gains are particularly strong. Most of these studies are of the general equilibrium type and, therefore, subject to a number of severe limitations. Two distinct limitations of these models are as follows: *first*, most of the new models still abstract from the truly dynamic effects of induced capital formation, and *second*, they usually leave out the potential impact of induced foreign direct investment.

Yet, the sheer size of their respective economies and external trade flows is not the only reason why the EC and the US are at

the same time comparable to one another and pre-eminently influential within the international system. Another decisive factor, largely explained by size but going well beyond it, is that both are at the centre of important regional integration agreements, which themselves may well be subject to further enlargement. Both the Community and the US, and more especially the former, have in this respect an inescapable strategic or leadership role, expanding across an entire continent. This is not true of Japan, and since the disintegration of the former USSR, it is not the case with any other country or group of countries in the world.

Attractions of the Emerging Markets

The developing world is at present experiencing a wave of trade reform as has never been seen before. The reforms include the reduction of quantitative restrictions and their replacement by price measures, the lowering of tariffs, the simplification of import and export procedures and the unification of rates of exchange. Even some of the staunchest believers in important substitution (such as Mexico, Turkey and a score of African countries) have recently yielded to the siren song of "outward orientation". The Big Emerging Markets (BEMs) have become a new attraction these days. These markets share a number of important attributes. They are all geographically large, have significant populations, and represent considerable markets for a wide range of products. Virtually, all have strong rates of growth or hold out the promise of economic expansion in the future. Each has undertaken significant economic reforms and seems likely to expand on them in the future.

Trends in the Nineties

During the early 1990s, countries all over the world – especially in Europe and the Western Hemisphere – have been forming regional trading arrangements (RTAs) and intensifying existing ones at a rapid pace. Some of the increased emphasis on these blocs stemmed from frustration with the slow pace of the Uruguay Round negotiations. But there have been other reasons as well that suggest that the trend towards increased regionalism is likely to continue. Some have questioned whether this trend is desirable

as the best way to liberalize trade on a most favoured nation (MFN) basis (i.e., no discrimination between trading partners) which can also be done unilaterally (autonomous liberalization) or in the context of multilateral trade talks. Formation of RTAs should not be allowed to divert attention from the MFN liberalization and the ultimate goal of global free trade. That an RTA facilitates or impedes eventual global free trade depends on how it is designed – including whether procedures for joining the arrangement are liberal, or it satisfies World Trade Organization (WTO) rules, or it is accompanied by some degree of liberalization on an MFN basis. So far, it appears that the rapid expansion of intraregional trade within the world's leading RTAs has not been at the expense of non-members, although it is possible that trade with non-members might have grown even faster without the RTAs.

Viewed together, regionalization in the early 1990s reveals the following characteristics:

- The number of regional commitments has risen, and so has the number of countries belonging to one (or more) integration area(s).
- The most significant commitments surpass the goals of internal trade liberalization (free trade area) and the introduction of a common external tariff (customs union). They include free factor movement, institutional harmonization and elements of a common approach in the formulation of trade, industrial and competition policies. This trend can be observed most clearly in the case of the European Community.
- Various regional agreements indicate that regionalism is beginning to produce its own dynamics: regionalization is increasingly seen as inevitable because existing arrangements are threatening to separate non-members from the integrated markets. The dominant Mexican motive for entering into the formation of NAFTA, i.e. to secure entry into US markets, and the increasing efforts of other Latin American countries in the bargain for bilateral trading arrangements with the United States (for the same reason) amplify this in sufficient measure. This argument has also been raised in Asia, where the European

and North American examples have opened up a new discussion about regional cooperation.

The Process of the EU Integration

The first post-World War II wave of regionalism had started from the mid-1950s with the establishment of the original European Economic Community (EEC) and the European Free Trade Area (EFTA). Europe's experience of integration spans more than 30 years dating back to the signing of the historic Treaty of Rome in 1957. Since then, Europe has progressed a long way on the path of unification. The present Single Market initiative, an ambitious programme, seen as the last phase in the completion of the internal market, is by no means, the final stage of market integration in Europe. Proposals for Economic and Monetary Union, leading to the creation of a common currency by the turn of the century and the goal of ambitious political union are on the agenda for the medium term, despite divergent views among the member states. The Treaty of Rome had postulated the progressive reduction of customs duties among the EC states. This objective was achieved among the original six members on 1 July 1968, and continued as new members joined the EC. There have been no customs duties on exports between the original ten EC members and Spain since 1 March 1986 and the same will be true for imports into all the countries (except Portugal). However, the free movement of goods has been hampered by a plethora of other barriers whose aims were to help local industries by obstructing the import of goods. These obstacles can be included in one of the following three major types: differences in technical standards and regulations, administrative barriers (including frontier formalities) and fragmented local markets.

The prospective entry of Austria, Finland, Norway and Sweden into the European Union was expected to have significant implications for European integration. Collectively, the EFTA Four were likely to provide a powerful voting bloc and play a leading role on health, safety and environmental matters, where their commitment to high standards is very similar. The EFTA countries have, in fact, made significant moves in the attempt towards

regional integration. During 1990 and 1991, they signed eight declarations of cooperation with the reforming countries in Central and Eastern Europe. This is a new, dynamic, and exciting activity for the EFTA countries, called "relations with third countries". When the Free Trade Agreement between the EFTA countries and Turkey was signed in Geneva on 10 December 1991, Ministers from both sides of the negotiating table expressed their great satisfaction over the outcome of the negotiations. Not only had the Agreement been negotiated and concluded in a relatively short period of time, but its substance was seen as being of mutual benefit for the EFTA countries and Turkey.

The process of integration gained momentum in 1992. In that year, the EC-EFTA relations also took a new turn. Saturday 2 May 1992 merits a very special place in the history of more than three decades of the EC-EFTA relations: on that day, Ministers of all the 19 EFTA and EC countries as well as the Vice President of the European Commission solemnly signed the most comprehensive agreement ever concluded in recent European history – the Agreement on the European Economic Area (EEA). On the same occasion, bilateral agricultural agreements were signed between the EC and Austria, Finland, Iceland, Norway, Sweden and Switzerland. Iceland, Norway and Sweden also signed bilateral fisheries agreements and Austria and Switzerland signed road transit agreements with the EC. More trade between these countries, however, depends on the changes that could follow the market-oriented reforms, the entry of the reforms state into EFTA and the fulfilment of the formulated minimum conditions stated below:

- (a) changes in the ownership of the means of production and, consequently, clearly defined "property rights";
- (b) the separation of the proprietor function from the controlling role of the state, turning away from the short-term horizon of the bureaucrats; and
- (c) the positive pressure of the price mechanism and of international competition to reduce drastically the raw material intensity (and so the environment intensity) of production.

Regionalism in South Asia

The South Asian region is one of the most populous regions in the world with low per capita income. As regionalism is reemerging and playing an important role in international trade, the countries in the South Asian region have endorsed a South Asian Preferential Trading Arrangement (SAPTA) among the SAARC member countries. Trade policies pursued by developing countries can significantly influence development of the agriculture sector and the overall economy of these countries. However, SAPTA (South Asian Preferential Trading Arrangement) is no substitute for global trading blocs. The prospects of a large increase in mutual trade are limited given the political antagonisms and inherently poor potential for trade expansion that exist among the member states.

With the extraordinary conjuncture of structural changes taking place the world over, leading to the formation of trade blocs, the coming together of nation states of South Asia, under the aegis of SAARC, assumes special significance. Indeed, economic cooperation among the SAARC countries would not only enthuse the region to participate more effectively in the process of globalization but would also help in strengthening collective self-reliance within the region. For this purpose, it becomes imperative to evolve a suitable framework which would help in augmenting trade and investment cooperation at the bilateral as well as the regional level.

The trade and investment policy reforms undertaken by the governments of SAARC member countries and growing importance of regionalism in the world have made the policy makers in the South Asian region to seriously think about regional cooperation in trade, investment and other areas. While some efforts have been made in the past to study the past trends and future prospects of many regional integration efforts in the world, a detailed study on the level of regionalism in South Asian countries' agriculture is lacking in the literature. It may be instructive to note that intra-regional trade among SAARC countries has been experiencing a continuous decline in recent

years. In fact, regional exports as a percentage of total exports have fallen from 5.1 per cent in 1979 to around 3 per cent till date. Similarly, intra-regional imports have declined from 3 per cent to 2 per cent during this period.

Motives for Regionalism

The motivation for forming RTAs has varied from region to region and even from country to country within an RTA, but a few factors seem to have played a key role, some of which are as follows:

- Members may have seen economic benefits from achieving a more efficient production structure (including by exploiting economies of scale through spreading fixed costs over larger regional markets) and enhanced economic growth from foreign direct investment, learning by doing, and research and development.
- Members may have valued non-economic objectives such as strengthening political ties and managing migration flows.
- Smaller countries may have sought increased security of market access or “safe haven” by forming RTAs with larger countries.
- Countries may have wanted to lock in unilateral domestic policy reforms.
- Members may have wanted to improve their bargaining power in multilateral trade negotiations.
- As countries have formed new RTAs, or deepened existing ones, trade may have been diverted from third countries. This may have tipped the political balance in third countries in favour of joining the RTA, as exporters’ interests began to prevail over the interests of import-competing firms. As more countries joined the RTA, excluded countries may have suffered additional trade diversion and, eventually, incentives to join may have outweighed interests of import-competing firms – the domino effect.

Members may have wanted to promote industries that are not viable without a protected regional market — regional infant industries, the idea being that they would be internationally competitive if given sufficient time to develop (although RTAs mostly influenced by this perspective have been the least successful in expanding trade and promoting regional growth).

Evidence of the Impact of Regional Trading Arrangements

The 1980s witnessed pressure for the formation of RTAs led by the United States which negotiated a series of agreements culminating in the formation of the North American Free Trade Area (NAFTA). Although it may be too early to discern the impact of the NAFTA agreement on intra-bloc trade, some early trends may be worth looking at. The position with respect to intra-bloc exports and imports in NAFTA and other blocs from 1986 to 1993 is provided in Tables 1 and 2. As is clear from the tables, there has been a slow gradual increase in both export and import shares of all NAFTA member countries, especially since the early nineties. The evidence for the European Community (EC, now, the European Union), however, is less robust. There had been a rise in intra-bloc trade since 1960 although most of the increase occurred in the second period up to 1973, with a later spurt from the mid-1980s. From the tables, it is clear that in the nineties there has again been a noticeable decline in both import and export shares of all the member countries. The intra-bloc share of the EFTA countries (the original six members) similarly had shown a moderate increase up to the mid-1970s, followed by a decline of a similar magnitude. The shares of ASEAN countries have fluctuated widely in the eighties and early nineties although there has been a more consistent rise in export shares between 1988 and 1991. By 1992, there had been a decline in both intra-bloc exports and imports of these countries. Member countries of LAFTA, on the other hand, though having relatively lower levels of imports and exports, have shown much greater cohesiveness. The shares of most of these countries in both exports and imports have risen consistently in the recent period since 1989. SAARC is not a trading bloc and does not show any consistent pattern in the shares of intra-bloc exports and imports. Yet, there are

countries like Nepal and Maldives which have been able to somewhat maintain their high shares in intra-bloc trade.

The effects of regional integration are, thus, usually measured by the share of intra-regional trade in total trade. With this yardstick, an analysis of trade and currency blocs indicates that different discriminatory regional arrangements had different impacts on the trading system—some blocs created trade, while others diverted trade. In addition, there is no empirical support for the contention that discriminatory trade agreements led to a collapse in the level of multilateral trade. Likewise, an analysis of the impact of contemporary regional blocs provides conflicting results; some studies have identified trade creation effects while others have identified trade diversion effects also. This conflicting evidence concerning the impact of regional blocs suggests that their overall impact will depend on the macroeconomic policies which they deploy. They can be a force for growth if they adopt expansionary policies, and in this context, they can be particularly effective if they isolate the region from deflationary pressures which may emanate from the international trading system. If they merely replace a global form of monetarism with a regional form, they will provide little benefit.

Numerous empirical studies on the effects of trade creation and trade diversion could not clearly prove that trade diversion represents a major problem for integration areas. The proponents of economic integration suggest that the lack of empirical support for the concerns expressed by the followers of the traditional integration school are mainly due to the neglect of dynamic growth effects of regional integration. They argue that these growth effects are significant and more than counteract the negative terms of trade effects of trade diversion. As a result, discrimination of non-members does not take place.

In Europe, the "Common Market" became a reality in 1993. In America, the North American Free Trade Area is on its way and Latin America is trying to revive the integration schemes of the 1950s and 1960s. Australia and New Zealand have been cooperating since 1983 within the framework of the Closer

Economic Relations Agreement (CER). Inspired by these new or renewed regional arrangements, the discussion on the merits of regional bloc-formation has also gained momentum in Asia. Viewed from a global perspective, these developments suggest a world-wide trend towards regionalism. Contrary to the last wave of regional bloc-building in the 1960s, which has proved to be a transitory phenomenon, this new tide is widely believed to become a lasting phenomenon. The potential impact of the new regional groupings on the multilateral trading system is subject to controversy. Those who argue in favour of regionalism interpret free trade areas and the like as building blocs to multilateralism. They hold that free trade and integration areas will foster multilateral free trade globally. Their counterparts suspect that with regional groupings gaining importance, multilateral free trade will collapse and economic and political stability will decline. According to this point of view, regionalization is bound to mutate to regionalism and will then become a stumbling block to multilateralism.

The literature on customs union, in general, whether written by economists or non-economists, by free traders or protectionists, is almost universally favourable to them. It is a strange phenomenon which unites free traders and protectionists in the field of commercial policy, and its strangeness suggests that there is something peculiar in the economics of a customs union. The explanation of this paradox is that a customs union, like regional integration in general, produces two contradictory effects. The trade liberalization engendered by regional integration leads to a "trade-creating" effect, which improves welfare in the member countries of the union. However, the discriminatory character of regional integration leads to a "trade-diversion" effect that adversely affects welfare in the member countries. The work of Balassa and other economists on the European integration has shown that trade creation is stronger than trade diversion in the industrial sector, while trade diversion is predominant for agricultural products covered by the common agricultural policy (CAP). The key factor determining the impact of the European integration on welfare is certainly the Community's external trade

policy. A liberal policy (to be found mainly in the industrial sector) has meant the European integration leading to an improvement in the welfare of the Community; a strongly protectionist policy (to be found mainly in the agricultural sector) has meant the European integration leading to a deterioration in the welfare of the Community.

In addition to the explicit role of RTAs, regionalism can occur through the increased geographic concentration of trade. It has been argued that openness of regional markets against non-members is a necessary condition for dynamic gains from integration to become effective. Analyses of the EC and the US trade policies are now fulfilling this condition. The main results are the following:

- *First*, the level of external protection tends to be higher on average at the beginning of the 1990s than it was twenty years ago.
- *Second*, in the United States, protectionism has spread during the 1970s and 1980s and is accompanied by some sort of "aggressive unilateralism" (Bhagwati, 1990). The implementation of NAFTA has demonstrated the willingness of the US administration to rely more and more on bilateralism in the future.
- *Third*, while the successful termination of the Uruguay Round has certainly improved the chances for a revitalization of multilateral free trade, too much optimism is not justified. Until today, neither the United States nor the European Union have really changed their views on bilateralism and the necessity to protect or even minimize their declining branches against export competition. In the global protectionist environment, the necessary condition for enormous integration to exercise its positive growth effects is fulfilled neither in Europe nor in North America. It is doubtful, at least, whether the net effect of economic integration of the European Community and of NAFTA will be positive at all if inward-bound regionalism gains momentum in the future.

The issue of regionalism, thus, still commands attention. The key issues are: *firstly*, to what extent has the degree of regionalism in the world economy increased over the 1980s and early 1990s; *secondly*, would such regionalism destroy or create trade; and *thirdly*, would it distort or promote multilateralism? Economic theory does not state definitely whether an RTA is welfare-improving—like MFN liberalization—either for its members or for the world as a whole. However, some general principles have been developed. If two countries lower tariffs between them while maintaining tariffs with non-members, there will be both “trade creation” and “trade diversion”. Trade creation and trade diversion, however, focus exclusively on production costs. The benefits to consumers from lower prices are also an important factor in assessing the welfare implications of an RTA for the region. Lower prices of partner imports will induce consumers to substitute partner imports for both domestic substitutes and non-partner imports; gains to consumers from lower prices tend to raise the welfare of member countries. There may be rationalization of existing industry structures, with inefficient plants closing down and remaining ones operating at a more efficient scale. Foreign direct investment might be stimulated, leading to capital accumulation and higher economic growth. Dynamic gains could arise from learning by doing, improved product quality, and greater product variety. The record with respect to foreign direct investment has, however, not been very noteworthy. Data in Table 3 reveal insignificant foreign direct investment inflows from member countries.

NAFTA and Impact on Trade

The effect of NAFTA on trade diversion is expected to be small primarily due to the presence of dynamic effects. Conventional macro models have attempted to represent the effect of this preferential trade agreement on income growth, and a typical result is a one-time increase in real GDP of 1.6 per cent in Mexico, 0.7 per cent in Canada, and 0.1 per cent in the United States (Brown, Deardoff and Stern, 1992). A robust result is that the total gains would be small and most of the gains would accrue to Mexico. However, Keboe (1992) has claimed that traditional models may

seriously understate the income growth induced by NAFTA. He appeals to the dynamic benefits captured by endogenous growth models.

Hence, it is often said that economists should attach only limited importance to the effects of integration on trade, since the latter, to use Tinbergen's expression, is an "irrelevant" variable. We are really much more interested in the effects on welfare and income distribution. The literature dealing with the effects of integration on welfare usually distinguishes between static and dynamic effects. Although the dynamic effects are often regarded as the more important, one of the many shortcomings of economic science is that it cannot quantify them very well, even *ex-post*.

That is why, the share of intra-regional trade in total trade has been held to be a very imperfect measure of integration. Measured by that yardstick, the effects of the European integration on trade in goods as a whole had looked very impressive. From 1958 to 1990, studies showed that the share of intra-Community trade in the total trade of the Twelve had increased steadily, from about 40 to about 60 per cent, though much of this may have been due to expansion in memberships. A more detailed examination of Community trade showed, however, widely divergent trends between categories of products. The share may, thus, reflect not only regional integration, but also changes in trade policy, and more generally, in competitiveness. Besides, the combined share of the European Community and EFTA did not increase significantly over the period (the total for all the three regions jumped upwards in 1989 with the formation of the Canada-United States free trade agreement). Some studies, like that of Jacquemin and Sapir (1988), evaluated the "regional integration" effect statistically and found, among other things, that it was sensitive to the presence of non-tariff barriers in the European Community—a finding that seemed to be influential in the Cecchini report. Balassa (1966) was the first to show that the European integration had led to an expansion in intra-industry trade rather than inter-industry trade. This finding, confirmed by the work of Grubel and Lloyd (1975), aroused considerable interest

among international trade economists. It confirmed the intuition of Linder (1961) and Dreze (1961) who, working independently in the early 1960s, had both stressed the importance of economies of scale and product differentiation as determinants of trade between similar European countries. Towards the end of the 1970s, empirical and theoretical works were produced and what are now known as the new theory of international trade. The first contributions to the new theory, drafted independently by Dixit and Norman (1980), Krugman (1979) and Lancaster (1980), were monopolistic competition models explaining the existence of intra-industry trade between similar countries. In terms of trade policy, these studies generally reinforced the traditional presumption in favour of free trade. However, this presumption was to be intensely debated from the early 1980s onwards, with the publication of a second generation of contributions based on the assumption of increasing returns to scale and imperfect competition. Instead of the Chamberlain model of monopolistic competition, trade models in a duopoly or oligopoly situation were studied. They stressed strategic interaction between firms in different countries, and the effects of trade policies on the results of these interactions. The natural outcome of this second wave, mainly devoted to advanced technology sectors, is to reason in terms of competitiveness and industrial policy. There are two opposing points of view: one side argues that an industrial policy concentrating on the promotion of selective sectors, and using trade policy instruments may be necessary to ensure the competitiveness of national firms and the maximization of social welfare; the other recommends horizontal industrial policy and stresses a vigorous competition policy, helped by an open trade policy, as a prior condition for competitiveness and the maximization of social welfare. One might expect greater gains from intra-industry trade in manufactured goods, which would stimulate the agricultural sector indirectly by faster growth in GDP. Intra-industry trade also occurs for agricultural products, especially trade in agricultural inputs.

The Case of ASEAN

Responding to trade restrictions, internal structural barriers and the high cost of doing business in Japan, many multinational firms are establishing relationships and setting up house in other Asian countries. The new political and economic environment in Asia and the Pacific created by the changes which have taken place over the past few years, has stimulated the pursuit of greater economic cooperation within ASEAN. The Association of Southeast Asian Nations (ASEAN) includes Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand.

ASEAN, which was founded in 1967, has evolved into a cohesive regional organization with an economic force. Since 1967, ASEAN has established various preferential trading arrangements, including tariff reductions, incentives to expand trade and investment in member countries and liberalization of non-tariff barriers. ASEAN today is one of the fastest growing markets in the world, with an average growth rate of almost 6 per cent and a total population of over 330 million. The combined 1993 gross domestic product for ASEAN is estimated at \$400 billion. The agricultural sector accounts for about one-fifth of the ASEAN GDP, while the industrial sector produces one-third of GDP. ASEAN as a whole is now the United States' fourth largest trading partner. In 1992, the US-ASEAN trade reached \$60 billion: US exports to ASEAN were \$24 billion and US imports from ASEAN reached \$36 billion. For 1993, total trade reached an estimated \$68 billion: US exports increased by about 13 per cent to reach \$27 billion and US imports probably amounted to \$41 billion.

Although sincere economic cooperation is no longer the political liability as it once appeared to be, the parochial views of government officials with interests in "sensitive" sectors mean that AFTA is not a forgone conclusion. While there is significant support for the free trade area from the private sector in each of the ASEAN economies, enough powerful private interests are at stake to threaten the initiative if the participating governments do not approach it with enthusiasm. ASEAN's accomplishments

in the political arena have been significant although its achievements in the area of economic cooperation have been rather limited. Apart from the overall importance of the multilateral trading system, two factors are seen as important in the context of ASEAN and the ASEAN Free Trade Area (AFTA); first, a success of the Uruguay Round is likely to facilitate the intra-ASEAN agreement on a Common Effective Preferential Tariff (CEPT) which forms the nucleus of AFTA. This can be expected as, after having cut the ASEAN countries' tariffs multilaterally, the competition-increasing effects of removing intra-ASEAN tariffs (so-called trade creation) will be more moderate than under the pre-Uruguay Round level. That means domestic suppliers would not face a shock adjustment to stronger competition with suppliers from other ASEAN states.

While ASEAN will continue to be important to many investors because of its productive capabilities, there are already signals for changes in investments resulting from the formation of NAFTA. This change in investment flows must be filled by domestic capital within the region. Hence, the backbone for AFTA's survival will depend upon the degree to which domestic capital can replace the decreasing levels of foreign investment in the years to come. In order to offset this potential decline in foreign investments, ASEAN will have to improve and create new "pull factors" such as superior infrastructure, better human capital, and more favourable investment regimes. For this reason, measures to reduce intra-ASEAN trade barriers should not be seen in isolation. It has to be seen in the light of domestic investment decisions and regional capital flows. Thus, changes in trade policies must be in consonant with investment coordination and industrial policies.

Given the changes in the world trading system, ASEAN has to re-appraise and, perhaps, accelerate the implementation of AFTA. Current attempts in forming AFTA may be inadequate given the urgency with which other regions seem to be forming regional trading blocs. From a policy perspective, therefore, ASEAN must now accelerate some of the implementation steps set forth at the last summit.

The second change is related to the growth strategies adopted by the ASEAN governments in the 1990s. These policies stress the need to attract foreign direct investment which has already contributed to the economic growth and the relatively rapid rates of industrialization in ASEAN. In the light of the competition from Indochina, China, Eastern Europe and Mexico [as a result of the North American Free Trade Area (NAFTA)] regarding increasingly scarce capital, an effort has been made to maintain these flows. A multitude of incentives have been offered to foreign investors throughout the region. Incentives, however, are not the primary factor influencing the decisions of foreign investors. The general investment climate is a far more important determinant of an economy's attraction. This climate is not only positively affected by sound macroeconomic management, economic growth, a developed infrastructure, and political and economic stability, but also by the size of the market. The establishment of AFTA will form a single enlarged market with 325 million people, instead of six individual markets. This undoubtedly will be attractive to foreign investors who are looking to gain from economies of scale by producing for the region or by manufacturing truly regional products for export. Officials involved in the negotiations leading up to the summit meeting in Singapore admit that this capability of attracting foreign investment was one of the most compelling arguments for the free trade area.

In public policy, ASEAN countries have relied heavily on national development policies, followed by national economic reforms and trade liberalization, wherever applicable. With increasing sophistication, they have behaved like classical "price takers" taking world public policy, world institutions and the global competitive environment as given. ASEAN countries have de-emphasized primary goods trade, exploited comparative advantages in manufactures and certain services and pursued both general and specific foreign direct investment promotion policies to accelerate OECD market penetration and to move up the ladder of comparative advantage to higher value-added products and services. Their long-standing adherence to "special and

differentiated treatment" in the General Agreement on Tariffs and Trade (GATT), the at times dysfunctional commitment to the UNCTAD of five to fifteen years ago and the attachment to the Generalized System of Preferences (GSP) are telling manifestations of this "public policy takers" approach. Today ASEAN countries send important signals that this attitude is changing. Surely, as for most countries in the world — indeed, in many respects for all the countries in the world — world competition is so powerful that one should never dismiss it.

If one extrapolates the trends observed today, one notices regionalism both in the United States and the EC spawns from the old issues like tariffs or quantitative restrictions to a new "corporate" regionalism. The new form includes competition policies, and environmental and industrial policies to differentiate between the EC-based or NAFTA-based companies and other companies. Local content requirements and rules of origin are some of the other more traditional tools of corporate regionalism. Should ASEAN-based companies in the near future consider direct investment in these two groupings, they will be confronted with corporate regionalism. To escape from differentiation and to diffuse protectionist threats, a potential foreign investor will have to be associated with a strong domestic company in the EC and NAFTA.

US investment in ASEAN has grown continuously since the early 1980s, reaching \$16.7 billion in 1992. Generally, favourable investment climates, lower labour costs and abundant natural resources have encouraged the US firms to pay their attention to ASEAN. ASEAN countries are interested in greater US investment in the region, in part to balance huge investments from Japan and Taiwan. ASEAN now ranks third in Asia as a destination for the US investment behind Japan and Australia.

Concluding Observations

The increasing trend towards globalization of markets is one of the contributing factors for the formation of different regional trading blocs. Attention has been focussed on the development of a tripolar world economy dominated by North America,

Europe, Japan and the "Asian Tigers". The evidence provides some indication that both RTAs and the development of regional blocs have led to an increase in regionalism. The evidence, however, is not conclusive and suggests that the pace of change has varied across the post-War period and within the blocs. In part, this may reflect the conflicting impact of the increasing globalization of the world economy on regionalism. On the one hand, regional arrangements develop as both a defensive and aggressive response in intensified international competition. On the other hand, globalization can counteract, or at least constrain, the underlying trends towards regionalization as it encourages extra-bloc trade. Despite the uneven and erratic process of regionalization, it is undoubtedly true that the world economy of today is dominated by three blocs, the policies of which will define the future path of the world trading system.

Regionalism can perhaps best be defined in terms of preferential regional trade agreements (RTAs) amongst groups of countries or trade within broadly defined geographic regions. It does seem to have emerged in world economy in a significant way in two periods, first in the 1930s and then again in the 1980s. During the early 1930s, the chaos in world markets led to an increased use of discriminatory trade policies and the *de facto* formation of trade blocs. These blocs were usually centred on the dominant country. For countries such as the UK, France, the Netherlands and Italy, a growing proportion of trade during the 1930s was conducted with their respective empires. Furthermore, currency blocs also grew in importance as countries sought exchange rate stability and made extensive use of exchange rate agreements and discriminatory exchange controls. However, despite the formation of trade blocs—or because of it, due to the dispersed location of Empires and colonies—trade did not actually become regionalized on a geographical basis; the world did not see the development of "natural" trade blocs.

The internationalization of world economy has, indeed, been rapid during the last two decades. There are indications to suggest that the 1990s promise to be a decade of globalization. Besides trade, there is now a greater flow of capital, labour, information,

technology and organization of the production process itself across borders. Whether and how far these regional integration agreements contribute to closer integration with world economy as a whole, outside the regions themselves, is a much debated issue. For some observers, recent developments have created, or are in the course of creating three well-defined and probably inward-looking trade blocs—in Europe, North America and South East Asia. However, this view may not hold true due to the following reasons: (i) Regional integration agreements do not necessarily result in a reduction in trade and investment flows *vis-a-vis* the rest of the world, nor do they pose an inherent threat to world-wide integration; (ii) The actual integration agreements, now under way in Europe and North America, and in Australasia too, are unlikely, going by the present evidence, to have a net positive effect on the extent of integration between each of the regions concerned and the rest of the world; and (iii) The trade bloc of world today takes too little account of the continued importance of trade between the three regions that allegedly constitute blocs as well as of the conspicuous differences, as between the three, in the extent to which integration within them has been taken or is likely to be taken.

TABLE 1

TOTAL EXPORTS AND PROPORTION OF INTRA-BLOC EXPORTS OF MEMBER COUNTRIES

	(\$ million)							
	1986	1987	1988	1989	1990	1991	1992	1993
NAFTA								
USA	217,292 (26.57)	252,884 (29.42)	319,413 (28.23)	363,807 (28.38)	393,106 (28.32)	421,743 (28.08)	447,366 (29.23)	464,827 (30.59)
Canada	89,706 (75.21)	98,104 (73.24)	116,618 (70.63)	120,673 (71.13)	126,447 (75.82)	126,160 (76.06)	133,447 (78.29)	140,748 (81.74)
Mexico	16,120 (66.06)	20,532 (66.13)	20,409 (67.26)	23,046 (71.31)	27,167 (70.17)	26,939 (71.61)	27,166 (71.57)	47,232 (84.66)
European Union								
Belgium-Luxembourg	68,819 (73.15)	83,005 (75.65)	92,083 (74.32)	99,707 (73.60)	117,472 (75.33)	117,827 (75.31)	123,132 (75.14)	103,860 (70.09)
Denmark	21,158 (46.98)	25,588 (48.43)	27,435 (49.47)	27,746 (50.67)	34,028 (52.08)	35,091 (54.26)	39,546 (54.47)	29,721 (46.97)
Greece	5,651 (63.63)	6,532 (66.90)	5,429 (64.38)	7,532 (64.82)	8,065 (64.34)	8,671 (63.73)	9,439 (64.78)	8,934 (58.52)
France	124,946 (55.32)	148,375 (58.37)	168,621 (59.12)	179,391 (58.95)	216,395 (60.87)	217,075 (61.89)	236,506 (61.51)	207,696 (56.57)

	1986	1987	1988	1989	1990	1991	1992	1993
Germany	243,315 (50.85)	294,159 (52.72)	323,364 (54.44)	341,383 (55.82)	409,239 (53.34)	403,201 (54.15)	424,682 (55.10)	364,277 (29.39)
Ireland	12,666 (71.96)	15,999 (73.64)	18,769 (73.69)	20,871 (74.35)	23,769 (74.91)	24,218 (74.64)	28,134 (74.85)	27,673 (68.42)
Italy	97,827 (53.57)	116,327 (56.10)	128,498 (57.26)	140,750 (56.50)	170,428 (58.58)	169,590 (59.15)	177,461 (58.04)	168,453 (53.32)
Netherlands	80,556 (74.87)	92,703 (74.95)	103,040 (74.85)	107,298 (75.48)	130,710 (77.04)	133,071 (76.73)	138,645 (76.29)	131,141 (72.59)
Portugal	7,243 (68.27)	9,414 (71.11)	10,874 (72.00)	12,672 (69.40)	16,407 (73.93)	17,024 (72.73)	18,803 (73.54)	15,300 (67.47)
Spain	27,206 (60.34)	34,192 (63.82)	40,335 (65.69)	43,685 (66.38)	55,730 (69.31)	60,610 (72.90)	64,048 (71.42)	62,731 (68.23)
UK	107,088 (48.02)	131,240 (49.49)	146,143 (49.94)	154,458 (50.35)	185,098 (53.24)	184,958 (56.64)	189,999 (55.96)	180,176 (48.02)
ASEAN								
Brunei	1,798 (16.96)	1,901 (22.83)	1,707 (17.80)	1,882 (18.85)	2,212 (20.89)	2,466 (19.83)	2,496 (21.07)	2,373 (19.26)
Indonesia	14,809 (10.22)	17,171 (9.92)	19,389 (10.74)	21,941 (10.97)	25,681 (9.79)	29,186 (10.95)	33,977 (12.84)	36,843 (12.90)

	1986	1987	1988	1989	1990	1991	1992	1993
Malaysia	13,977 (21.91)	17,934 (24.08)	21,095 (24.41)	25,049 (25.49)	29,420 (29.26)	34,405 (29.18)	40,709 (29.51)	47,080 (27.90)
Philippines	4,807 (7.22)	5,696 (8.87)	7,034 (6.90)	7,754 (6.84)	8,194 (7.14)	8,840 (6.97)	9,829 (5.30)	11,279 (6.74)
Singapore	22,501 (20.94)	28,696 (21.16)	39,318 (21.39)	44,769 (21.67)	52,753 (21.94)	59,219 (23.20)	63,475 (21.05)	74,071 (22.57)
Thailand	8,864 (14.32)	11,563 (13.70)	15,910 (11.70)	20,175 (11.42)	23,072 (11.37)	28,811 (11.69)	32,472 (12.71)	37,111 (16.00)
LAFTA								
Argentina	6,852 (20.33)	6,360 (20.64)	9,136 (19.29)	9,560 (24.98)	12,353 (25.32)	11,975 (28.15)	12,234 (32.03)	13,022 (36.49)
Brazil	22,405 (9.20)	26,223 (11.34)	33,785 (10.95)	32,660 (10.64)	31,414 (10.17)	31,620 (25.72)	37,048 (20.49)	38,783 (23.57)
Chile	4,226 (32.80)	5,102 (16.39)	7,225 (12.07)	8,226 (11.67)	8,651 (11.72)	9,056 (13.47)	10,121 (16.01)	9,552 (18.71)
Colombia	5,108 (7.83)	5,024 (11.41)	5,013 (11.11)	5,739 (9.15)	6,753 (9.65)	7,244 (14.96)	7,065 (18.83)	7,453 (19.78)
Venezuela	8,412 (4.04)	9,063 (3.07)	10,148 (5.47)	12,433 (6.50)	18,044 (6.70)	15,125 (7.68)	15,970 (8.03)	16,926 (10.30)

	1986	1987	1988	1989	1990	1991	1992	1993
SAARC								
Bangladesh	889 (6.19)	1,077 (4.09)	1,291 (5.03)	1,305 (3.83)	1,672 (3.59)	1,687 (4.74)	2,037 (2.21)	2,277 (2.42)
India	9,135 (3.03)	10,798 (2.83)	12,986 (2.80)	15,893 (3.46)	17,813 (2.73)	17,872 (3.49)	18,528 (3.42)	19,964 (3.85)
Maldives	24 (20.83)	31 (16.13)	40 (25.00)	45 (13.33)	52 (13.46)	54 (18.52)	40 (25.00)	66 (18.18)
Nepal	134 (83.58)	148 (27.70)	235 (17.45)	183 (2.73)	216 (6.95)	257 (8.17)	351 (12.82)	389 (11.05)
Pakistan	3,383 (3.19)	4,168 (3.93)	4,509 (5.08)	4,660 (3.52)	5,587 (3.99)	6,494 (3.40)	7,269 (4.97)	6,701 (3.24)
Sri Lanka	1,163 (5.07)	1,368 (3.87)	1,479 (6.22)	1,545 (5.63)	1,983 (3.48)	2,039 (2.70)	2,455 (2.36)	2,859 (2.38)

Note : Figures in brackets indicate the percentage of total exports to member countries.

Source : IMF, *Direction of Trade Statistics* (various issues), Washington.

TABLE 2

TOTAL IMPORTS AND PROPORTION OF INTRA-BLOC IMPORTS OF MEMBER COUNTRIES

(\$ million)

	1986	1987	1988	1989	1990	1991	1992	1993
NAFTA								
USA	387,075 (22.27)	424,067 (21.70)	459,773 (22.83)	493,323 (23.75)	517,018 (24.10)	509,299 (24.66)	552,599 (24.82)	603,306 (25.59)
Canada	83,308 (67.83)	90,439 (67.01)	110,100 (65.06)	117,358 (64.87)	119,673 (64.24)	120,452 (64.23)	124,830 (65.47)	134,914 (67.22)
Mexico	11,507 (67.68)	12,758 (67.62)	19,557 (68.52)	22,792 (69.91)	30,014 (88.79)	38,072 (66.80)	47,945 (65.02)	61,010 (69.22)
European Union								
Belgium- Luxembourg	68,603 (72.42)	83,301 (72.30)	92,150 (73.21)	98,178 (71.51)	119,414 (73.50)	120,541 (72.81)	124,479 (73.93)	112,105 (70.70)
Denmark	22,844 (52.06)	25,442 (52.26)	26,194 (51.43)	26,297 (50.27)	31,371 (52.29)	31,906 (52.90)	33,631 (53.42)	31,627 (52.98)
Greece	11,314 (58.37)	13,172 (60.71)	12,293 (62.73)	15,995 (68.86)	19,764 (64.40)	21,564 (60.29)	22,818 (63.66)	21,237 (57.87)
France	129,402 (59.45)	158,474 (60.73)	180,344 (59.19)	192,995 (59.14)	234,436 (59.33)	232,025 (57.83)	241,446 (58.93)	200,395 (55.66)

	1986	1987	1988	1989	1990	1991	1992	1993
Germany	191,068 (52.22)	228,337 (52.65)	250,553 (51.80)	269,642 (51.14)	346,458 (51.71)	390,110 (52.02)	403,223 (52.72)	329,514 (45.34)
Ireland	11,618 (67.27)	13,640 (65.63)	15,605 (65.58)	17,524 (65.60)	20,830 (66.91)	20,750 (65.51)	22,452 (66.65)	21,567 (58.51)
Italy	99,925 (55.58)	125,019 (56.57)	138,646 (57.54)	153,135 (56.70)	181,754 (57.56)	182,672 (57.75)	186,729 (59.32)	147,537 (55.42)
Netherlands	75,581 (63.97)	91,314 (64.15)	99,373 (64.34)	104,047 (63.26)	123,382 (63.08)	125,482 (64.26)	129,812 (65.89)	115,633 (57.84)
Portugal	9,646 (59.02)	14,547 (63.86)	17,345 (66.53)	18,983 (67.50)	25,104 (68.96)	26,804 (70.19)	30,741 (72.71)	27,580 (71.90)
Spain	35,056 (50.39)	49,112 (54.61)	60,517 (56.89)	70,953 (56.92)	87,800 (59.48)	96,658 (60.52)	99,833 (61.46)	82,393 (61.00)
UK	126,326 (51.77)	154,385 (52.79)	189,754 (52.39)	199,420 (52.29)	223,037 (52.65)	209,930 (51.68)	221,538 (52.21)	205,388 (45.30)
ASEAN								
Brunei	653 (35.53)	641 (37.75)	744 (39.78)	859 (41.68)	1,000 (42.00)	1,111 (36.09)	2,427 (39.30)	2,601 (38.33)
Indonesia	10,724 (10.44)	12,863 (13.00)	13,489 (9.85)	16,467 (10.21)	22,008 (8.23)	25,940 (9.50)	27,283 (9.32)	28,333 (9.19)

	1986	1987	1988	1989	1990	1991	1992	1993
Malaysia	10,828 (21.51)	12,701 (20.80)	16,567 (18.77)	22,589 (18.78)	29,170 (18.80)	36,749 (19.77)	39,927 (20.39)	45,552 (19.82)
Philippines	5,211 (10.02)	6,937 (9.51)	8,662 (9.84)	11,171 (10.04)	12,993 (9.68)	12,945 (9.68)	14,562 (9.44)	17,965 (10.84)
Singapore	25,513 (17.62)	32,626 (17.89)	43,869 (18.22)	49,694 (16.32)	60,954 (17.01)	66,271 (19.16)	72,181 (19.36)	85,393 (21.41)
Thailand	9,165 (14.16)	12,998 (15.61)	20,298 (12.15)	25,373 (12.09)	33,408 (12.24)	37,925 (12.35)	40,686 (12.77)	46,065 (11.97)
LAFTA								
Argentina	4,724 (33.78)	5,819 (29.63)	5,320 (33.35)	4,200 (33.07)	4,078 (34.43)	8,304 (30.53)	16,862 (29.49)	18,347 (30.63)
Brazil	15,557 (12.41)	16,583 (11.41)	16,048 (12.13)	20,029 (17.36)	22,707 (16.40)	23,210 (17.00)	20,554 (17.61)	25,678 (18.16)
Chile	3,132 (23.37)	4,024 (23.63)	5,088 (26.69)	7,029 (24.95)	7,301 (23.71)	7,707 (26.39)	10,657 (22.45)	10,977 (22.09)
Colombia	3,931 (18.62)	4,227 (15.45)	5,068 (18.11)	5,010 (20.20)	5,589 (18.34)	4,955 (20.44)	6,686 (21.37)	9,774 (23.70)
Venezuela	7,635 (8.19)	8,778 (9.17)	11,544 (9.99)	6,932 (9.43)	6,111 (11.08)	10,094 (12.61)	12,222 (13.63)	11,402 (15.42)

	1986	1987	1988	1989	1990	1991	1992	1993
SAARC								
Bangladesh	2,550 (3.57)	2,730 (4.25)	3,034 (5.31)	3,618 (4.53)	3,656 (7.03)	3,421 (7.45)	3,731 (10.24)	4,015 (11.96)
India	15,051 (0.49)	16,841 (0.49)	19,129 (0.48)	20,264 (0.44)	23,990 (0.40)	19,509 (0.49)	24,204 (0.79)	22,493 (0.44)
Maldives	78 (11.54)	98 (10.20)	122 (10.66)	143 (9.79)	138 (13.04)	162 (14.20)	185 (14.29)	191 (12.57)
Nepal	314 (32.48)	466 (18.88)	534 (18.16)	426 (11.97)	452 (11.50)	500 (19.80)	488 (18.44)	545 (17.61)
Pakistan	5,367 (1.96)	5,819 (1.62)	6,588 (1.87)	7,107 (1.76)	7,383 (1.64)	8,431 (1.42)	9,375 (1.50)	9,492 (1.57)
Sri Lanka	1,829 (7.87)	2,058 (6.75)	2,279 (7.99)	2,087 (6.09)	2,636 (6.98)	3,197 (8.91)	3,474 (12.15)	4,311 (8.42)

Note: Figures in brackets indicate the percentage of total exports to member countries.

Source : IMF, *Direction of Trade Statistics* (various issues), Washington.

TABLE 3

TOTAL FDI INFLOWS AND PROPORTION FROM MEMBER COUNTRIES

NAFTA

United States	1987	1988	1989	1990
			<i>(Millions of US dollars)</i>	
	58,119.0	59,424.0	70,551.0	37,213.0
	(0.064)	(0.0205)	(0.06)	—

Canada	1988	1989	1990	1991
			<i>(Millions of Canadian dollars)</i>	
	4,406	4,200	6,600	5,873.0
	—	(0.297)	(0.223)	(0.5778)

Mexico	1987	1988	1989	1990
			<i>(Millions of US dollars)</i>	
	3,877.2	3,157.1	2,499.7	3,722.4
	(0.69)	(0.40)	(0.741)	(0.635)

European Union

Belgium/Luxembourg	1985	1986	1987	1988
			<i>(Billions of Belgian francs)</i>	
	56.9	28.2	87.3	183.5
	(0.567)	(0.837)	(0.662)	(0.709)

Denmark	1987	1988	1989	1990
			<i>(Millions of Danish kroner)</i>	
	602.0	3,391.0	7,921.0	7,465.0
	—	(0.189)	(0.3829)	(0.4103)

France	1986	1987	1988	1989
			<i>(Millions of French francs)</i>	
	19,162.0	27,860.0	42,798.0	60,945.0
	(0.5066)	(0.488)	(0.702)	(0.7576)

FR Germany	1987	1988	1989	1990
			<i>(Millions of Deutsche mark)</i>	
	3,417.0	1,988.0	12,615.0	2,471.0
	(0.2373)	—	(0.558)	(0.087)
Greece	1986	1987	1988	1989
			<i>(Millions of US dollars)</i>	
	330.7	197.9	182.8	259.5
	(0.3988)	(0.479)	(0.53)	(0.7148)
Ireland	1985	1986	1987	1988
			<i>(Millions of Irish pounds)</i>	
	154.0	163.4	182.6	149.3
	(0.310)	(0.4051)	(0.319)	(0.213)
Italy	1986	1987	1988	1989
			<i>(Billions of Italian lire)</i>	
	-23.0	5,264	8,902.0	3,469.0
	-	(0.5118)	(0.4678)	(0.7445)
Netherlands	1987	1988	1989	1990
			<i>(Millions of Netherlands guilders)</i>	
	4,674.0	7,839.0	13,666.0	13,980.0
	(0.668)	(0.746)	(0.5765)	(0.619)
Portugal	1985	1986	1987	1988
			<i>(Millions of Portuguese escudos)</i>	
	37,007.0	25,044.0	51,399.0	94,465.0
	(0.569)	(0.762)	(0.6583)	(0.685)
Spain	1986	1987	1988	1989
			<i>(Millions of pesetas)</i>	
	400,903.2	727,279.4	849,500.0	1,247,282.4
	(0.7214)	(0.748)	(0.7821)	(0.7946)
United Kingdom	1986	1987	1988	1989
			<i>(Millions of pounds sterling)</i>	
	4,828.0	8,015.0	9,789.0	16,375.0
	(0.5056)	(0.3692)	(0.4667)	(0.2586)

ASEAN

Indonesia	1987	1988	1989	1990
			(Millions of US dollars)	
	9.8	270.6	205.8	281
	(0.007)	(0.06)	(0.044)	(0.032)
Malaysia	1987	1988	1989	1990
			(Millions of ringgit)	
	263.6	500.3	1,029.3	2,024.8
	(0.128)	(0.103)	(0.119)	(0.115)
Philippines	1986	1987	1988	1989
			(Millions of Philippine pesos)	
	2.6	2.8	28.6	106
	(0.00097)	(0.0014)	(0.02)	(0.024)
Thailand	1985	1986	1987	1988
			(Millions of baht)	
	4,441.8	6,908.1	9,043.7	28,228.7
	(0.008)	(0.005)	(0.0002)	(0.00002)

LAFTA

Brazil	1987	1988	1989	1990
			(Millions of US dollars)	
	1,304.4	2,845.5	1,171.3	473.8
	-	(0.0799)	-	(0.1019)
Chile	1987	1988	1989	1990
			(Millions of US dollars)	
	518.4	852.5	957.0	1,289.6
	(0.336)	(0.561)	(0.169)	(0.3783)
Colombia	1987	1988	1989	1990
			(Millions of US dollars)	
	320.5	18.5	259.1	230.3
	-	-	(0.241)	(0.2175)

Venezuela	1987	1988	1989	1990
			(Millions of US dollars)	
	477.7	720.2	570.4	778.2
	(0.047)	(0.047)	(0.0936)	(0.2142)

SAARC

Bangladesh	1985	1986	1987	1988
			(Millions of taka)	
	249.3	187.5	341.2	245.8
	(0.0365)	(0.0869)	(0.0337)	(0.07079)

India	1985	1986	1987	1988
			(Millions of Indian rupees)	
	1,260.7	1,069.5	1,077.1	2,397.6
	-	-	-	-

Nepal	1985	1986	1987	1988
			(Millions of Nepalese rupees)	
	-	-	189.9	252.1
	-	-	(0.4107)	n.a.

Pakistan	1985	1986	1987	1988
			(Millions of Pakistani rupees)	
	752.1	1,528.3	1,905.9	2,396.0
	(0.0069)	(0.00366)	(0.004)	(0.00588)

Sri Lanka	1985	1986	1987	1988
			(Millions of Sri Lankan rupees)	
	951.4	484.1	574.1	972.1
	(0.0435)	(0.0963)	(0.00296)	(0.0411)

Notes : (1) Figures in brackets indicate percentage of total foreign direct investment from member countries.

(2) Hyphens indicate either data not available or negative investment from member countries.

Source : UN World Investment Directory, 1992.

INDIAN INSTITUTE OF FOREIGN TRADE

OCCASIONAL PAPERS

1. Aneel Karnani, "Competing for the Indian Market: Local Firms vs. MNCs" (January 1996)
2. B. Bhattacharyya and Satinder Palaha, "Foreign Direct Investment in India: Facts and Issues" (January 1996)
3. B. Bhattacharyya and Vijaya Katti, "Regional Trade Enhancement: SAPTA and Beyond" (February 1996)