Does Regional Economic Integration is a Response to Globalisation?

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Abstract: In recent years, with the deepening process of globalization, regional economic integration has become a hot topic of research and attention in the international community. On one hand, globalization has propelled the development of regional economic integration, enhancing economic connectivity and competitiveness among countries within a region. On the other hand, regional economic integration can also mitigate the risks and challenges brought about by globalization, fostering cooperation and stability among countries within a region. Therefore, regional economic integration plays an increasingly important role in the interaction between globalization and regionalization, serving as a significant trend in the development of both regional and global economies. It also provides policy guidance for both developed and developing countries to discover new opportunities within the process of globalization.

Keywords: Globalisation; Economic Integration; Relations; Stage Theory; Obstacle Theory; Risks of Globalisation; Regional Economic Cooperation.

1. Introduction

In general, globalization is understood as the far-reaching economic activities transcending national borders, forming an organic global economic entity through international trade, services, technology transfer, capital flows, interconnectedness, and interdependence (Shalendra, 2008). In the process of globalization, multinational corporations act as primary actors, while governments of various countries play a secondary role. The formation of globalization occurs when businesses from different countries recognize the potential profits in the global market and governments are called upon to break down barriers between nations, transforming those potential profits into tangible gains (Ruggie, 2004). In contrast, regional integration is a process dominated by a single country. It refers to an organizational form of international economic cooperation, where countries within a region transcend the boundaries of sovereign states and establish agreements based on the involvement of national governments (Dent, 2016). It requires member countries to eliminate various trade barriers and policies that hinder the free flow of production factors, forming a regionally integrated economic organization with binding agreements and administrative capacity. If globalization is seen as a spontaneous market mechanism, then regional economic integration is a process led by nations. In other words, globalization connects countries through market mechanisms, while regional economic integration brings together nations that are willing to join the integration through negotiations between states. It is primarily aimed at reducing the uncertainties and risks brought about by globalization, lowering transaction costs, and facilitating smooth international economic interactions. Scholars who support this view argue that the emergence of integration is not intended to replace globalization or indicate the irrationality of the institutional arrangements of globalization but rather serves as an important and beneficial complement to globalization (Oldemeinen, 2010). It can be said that such bilateral or sub-regional economic cooperation itself is an integral part of economic globalization and can indirectly promote the development of globalization (Bhagwati, 1993). Regarding the relationship between regional economic integration and globalization, academic research is mainly divided into two categories: the process-oriented approach and the impediment-oriented approach.

1.1. Regional Economic Integration: A Necessity for Globalization

According to Jones (2001), countries need to establish mutual connections, interdependence, and resource sharing in order to drive the world economy towards global trade, factor mobility, optimized resource allocation, and financial investment freedom. The first step towards achieving this goal is the establishment of regional economic integration, which begins with specific regions that share similar economic levels, culture, and political systems. As this integration progresses, it becomes a model for facilitating smoother economic globalization. Therefore, the development of comprehensive economic functions and institutions at the regional level is necessary for global economic integration. In comparison to globalization and the multilateral trade and investment liberalization regimes established to achieve it, regional economic integration is more practical and feasible (Anh, 2019). It can be said that the growth of the global economy promotes the development of comprehensive economic institutions and functions at the regional level in preparation for future global economic integration. The development of regionalism is also largely aimed at reducing the risks and uncertainties brought about by globalization, which is solely governed by market forces, and facilitating the smooth flow of international economic interactions by reducing transaction costs. Scholars who support this view argue that the emergence of integration is not intended to replace globalization or prove the irrationality of the institutional arrangements of globalization but rather serves as an important and practical complement to globalization (Oldemeinen, 2010). In other words, this bilateral or sub-regional economic cooperation is crucial for the development of economic globalization itself.
1.2. Regional Economic Integration as an Obstacle to Globalisation

The "obstacle theory" holds that regional integration promotes intra-regional interests and focuses on intra-regional market unity, while globalisation facilitates the development of the global economy on the basis of multilateral co-operation, where the principles they follow, as well as their motivations and internal co-ordination mechanisms, are fundamentally different, so the two processes are mutually exclusive. Firstly, regional economic integration can lead to the strengthening of trade barriers, resulting in restrictions on foreign trade. For example, after signing an FTA, the participating countries usually implement some restrictive measures, such as tariffs and non-tariff barriers, to limit the access of other countries to the regional market. Such restrictions can make the trade liberalisation process of globalisation suffer, thus hindering its development. Secondly, regional economic integration may also lead to an uneven rate of economic development within the region, exacerbating the gap between the rich and the poor and causing economic instability. It can be said that exclusivity is an inevitable part of regional economic integration in its development process and conflicts with the process of economic globalisation.

To sum up, although regional economic integration plays a certain role in hindering the development of globalisation, it can provide support for the process of globalisation if it is scientifically and effectively developed and utilised. Regional economic integration and globalisation are not mutually exclusive concepts, but can be mutually reinforcing. In fact, regional economic integration could complement and extend globalisation and contribute to its development. Within regions, closer economic ties and more convenient mutual trade and investment further promote economic development and the formation of global value chains. The development of regional economic integration can also provide more opportunities and room for development for the process of globalisation, for example, by promoting the development of the global trade liberalisation process through inter-regional economic ties and cooperation. Secondly, even though the objectives and focus of regional economic integration and globalisation are different, regional economic integration is not intended to hinder the development of globalisation, but rather to better promote the economic development and cooperation of the region so as to better integrate into the process of globalisation. Based on this, this paper will address the idea of regional economic integration as a response to globalisation from the perspective that globalisation drives regional economic integration and that, in turn, regional economic integration mitigates the risks posed by globalisation.

2. Globalisation Drives Regional Economic Integration

In the process of globalisation, the expansion of trade, investment and communication networks across national boundaries has created opportunities for countries to form regional economic blocs, which can help them to take advantage of global economic trends, enhance competitiveness and promote intraregional economic stability. There is no doubt that globalisation has enhanced economic dynamism, particularly since the 1980s, when the rapid development of high technology, centred on information technology, has shortened distances between regions, broken down national boundaries, facilitated the international movement of capital and enabled resources to be allocated more efficiently in a larger global market.

2.1. Globalisation Promotes Regional Economic Integration Through Increased Trade

The expansion of international trade has been one of the most important features of globalisation. It can encourage countries to form regional economic groupings through increased trade flows between countries. These regional economic blocs, in turn, can reduce trade barriers such as tariffs and quotas through policies such as the establishment of customs unions and the formulation of multilateral agreements, lowering the cost of doing business within the region and making it easier for countries to trade with each other, which in turn promotes globalisation. The most typical example is NAFTA, a trilateral trade agreement between the United States, Canada and Mexico that came into force in 1994. Prior to the implementation of NAFTA, the United States, Canada and Mexico were already trading with each other, however, trade between the three countries was limited by high tariffs and trade barriers. Through the signing of NAFTA, many of these barriers were eliminated, as well as the creation of a free trade zone. Under this agreement, goods can be produced in any of the three countries and still qualify for tariff-free treatment when sold within the free trade zone, which has undoubtedly increased the flow of trade between the three countries, contributing to economic growth and job creation. Globalisation has also made the global economy increasingly interdependent, with trade and investment between countries becoming more interconnected. By forming a regional economic bloc, the United States, Canada and Mexico have been able to capitalise on the synergies arising from their geographical proximity and the resulting ease of trade and movement of goods (Chase, 2003). For example, those TNCs with operations in more than one country have been able to take advantage of the free trade area created by NAFTA, which allows them to transport goods and services across borders more easily and at a lower cost. In addition, the growth of global value chains as a result of globalisation has led to the fragmentation of production in different countries, with goods being produced in multiple countries before being assembled into a final product, which creates opportunities for firms to expand and generate more economic growth (Gary, 2014). NAFTA allows the three countries to be able to leverage each other's strengths and resources, focusing on specific stages of production has led to increased specialisation and efficiency in production. For example, Mexico has become a centre for automotive production, while the United States has focused on high-tech and knowledge-intensive industries. According to a Congressional Research Service report (Villarreal, 2008), trade between the United States and Mexico increased from $81.5 billion in 1993 to $614.5 billion in 2019. Similarly, trade between the United States and Canada increased from $305.2 billion in 1993 to $680.1 billion in 2019. The case demonstrates how regional economic integration can help countries within a region to promote their economic growth in the context of globalisation by reducing barriers to trade between countries, exploiting geographical advantages and regional division of labour.
2.2. Globalisation can Facilitate Regional Economic Integration by Promoting Economic Stability

Globalisation can facilitate regional economic integration by promoting economic stability. Globalisation has created a more interconnected world economy, with advances in technology, transport and communications facilitating the integration of markets and the exchange of goods, services and ideas on a global scale. By forming regional economic blocs, countries can build more stable economic relationships within the region and reduce the impact of global economic shocks on their economies (Baldwin, 2006). For example, the European Monetary Union (EMU) was formed to create a single currency for the EU. As a result of countries adopting a single currency, transaction costs for businesses are greatly reduced, financial management is simplified, foreign exchange transaction costs are eliminated, and the impact of global economic shocks on individual countries within the EU is reduced. Although the loss of exchange rate instruments brings certain economic stabilisation costs, other measures can be used to compensate for this, and the benefits still outweigh the costs when comparing the costs to the benefits. In addition, EMU not only establishes a common set of rules and institutions to govern economic policy, which helps to promote greater policy coordination and reduces the risk of economic imbalances, it also establishes a common regulatory framework, which helps to reduce the risk of regulatory arbitrage and promotes fair competition for firms in the region (De Grauwe, 2016).

2.3. Globalisation Drives Regional Economic Integration by Attracting Foreign Investment

As globalisation drives international investors to seek access to new markets and take advantage of lower labour and production costs, countries have formed regional economic blocs to attract foreign investment and create economies of scale, thus making their regions more attractive to investors (Motta, 1996). For example, the Association of Southeast Asian Nations (ASEAN) created the ASEAN Free Trade Area (AFTA) with the aim of creating a single market and production base in the region to promote intra-regional economic cooperation, which has attracted foreign investment into the region and created opportunities for firms to expand their operations in ASEAN (Chia, 2011). At the same time, it has become increasingly attractive to foreign investors due to its large and growing market, abundant natural resources and low labour costs. In addition, ASEAN has signed a number of Free Trade Agreements (FTAs) with other countries and regions such as China, Japan, South Korea, Australia, New Zealand and India. These FTAs have helped to increase trade between ASEAN and these countries and have also attracted foreign investment to the region. Overall, regional economic integration can contribute to economic stability by creating a more integrated and stable economic environment for its member countries through the formation of a single currency area, as well as larger labour and capital markets at the regional level to attract foreign investment and create economies of scale.

3. Regional Economic Integration Mitigates the Risks of Globalisation

On the other hand, since globalisation is a process in which spontaneous market mechanisms come into play, the competitive nature of the market economy brings with it a range of uncertainties and risks that tend to benefit the strong and harm the weak (O'Rourke, 2001). Economic and political events in one country can have a knock-on effect on other countries, which can lead to fluctuations in exchange rates, commodity prices and interest rates, as well as political instability and geopolitical tensions, thus creating uncertainty and risk for businesses and investors. In addition, the fruits of globalisation are not equally distributed among different countries and classes (Graham, 2001). There are differences in the benefits to different countries, and globalisation tends to favour countries with abundant natural resources, skilled labour and a stable political environment. Especially for those nation-states that lack independent or self-sufficient resources, this is a fatal danger in the changing international system and structure, resulting in their inability to respond in a timely manner to the dangers and threats emanating from globalisation (Dent, 1997). But if these independent nation-states can form stable regional alliances or regional groups, based on the pooling of collective strengths, resources and preferences, they can achieve long-term goals as well as respond to the opportunities and crises that exist in the context of globalisation. Since globalisation generates uncertainty, risk and transaction costs, there is a need to generate a new institutional arrangement to reduce such uncertainty and risk, internalise externalities and reduce transaction costs. Regional economic integration is in fact such an institutional arrangement, which regulates not only microeconomic agents but, more importantly, sovereign States. An integrated regional economy can effectively counter the negative effects of globalisation due to its geographical proximity, cultural similarity and complementary market structure.

3.1. Regional Economic Integration Can Expand Competitive Advantages

Globalisation has intensified competition among countries, and regional economic integration has become a way for countries to gain competitive advantage by creating closer economic ties and improving access to regional markets. By creating larger, more integrated markets, regional economic integration allows countries to benefit from economies of scale, reduce transaction costs and increase efficiency. For example, the European Union (EU) was established to create a single market for goods and services, allowing the free movement of people, goods and capital within the region. This creates a larger market for businesses within the EU and increases the flow of goods and services in the region. At the same time, regional economic integration has allowed some smaller countries within the EU to benefit and improve access to regional markets to increase bargaining power and competitiveness. In the case of Luxembourg, being part of the EU gives the country access to a market of more than 500 million people, which gives Luxembourg access to a wide range of markets for its goods and services, enabling the country to expand its exports and boost economic growth. The creation of the single market was one of the key policies that enabled Luxembourg to benefit from its EU membership. It removes trade barriers and creates a level playing field for companies operating within the EU. As a result, Luxembourg-
based companies can sell their products and services to customers throughout the EU without facing significant trade barriers or regulatory obstacles. Another important policy that has benefited Luxembourg is the EU’s Common Trade Policy. The EU as a bloc negotiates trade agreements with non-member countries, which gives Luxembourg greater bargaining power than it would have as a small, individual country. The EU has negotiated several high-profile trade agreements, such as the Comprehensive Economic and Trade Agreement (CETA) with Canada and the Japan-EU Economic Partnership Agreement (Frenkel, 2017), which have opened up new markets for Luxembourg businesses and increased the country’s economic competitiveness. In addition, the EU’s structural funds provide Luxembourg with important financial support. Structural funds are used to support economic development and social cohesion within the EU, especially in poorer regions (Kyriacou, 2012). As a relatively wealthy country, Luxembourg’s contribution to the EU budget exceeds the revenues from the structural funds. However, these funds still provide important support for Luxembourg’s economic development projects, including infrastructure improvements and support for SMEs (Mohl, 2010). Thus, regional economic integration can link countries that are willing to participate in integration alliances to internalise some of the risks of globalisation and create a greater competitive advantage for a region or country through the internalisation of global markets.

3.2. Regional Economic Integration Can Shape Global Economic Rules

Regional economic integration can be seen as a way for countries to exert influence in the face of globalisation by jointly shaping global economic rules. Particularly in the WTO era, regional economic integration organisations are playing an increasing role in the international economic rule-making process. At the same time, rules are becoming more and more binding on nation-states, which forces no country to ignore the rule-making process any longer (Hurrel, 2013). Joining a regional integration organisation is good for defending one’s own interests, as it is easier for a country’s voice to be respected within a smaller organisation, which in turn can be amplified in global negotiations through the integration organisation. By forming regional integration groups, countries can negotiate as a bloc on issues such as global trade and use their combined economic power to influence the outcome of global negotiations. MERCOSUR was formed in 1991 by Argentina, Brazil, Paraguay and Uruguay to promote economic integration and cooperation among its member countries. MERCOSUR plays a role in setting the rules of the global economy through its participation in the World Trade Organisation (WTO) and through trade agreements with other countries and regions such as the EU. After years of negotiations, the EU-MERCOSUR signed the trade agreement in June 2019, which is expected to create a market of 780 million people, making it one of the largest trade agreements in the world. It eliminates tariffs on more than 90 per cent of goods traded between the two blocs and will boost trade in services, investment and public procurement. The agreement could provide MERCOSUR countries with greater access to the EU market, which is the largest export destination for MERCOSUR products (Baltensperger, 2019). In addition to negotiating trade agreements, MERCOSUR countries also aim to reduce trade barriers by participating in the WTO Doha Development Round negotiations and working to ensure that the Doha Round results in a fair and balanced outcome for all countries (Paiva, 2003). By forming a bloc, MERCOSUR has a greater voice in the WTO than individual countries and is able to achieve a better negotiating position and formulate the terms of trade agreements in their favour, as well as advocate for developing countries’ interests in international forums. Thus, by setting the rules of the global economy through the WTO and trade agreements, MERCOSUR can promote its economic interests and mitigate some of the negative effects of globalisation.

4. Conclusion

Regional economic integration has become an important response to globalisation. As the world has become more interconnected, countries have recognised the benefits of forming regional economic blocs, such as increased trade flows, access to larger markets and greater bargaining power in international trade negotiations. However, globalisation has created uncertainty and risks for countries, but regional economic integration can help mitigate these challenges by promoting economic stability and reducing the impact of global economic shocks. The EU-Luxembourg case study demonstrates how regional economic integration can create opportunities for regions and individual member States to improve competitiveness and access larger markets. Similarly, the North American Free Trade Agreement (NAFTA) has increased trade flows between the United States, Canada and Mexico, leading to significant economic growth in the region. The case of ASEAN also shows how regional economic integration can attract foreign investment and create economies of scale, making the region more attractive to investors. However, globalisation had not benefited all countries and classes equally. Developing countries often lacked the resources and infrastructure necessary to compete in the global economy, while wealthier countries and transnational corporations (TNCs) were able to take advantage of the benefits of globalisation. Regional economic integration can therefore help to address these disparities by fostering intraregional economic development and creating more opportunities for trade and investment, as well as giving regions the bargaining power to participate in global negotiations. While globalisation brings with it challenges and disparities, regional economic integration offers a way for countries to work together to address these issues and promote economic growth and development.

Against this background, regional economic integration and globalisation have different and important implications and opportunities for developing and developed countries. First, developing countries can strengthen their economic ties with their neighbours and other member countries in the region by participating in regional economic integration. This will help to promote trade and investment liberalisation, reduce trade barriers, expand markets and increase the mobility of goods and services. In the process of cooperation with other countries, developing countries would be able to make better use of their own resources and advantages, improve their economic competitiveness and achieve economic growth. Secondly, developed countries should advocate fair competition and balanced development in regional economic integration. They should avoid reinforcing inequality and ensure fairness in the distribution of benefits, while taking into account the special needs and gaps of developing countries and promoting shared prosperity. Play a
leading and helping role in the global value chains created by
globalisation. Attention should be paid to the development
needs of developing countries and the smooth advancement
of regional and globalisation processes should be promoted
through technology transfer and investment cooperation.
Finally, developing countries should proactively raise their
voice and status in global economic governance. As part of
regional integration, developing countries can participate in
the formulation and reform of global economic rules and
mechanisms by putting forward more influential views and
proposals through collective action and consultation. This can
help balance the dominance of developed countries and
enhance the voice and agenda-setting capacity of developing
countries in international affairs. Developed countries should
also strengthen cooperation and coordination with developing
countries in regional economic integration. By sharing their
experiences, providing technical support and establishing
common rules, they can promote stable cooperation among
countries in the region and jointly promote the regional
integration process, so as to achieve common prosperity for
the global and regional economies.

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