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The Global and Regional Governance of Trade and Investment: A Reading of the First World Report on Regional Integration

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In this article, the author analyzes the contents of the first volume in the series of World Reports on Regional Integration, recently launched by UNU, UNCTAD and the UN regional economic commissions, in order to identify the views that currently exist within the UN system with respect to the governance of trade and investment. In his opinion these views relate to (a) the multilevel regulatory architecture, which is in need of more coherence, (b) North-South trade agreements, which are in need of gradualism and balance, and (c) South-South agreements, which are in need of stronger institutions, more political commitment and less overlap.

Keywords: trade, investment, regional integration, WTO, UN

Global governance is a concern of not only global organisations but also of all individual states and of regional co-operation agreements among sovereign states. [...] This new series of World Reports will certainly contribute to the discussion on the interaction between regional and global governance. And by bringing together insights from different parts of the UN system, in particular the five UN regional economic commissions and UNCTAD, this report will also contribute to a better understanding of the role of regions in the UN.

Hans van Ginkel, former Under-Secretary-General of the United Nations and Rector of United Nations University.

The idea behind the recently launched series of World Reports on Regional Integration is to systematically monitor the course of regional integration processes worldwide, their interactions and their linkages with the global governance level.² At the same time, the series initiates within the UN, essentially a club of nations, a reflection on the role of the increasingly important (supra-national) regional governance level. The contributions to the report come (mainly) from within the UN system (UNU, UNCTAD, regional UN economic commissions), and from outside the system, mainly academia (GARNET Network of Excellence). (Please see the list of UN-related acronyms and initialisms at the end of this article.) For the first time, the monitoring and analytical work done by the United Nations University (UNU-CRIS) and the different UN commissions (ECA, ECLAC, ESCAP, ESCWA, UNECE) is thus gathered (and confronted) in one publication. The UN commissions, and more specifically their trade and integration divisions, have indeed already built up considerable experience with regional integration issues over many years. Some of them already publish annual reports for their own UN-defined “regions”.

The first volume in the series, apart from having a set of more general regional reports and statistical data, focuses on the governance of trade and investment at the multilateral, regional and bilateral levels, and on the interactions between these levels.

The specific nature of the publication makes clear that, although coherent and converging views are presented, the report does not adhere to one single viewpoint and does not promote a “one-size-fits-all” approach to policy making. The latter is a logical consequence of the fact that the different chapters were drafted by contributors from the different geographical regions. Nevertheless, it is possible to identify a number of general conclusions pointing in the direction of the views that currently exist within the UN system with respect to the (actual and desired) governance of trade and investment in the world economy.

In my opinion, these views can be subdivided into three sets. A first set concerns the global regulatory architecture of trade and investment, and related issues. The general picture painted in the report is one of a complex, multilevel governance system as a structural feature; therefore, proposals to drastically simplify the regulatory architecture are unrealistic. This system has been there for a long time and is likely to stay there for a considerable time in the future. However, the report stresses that more coherence is needed. As far as the role of the regional level is concerned, it is observed that there are two-way interactions between the regional and the multilateral levels, one or the other taking the lead in different moments of time and in different policy areas. The regional level is an essential component of the global architecture and is likely to continue to increase in importance. At the same time, the report recognizes that this level is not always or necessarily the optimal level. This has to do with the existence of sharp asymmetries at the regional (or bilateral) level and the risk of regulatory regionalism. The report pleads therefore for a “functional” integration involving different levels in a coherent way.

As to the more concrete proposals, the report argues that there is a need for a revision of WTO rules regarding regional trade agreements (RTAs) (including flexibility and special and differential provisions) in order to fully exploit their development potential and reduce legal uncertainty. At the same time, there is a need for a new (qualitative) monitoring (transparency) mechanism for RTAs and free trade agreements (FTAs) within the WTO. The Trade Policy Review Mechanism could stand, but alternative models are possible. Regulatory space at the regional level should be accompanied by new multilateral (or plurilateral) framework agreements, again providing for flexibility towards low-income countries and regions. The development of regulatory framework agreements should be delinked from market access negotiations based on reciprocity (as in the WTO). UNCTAD could play a more important role in this area.

A second set of findings concerns the policy options for low-income countries in their relations with high- (and middle-) income countries. With respect to preferential schemes, it is shown that preferential market access leads to trade expansion, although at highly variable rates. The trade expansion effect could be higher without restrictions and exclusions in place. The poverty-reduction effect is questionable because of the concentration of the poor in countries that receive little in the way of preferences. With respect to North-South FTAs, the report adopts a nuanced view. It stresses the need for gradualism and a balancing of integration benefits (access to product and factor markets, anchoring, lock-in effects, aid for trade) on the one hand and adjustment costs on the other. Issues of implementation capacity, asymmetries, reciprocity, sensitive sectors and compensation mechanisms should be addressed. One should also be aware that North-South FTAs (especially, bilateral FTAs) are

vulnerable to capture by business interests in the North and that especially developing countries with a (potentially) large production capacity for sensitive products are likely to encounter tariff and/or non-tariff barriers when negotiating a North-South FTA (antidumping, rules of origin, etc.). The report further emphasizes that the benefits of North-South RTAs depend upon complementary adjustments in domestic policies and cannot be evaluated in isolation. Finally, the report observes that the interests of low- and middle-income countries do not necessarily coincide.

A third set of findings concerns South-South arrangements, the more “classical” forms of regional integration. The report does not subscribe to the strong views in favour of North-South FTAs vis-à-vis South-South agreements, but rather maintains that the “stepping stone” or “sparring partner” arguments in favour of South-South arrangements are valid.³ The latter have an important potential to develop intra-regional manufactures and services trade, and factor movements. However, it is felt that especially in the South many of these arrangements require more legal certainty and sustainability through stronger institutions and funding arrangements. The role of regional development banks should be strengthened, especially in Africa and Western Asia, and the external (i.e., extra-regional) negotiation capacity should be strengthened, especially in Africa. According to the report, the slow pace of South-South integration processes (compared to North-South negotiations) is not necessarily a problem: “deep” integration takes time. But, obviously, clear political commitment is a necessary condition for sustainability of the whole process. Finally, the report addresses the issues of overlapping memberships and intra-regional regulatory inconsistencies. These are especially occurring in Africa and Latin America. Converging trade disciplines should be promoted, and coordination between the different regional organizations and schemes is needed.

Acronyms and Initialisms

ECA	Economic Commission for Africa
ECLAC	Economic Commission for Latin America and the Caribbean
ESCAP	Economic and Social Commission for Asia and the Pacific
ESCWA	Economic and Social Commission for Western Asia
UNCTAD	United Nations Conference on Trade and Development
UNECE	United Nations Economic Commission for Europe
UNU	United Nations University

Endnotes

1. This article is a personal “reading” of the first volume in the series of World Reports on Regional Integration by its editor. It does not necessarily reflect the opinions and viewpoints of the different contributors and institutions involved in producing the report, nor does it represent any official viewpoints of the UN or UNU on trade and investment matters. Only the author of this article is responsible for its contents.
2. De Lombaerde, P. (ed.), *Multilateralism, Regionalism and Bilateralism in Trade and Investment*. 2006 World Report on Regional Integration (Dordrecht: Springer, 2007).
3. According to these arguments, while it might be true that trade-diverting effects occur in the short run, from a longer-term perspective South-South arrangements are compatible with multilateral trade liberalization because they allow domestic firms to gradually become internationally more competitive.

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