Regional Integration and Development

Maurice Schiff
and L. Alan Winters
Contents

Preface xi

Abbreviations and Acronyms xv

Chapter 1. Regional Integration Agreements: An Overview 1

RIAs in History 4

Why Regionalism? 6

Why Another Book on Regionalism? 10

Summary 13

Regionalism as Trade Policy
Making the Most of Regionalism
Regionalism and Investment
Growth and Location
Integration of Domestic Policies
Regionalism as Politics
Regionalism and the Rest of the World
Rules of Thumb for Regionalism

Appendix. Selected Regional Integration Agreements with Developing Country Members 26

Notes 29

Chapter 2. How Trade Blocs Increase Trade and Competition 31

Increased Trade between Members of Trade Blocs 32

Is More Trade Good, or Bad? Trade Creation and Trade Diversion 33

Growth of Trade over Time 36

Not All Changes Come from Regionalism 40

A Change of Perspective: Imperfectly Competitive Markets 46
Chapter 3. Making the Most of Regional Integration 63

Free Trade with Whom? 64
Why Not with Everyone?
Choosing Partners: The "Natural Trading Partners" Fallacy
Choosing Partners: Comparative Advantage
Neighborhood RIAs
North-South or South-South RIAs

How Many RIAs? 75

Free Trade Areas and Customs Unions 78
Trade Deflection and Rules of Origin: More Protection
Indirect Trade Deflection: Exporting Protection
Customs Unions Offer Lower Trading Costs and Greater Integration

External Trade Policy 82
Setting External Tariffs in an FTA: A Race to the Bottom?
Trade Policy Institutions in Customs Unions Can Increase Protection
Lobbies Bias RIAs toward Trade Diversion
RIAs Open a New Environment for Lobbying
RIAs and Protection: Summing Up

Integration and Taxes 94
Fiscal Compensation
Tax Competition

Notes 100

Chapter 4. Stimulating Investment 101

Investment Policies 103
Investment Planning: A Dead End
Bilateral Investment Treaties
Treatment of Investment in Current Regional Arrangements
Multilateral Investment Agreements

Integration as an Aid to Credibility—Not an Automatic Effect 107
RIAs Allow Bad Policy to Be Punished
RIAs Can Affect the Incentives for Good Policies
RIAs Can Signal Government's Reform Intentions—If Genuine
Regional versus Multilateral Routes to Credibility

RIAs as Investment Stimuli 113
Integration Affects Incentives to Invest
Investment Does Not Necessarily Mean Growth in RIAs
Regional Integration and Foreign Direct Investment 117
Motives for FDI
Evidence of the Positive Effects of Integration
Notes 121

Chapter 5. Growth and Location 123
South-South and North-South Regionalism as Stimulants to Growth 124
Knowledge and Institutions as Keys
Trade, Convergence, and Spillovers
Choosing the Wrong Partners Can Harm Growth
FDI and Knowledge Spillovers
Cross-Country Evidence on Openness and Growth
Agglomeration and Industrialization 137
The Balance between Centripetal and Centrifugal Forces
Trade Liberalization Can Aid Industrialization
Intermember Distribution: Divergence Is Likely in South-South RIAS
Notes 144

Chapter 6. Integrating Domestic Policies 147
Defining Policy Integration 149
The Baseline: National Treatment
Beyond National Treatment: Policy Integration
Modes of Policy Integration: Coordination, Harmonization, and Recognition
The Economics of Policy Integration 154
Transactions Costs
Policy Integration to Increase Competition
Spillovers
Compensation and Enforcement
Local versus Regional versus Global Cooperation
Policy Integration to Date: More Promise Than Reality 174
Coverage
Depth of Integration: A Function of Political Objective
Prospects for Policy Integration in RIAS
Conclusion 183
Notes 183

Chapter 7. Regional Integration as Politics 187
Regional Integration as a Means of Reducing Frictions between Antagonistic Neighbors 188
Trade as a Promoter of Peace
RIAs as Promoters of Peace
RIAs Are Not Always Effective Routes to Peace