

# From Regional to Global

By Akira Kojima

The flow of history seems to have been accelerated recently. Hallowed traditions, widely held assumptions, and Cold War common sense are falling by the wayside. In politics as in economics, theory is unable to keep up with practice, so rapid are the changes taking place. Global systems built on Cold War structures are clearly coming apart, and the powers that be are scrambling to put them back in order or to find new alternatives. Out of this chaos come innovation and hope. Yet it would be wrong to hope too much, for such hope can all too easily give way to disillusion.

The new world order that President Bush speaks of is still at the political rhetoric stage. The recent European Ministerial Conference and London Economic Summit spent a lot of time and verbiage reaffirming such values as "pluralistic democracy," "human rights" and "market-oriented economic reform," but the new world order embodying these values is yet an invisible embryo. As such, we are in a time of transition. The old order has collapsed, but no new order has yet arisen to take its place.

## Era of distrust

Although it is impossible to tell exactly how long this transitional phase will be, it would be unreasonable and unrealistic to expect order to come out of the present chaos anytime soon. In effect, we are now living in a system-less era, and international relations in this system-less era are bound to be characterized by suspicion and distrust.

This is true not only in the political realm but also in the world of economics.

Perhaps the clearest manifestation of this distrust and anxiety in the economic and trade realm is the propensity to what has been called regionalism. On the surface, there has been an undeniable increase in such regionalism. By the end of 1992, the EC hopes to have integrated its

markets and to have removed the border barriers to economic activity. In North America, the United States and Canada have already signed a free trade agreement and negotiations are under way between the United States and Mexico for a similar arrangement that would, if all goes according to plan and Canada also signs on, open the way to the creation of a North American free trade area.

Similar trends are evident in Asia and the Pacific, the world's third great trading region. In early November 1989, the ministerial-level meeting on Asia-Pacific Economic Cooperation (APEC) was held in Canberra. This was the first ministerial-level meeting on economic cooperation in this region. And then in December 1990, Malaysian Prime Minister Mahathir proposed the creation of an East Asian economic group.

What are we to make of all of this activity? The EC seems to believe that the 21st century can be a European century. Yet the countries outside of the EC are worried that integration may be a disguise for the creation of an exclusionist Fortress Europe. Thus the EC dream may well be a nightmare for other countries. Likewise with the North American free trade area: a dream for its principals but perhaps a nightmare for the rest of the world.

One of the reasons this issue has been getting so much attention is the very real fear that such regional groupings could well generate antagonism among regions and lead to a replay of the disastrous economic bloc-ism of the 1930s. There is a fear that the GATT regime of free and non-discriminatory multilateral trading that has sustained the world's postwar economic growth and prosperity may well become a thing of the past.

MIT's Lester Thurow has already pronounced GATT dead. The amazing Peter Drucker, who shows no signs of slowing down despite his age, recently made some interesting remarks on the question of globalism vs. regionalism. With the disclaimer that I am paraphrasing him

and that his remarks are thus not as eloquent on paper as they were in person, I would like to quote from our discussion at some length.

**Kojima:** The EC is not going to be content with integrating the markets and economies of its dozen member countries but is also ready to absorb the Scandinavian European Free Trade Association (EFTA) to create a Greater European Economic Zone. At the same time, North America is also moving toward the creation of a single economic zone. Will this regional-level integration be a way station on the road to global economic integration, or will it be a detour that finally undermines the multilateral trading arrangements of the past several decades?

**Drucker:** There are three trends in the world economy, each pointing in a different direction. The first is the very strong current to globalization. It is widely recognized that there are many issues—the global environment and terrorism come to mind—that no one nation can deal adequately with alone.

## Global coalition

The global coalition that rose up against Iraq's invasion of Kuwait would have been inconceivable not too many years ago. This is, I believe, the first manifestation of a global determination to stand up to terrorism.

Four hundred years ago, Tokugawa Ieyasu forbade private armies in Japan. He said that the feudal lords would no longer have their own armies but that peace would be maintained from Edo. Fifty years later, private armies were outlawed in Europe as well and the national government became the only military force in any given country. Yet today, private armies of terrorists threaten world peace—and this is a threat that we can only meet with transnational means. Ditto with the global environment.

The second trend, and this is also a



Photo: Kyodo News Service

Japanese engineers giving technological guidance to Malaysian engineers working for a Japanese plant in their country. Investment in the Asian region is a step toward the integration of the global economy.

very strong one, is the trend to localism. This shows up when a group that identifies itself by race, religion or some other characteristic seeks independence. This is not by any means restricted to the Soviet territories.

And the third trend is that of regionalism. The prototype here, of course, is to be found in North America, where the United States and Canada have moved closer to integration and now Mexico, which has spent the last 150 years trying to distance itself from the United States, is moving to sign a customs union and eventually to be part of a North American free trade area. By the end of this century, North America should be the world's largest economic bloc.

There was much more to the discussion, but I must admit that, while I have the greatest respect for Drucker, I came away only partly convinced by his eloquence. Today's tendency to economic blocs is qualitatively different from the exclusionary bloc-ism of the 1930s that had such a disastrous contractionary impact on world trade and the world economy. The world is today very much immersed in economic interdependence. We have today passed the point of no return.

In the 1930s, countries were joined almost solely by trade in goods and were able to import only what they wanted. Yet today, the mind-boggling advances in information processing and telecommunications has meant that our interdependence goes far beyond material trade in goods.

Direct foreign investment is also becoming increasingly important with every passing year. Unlike the export of manufactured goods, direct foreign investment entails the export of production technology, of capital and technology, of managerial know-how, and even of em-

ployment opportunities. In effect, direct foreign investment may well be called exporting competitiveness.

In his 1990 *Bound to Lead*, widely acclaimed as a rebuttal to Paul Kennedy's 1987 *The Rise and Fall of the Great Powers*, Harvard University's Joseph S. Nye has written that foreign investors who are buying into America with transplant factories and real estate investment are not buying America but, quite the contrary, are making their own fortunes hostage to America's own destiny.

Despite this hostage aspect to investing overseas, there has been a vast surge of corporate offshoring—giving up some sovereignty and entrusting their futures to the host countries. Such direct foreign investment links country to country, region to region. This direct foreign investment did not exist in the bloc-ism of the 1930s, and it is a very significant difference.

## Asian interests

The countries of North America and Europe have reacted strongly against Malaysian Prime Minister Mahathir's proposal for an East Asian economic group. No doubt this is because they see it as an effort to create an Asian economic bloc that would exclude American and European participation. However, Mahathir has broached this idea only because the Uruguay Round has been proceeding (or not proceeding) in accordance with Euro-American convenience and has completely ignored Asian interests. He was not suggesting that the Asian countries form an EC-like trade region with formal structures.

In fact, there are a number of reasons why an Asian EC would be both impossible and impractical:

1) There are massive disparities among

the Asian economies both in terms of size and in terms of stage of development.

2) The different countries have different cultural orientations, their cultural bonds are fragile, and there is little sense of shared identity.

3) While the EC has promoted integration and union on the basis of the Treaty of Rome and other legal instruments, Asia does not have the same legalistic bent and is not as prone to such protocols.

4) There are very good historical reasons why the other countries of Asia would resist any formal structure in which Japan took the lead.

Of course, there is increasing dialogue and cooperation among the Asian countries on a country-to-country basis. Yet this is not aimed explicitly at economic or political union. Rather, what union does evolve will be a by-product of the dialogue. And because the Asian countries recognize that an EC-like regional integration is impossible, they are unlikely to opt for any policy that consciously excludes non-Asian participation. Rather, what is envisioned in Asia, and what is actually taking form, is heightened open economic interdependence.

In fact, such an open Asia might well form the link bonding North America and Europe. And in this, direct foreign investment could serve to shorten the distances between countries and regions.

American isolationism is another untenable possibility that is being bandied about. The U.S. economy is currently export-driven, and exports are now crucial to the U.S. economy. So long as this is true, it is unthinkable that the United States would lurch into the kind of isolationist bloc-ism that prevailed in the 1930s.

Because of these differences, plus the impetus from direct foreign investment, there is now increasing interaction among economic regions. As a result, regional integration has the potential for becoming a step on the road to global integration. This is the potential that all countries should seek to encourage. ■

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