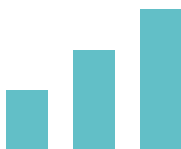


A GENERAL THEORETICAL REVIEW ABOUT GLOBALIZATION AND REGIONAL INTEGRATION

Artículo

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Resumen

En las últimas cuatro décadas diferentes autores desde diferentes campos de investigación (económico, político, y social puntos de vista) puedan explicar la evolución y efectos de la globalización y el regionalismo sobre la economía mundial. Diferentes teorías y herramientas analíticas pudieron desarrollar y aplicar en todos estos estudios. En esta investigación, la enseñanza y aprendizaje acerca de la globalización y la integración regional puede ayuda a muchos estudiante a nivel licenciatura para entender el nuevo orden desde una edad temprana. Por esta razón, este documento sugiere la implementación de una revisión general teórica para promover el estudio de la globalización y la integración regional que lidera la creación de potenciales académicos e investigadores en el futuro cercano.

Palabras clave: integración regional, globalización, bloques comerciales, integración económica, teoría del comercio.

Abstract

In the past four decades different authors from different fields of research (economic, political and social view points) have explained the evolution and effects of globalization and regionalism on the world economy. Different theories and analytical tools have been developed and applied in these studies. In this research, the teaching and learning about globalization and regional integration can help many under graduate students to understand the new world trade order from a young age. For this reason, this paper suggests the implementation of a general theoretical review to promote the study of globalization and regional integration that led to the creation of potential academics and researchers in near future.

JEL: F15

Keywords: Regional integration, globalization, trade blocs, economic integration, trade theory

1. Introduction

In the past four decades different authors from different fields of research (economic and political view points) have explained the cause and effects of globalization and regionalism on the world trade. Different theories and methodologies have been developed and applied in the study of globalization and regionalism. All these theories and methodologies permit visualize globalization and regionalism from a different dimensions of analysis such as economic, political, social, and technological. In our research paper, the single dimension of analysis in globalization and regionalism is not enough to explain these two complexes phenomenon. For this reason, this research suggests the deep review of globalization and regionalism to have a better understanding of globalization and regionalism.

2. Globalization

In the past forty years, the whole world has been experiencing dramatic changes in the economic, technological, political and social arenas. Many academicians and researchers in the fields of economics, politics and sociology refer to these transformations as Globalization¹. Globalization started as a general concept among certain specialized academic groups in the middle of the 1980's, with reference to regionalism and the rapid development of new advanced technologies.

Later, the concept and uses of the word –Globalization- started to expand in the universal language, until it became adapted into our common lexicon. It is no longer a special term used by economists, political scientists and sociologists. It is regarded to as the most relevant economic phenomenon these days. Probably, there is no other concept that can better define the fundamental challenges in the world economy in this century than –Globalization-. But it was not until the 1990's that Globalization made its formal appearance and consolidation in the international context. Furthermore, Globalization is a complex and multidimensional phenomenon taking place simultaneously in different levels and transforming the political, social, economic and technological scenarios in different parts of the world. However, Globalization embodies particular characteristics which are as follows:

First Characteristic of Globalization: Institutional and Political Reforms

The first characteristic of Globalization is the institutional and political reforms based on less public sector participation into the economic activity or market. The institutional focus is supported by the idea to reduce public sector participation into the economic activity under the argument of unnecessary bureaucracy (non-efficient allocation of resources and production factors). The elimination of unnecessary bureaucracy uses the mechanism of privatization based on the sale of assets from the public sector enterprises (products and services) to the private sector. The sell of public sector to the private sector assumes a better performance in the productivity and efficiency of public services and products. The mission of privatization is to look for an efficient allocation of resources into the economy of any country under the private sector management.

The new institutional focus and deep political reforms that constitute the first pillar of globalization is based on less public sector participation in economic activity. The idea behind the reduced public sector participation is that unnecessary bureaucracy creates non-efficient allocation of resources and production factors. The elimination of the unnecessary bureaucracy is implemented through the mechanism of privatization, where goods and services from the public enterprises are sold to the private sector. The sale of public sector assets to the private sector is assumed to give rise to higher productivity and efficiency in the public sector. This is in line with the mission of privatization, that is, to achieve efficient allocation of resources in a country's economy.

Since the end of the Cold War -- with the collapse of the bipolar order (communism and capitalism) that reigned since 1945, a new phase of reform in the economic, institutional and political arenas has been created. A new institutional world order has been structured under deep political, economic, technological and social challenges (Gaspar, 2000). Indeed, the analysis of post-Cold War regionalization process and international order cannot be separated

from the globalization process (Hveem, 2002 and Sideri, 2000). The new international order in the political and institutional is supported by the strong promotion of democracy (more participation of the civil society into the democratization process) and human rights.

Second Characteristic of Globalization: Development of Information Communication Technology (ICT)

The second characteristic of globalization is the development of information communication technologies (ICT) tools resulting in the use of advanced technologies. The ICT sector uses technological innovative tools such as Internet services (Web), sophisticated software and hardware, satellite T.V. and satellite mobile phone systems. These tools enable quick accessibility of information and hence, easier business transactions. The present advances in technology have come a long way since the industrial revolution in England. With advanced technology, new Research & Development (R&D) methods and tools emerged, which in turns led to expansion in world production and business. However, the above benefits of technological revolution are mainly enjoyed by high income countries. This results in concentration of high technology amongst high income countries. Therefore, middle income and low income countries continue to be highly dependent on high income² countries for their technological needs.

Third Characteristic of Globalization: Trade Liberalization

The final characteristic is the expansion of regional integration agreements (RIA's) around the world based on custom union (CU) and free trade areas (FTA) schemes.

3. Regionalism and Multilateralism

According to Winters (1999) the literature about multilateralism³ vs. regionalism⁴ is growing among policy makers, economists and political scientists regarding the question of whether regional integration arrangements are favorable or non-favorable for a fair multilateral system. Are regional integration arrangements “building blocks or stumbling blocks,” in Bhagwati’s (1993b) phrase, or stepping stones toward multilateralism? Governments, academics and policy makers are observing the ability of the world trade organization (WTO) to maintain the GATT’s unsteady yet distinct momentum toward liberalism, and as they contemplate the emergence of world-scale regional integration arrangements (RIA’s) until our days.

In addition, Professor Baldwin (1999) argues that the WTO’s incapacity to solve trade differences among its members could be rectified through the expansion of large number of regional integration agreements (RIA’s) around the world. The Regional Integration Agreements (RIA’s)⁵ basically is based on two schemes of regional integration, namely customs union (CU) and free trade areas (FTAs). According to world trade organization (WTO), the fast growth of RIA’s around the world was generated between 1948 and 2016 (Figure 1). Around 297 RIA’s existing around the world were registered in the WTO under different status, and up till 2016, the WTO had a total of 21 custom unions (7%), 230 free trade areas (77%) and 47 enabling clause and GATT Art. V⁶ (16%) around the world.

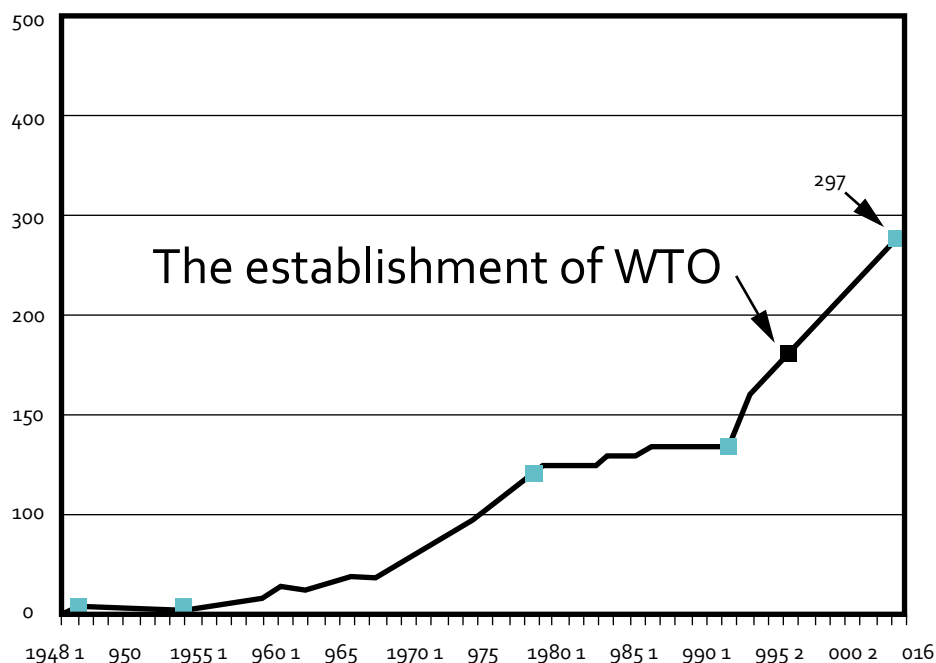
For this reason, Cable and Henderson (1994) present strong claims in favor of regionalism: that regionalism breaks down economic nationalism and increases awareness of economic interdependence; that it is a useful laboratory for new approaches to deeper integration which can be applied multilaterally (in relation, for example, to product standards, state subsidies, competition policy and dispute settlement); that it makes negotiation easier by reducing the number of trade players; and that it encourages the formalization of rules or regulations affecting international trade, making them more transparent and less discretionary, if not always more trade freedom.

On the other hand, Bhagwati (1993a), for example, maintain that regionalism keeps a low motivation and commitment for multilateralism. They have several counter-arguments against the above favorable claims for regionalism as mentioned earlier in the regionalism section. These agreements originated from the fast growth in the number of RIA’s around the world. Further, Krugman (1991) argues in favor of multilateralism and supports the idea that multilateralism brings more benefits to international trade than regionalism. In addition, Krugman asserts that if the number of custom unions and free trade areas keeps growing faster, then trade welfare in the world trade will decrease. Another reason for the counter-argument against regionalism is mentioned by Fernandez (1998). She highlights that there are two types of trade restrictions are following by hard restrictions and soft restrictions.

The hard restrictions are tariff measures (import tariffs) and non-tariff measures (quotas) in the manufacturing, agricultural, and services sectors. Soft restrictions are based on the sanitary measures such as health and environmental issues. These measures create restrictions against in the development of international trade, especially trade between middle income and low income countries.

Figure 1:

Evolution of Regional Integration Agreement's (RIA's) in the World registered by GATT/WTO (1948-2016)



Source: World Trade Organization (WTO)

Moreover, two categories of regionalism are applied in this research. These two categories of regionalism, as suggested by Bhagwati (1999), there are closed regionalism and open regionalism.

Closed Regionalism

Closed regionalism is based on the import-substitution industrialization strategy or inward oriented model under the infant industry argument. The import-substitution industrialization strategy uses a common import tariff that is a form of public sector intervention to protect the domestic industries and to create a large market (Balassa, 1985).

Closed regionalism has observed a series of phases in the process towards the creation of a common trading bloc. These six phases are first preferential trade arrangements. Second, is the free trade area, where the free trade area will

eliminate internal tariff and non-tariff barriers but not harmonize external barriers. Third, is the customs union, which is trying to remove internal barriers and establish a common external tariff. Fourth, is common markets, which is formed by a customs unions and where free mobility of labor and capital are eliminated. The fifth phase is to establish a common currency based on the monetary union. Finally, nations can form a single state in a confederation (Lawrence, 1996).

The application of the import-substitution industrialization strategy in the case of developing countries and less developed countries is assumed to help enhance economic development in these countries. However, disappointing results were obtained by many countries in Asia, Latin America and Africa in the 1980's, for example, in countries in the Central America common market and Caribbean community. These countries experienced low economic growth, poverty and political instability.

Hence, the application of the import-substitution industrialization strategy gives rise to problems, such as imbalanced industrial concentration, high cost of production such as the non-efficient allocation of factors of production follow by labor and capital in different production sectors such as agriculture, manufacturing, industry and services, as well as problems relating to bureaucratic negotiations among different governments. In addition, diplomatic, economic and political influences from large economies on small economies have always been prevalent under the import-substitution industrialization strategy.

Open Regionalism

Open regionalism was developed at the end of the 1980's. Based on trade liberalization, it uses the export-led oriented or outward oriented model. Contrary to closed regionalism, open regionalism seeks to eliminate all trade barriers and non-trade barriers in the same geo-political space based on a minimal government intervention which is applied to protect domestic industries from foreign competition.

Cable and Henderson (1994) consider open regionalism as a negotiating framework consistent with and complementary to the world trade organization. The authors cite the Asia Pacific Economic Cooperation (APEC) as a model of this approach. But, as they point out, 'openness' carries at least two different meanings: openness in terms of non-exclusivity of membership; openness in terms of contributing economically to the process of global liberalization than detracting from it through discrimination.

According to this research, there are two reasons for the success of this new regionalism: (i) World trade organization poor performance in terms of multilateralism and its incapacity to dissolve trade differences among its members with the closed regionalism; (ii) United States' changed position on multilateralism and the move in its recently trade policy towards open regionalism such as the Trans-Pacific Partnership (TPP). It can be argued that open regionalism helps to manage

the world trade. The Trans-Pacific Partnership (TPP), for example, started to adopt the open regionalism model. The results it obtained were positive, especially for the developed countries members.

In order to achieve a stream of open regionalism based on Trans-Pacific Partnership (TPP) experiences, the following conditions must be considered, such as:

Economic Conditions: American market expansion, foreign direct investment (FDI) incentives and strong legal framework among its members, different production structures, efficient combination of production factors: labor and capital, stability in the exchange rates, maximized uses of economies of scales and these markets such as Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam.

Political Conditions: The economic power group's willingness to integrate the countries in the new world order.

The combination of the above conditions constitutes the factor leading to the present success of open regionalism. It is difficult to implement open regionalism between middle income countries and low income countries. This is because these countries lack the same kind of economic, political, social and technological conditions as those present in the Trans-Pacific Partnership (TPP). However, it is inappropriate to argue that open regionalism is the ideal scheme to integrate middle income countries with high income countries in order to compete in world trade.

4. Analysis of Customs Union Theory and Trade Liberalization Literature Review

Custom Union Theory Literature Review

The effects of regional integration have been studied by many economists based on the Custom Union theory. There are two basic concepts in this theory, namely trade-creating effect and trade-diverting effect. These two concepts are used by many economists and non-economists as the general framework of introduction to the study of regional integration. Viner (1950) argues that where the trade-creating force is predominant, at least one of the custom union members must benefit. Where two members receive net benefit together, all members in the union will benefit accordingly. However, the world outside the customs union loses in the short-run; gaining in the long run only if there is diffusion of increased prosperity in the member countries of the customs union.

Where the trade-diverting effect is predominant, at least one of the member countries is bound to be injured. However, in the short run both may be injured and will suffer a net injury together. There will be injury to the outside world at large in the long run as well. The main focus of the Customs Union Theory is the markets of goods and services. A partial equilibrium is applied in this theory and the central objective of this theoretical approach is to improve the national income.

The Second Best theory proposed by Lipsey and Lancaster (1997) should also be mentioned here. These two authors apply a general equilibrium to explain the customs union effects on world trade. The contribution of Lipsey and Lancaster on the Customs Union Theory follows the Pareto optimum which requires the simultaneous fulfillment of all the optimum conditions based on the general economic problem of maximization. A function is maximized subject to at least one constraint, which in this case is production function or utility function.

The customs union theory is still used today and continues to be used by many economists. The partial equilibrium analysis used in the customs union theory posts a problem: it frequently uses a partial competitive equilibrium framework to arrive at a general conclusion about a process that is a general equilibrium phenomenon. (Devlin and Ffrench-Davis, 1998)

Trade Liberalization Literature Review

We can observe the fast expansion of trade liberalization⁷ under the preferential trade agreements concept that has taken place throughout the world up to today. In the shape of free trade area, the participant countries agree to eliminate the internal tariff barriers but set their external tariffs barriers independently. It is important to remember that the customs union constitutes the other main shape of preferential trade agreements. The customs union differs from free trade area essentially because its members have a common external trade policy (Breton, Scott & Sinclair, 1997).

The study of preferential trade agreements revolves around trade creation and trade diversion effects. This is partly due to the fact that many economists consider these effects to be the fundamental dimension for evaluating trade blocks (Devlin and EFrench-Davis, 1998). However, it is of our view that these models of analysis require considerable transformation for application in the study of trade liberalization issues. The core idea presented here is that the study of trade liberalization should encompass more than one isolated economic or political analysis revolving around one specific problem.

However, the literature on trade liberalization can be studied from three different approaches: (i) the political economy approach; (ii) the economic theory approach; (iii) the trade policy approach. In this part of our research it is important to mention that work on trade liberalization based on the political economy approach may be grouped into two large areas of study: free trade⁸ under the *laissez faire* argument (outward oriented strategies or export orientation) and protectionism based on infant industry argument (inward oriented strategies or import substitution industrialization).

Firstly, in the case of the literature on free trade, the idea receives support from *The Wealth of the Nations*⁹ by Adam Smith (1776) under the *Laissez Fair* argument. In the *Wealth of the Nations* framework, Adam Smith does not present some analytical method or model, his contribution is the introduction of a clear theoretical framework based on a system of clear ideas to generate trade policies to support the promotion of free trade.

Additionally, the free trade literature in classical economics is based on Smith's ideas in terms of theoretical detail through to David Ricardo and its theory of comparative advantage¹⁰. In this section of our research the introduction of the theory of comparative advantage is considered as a strong analytical method to study and support the free trade literature. According to Haberler (1952), the theory of comparative advantage has a strong relationship with opportunity cost theory¹¹. The comparative advantage theory is simple and uses the model to understand the behavior of trading between two countries and two commodities, where each good uses one production factor either labor or capital or price. Labor is represented by man-hours and the value of one unit is represented by its wage.

Moreover, in contrast to the idea of free trade is the protectionism literature that supports the idea regarding the accumulation of treasure; the protection of wealth; the achievement of a surplus trade; the protection of domestic industries; and increase of the role of the central government in the economic activity. At the same time, protectionism literature offers a variety of perspectives based on factors like the terms of trade argument by Torrens in 1808; Infant Industry Argument by Mill in 1848; Increasing Returns Argument by Graham in 1920; Wage Difference Argument in 1830 and the general theory of employment, interest, and Money by Keynes in 1936. All authors' contributions have a significant influence on the development of new theories and models of analysis up to today supporting the protection of domestic industry.

Hence, the free trade literature and protectionism literature offer a general understanding about the trade policy orientation among different kinds of thinkers through its different ideas, concepts and theories that try to show the pros and cons of both sides of free trade or protectionism). All of them have played important roles in the development of new analytical methods and models to generate logical explanations about the impact of free trade. The difference between the political economy and economic theory approach, and the trade policy approach is that the political economy approach creates criteria based on a general theoretical framework explaining two different sides of the trade orientation (free trade vs. protectionism). The political economy approach takes a more qualitative analytical path.

Trade Liberalization using the Economic Theory Approach is basically one that tries to explain the effect of openness from two angles of analysis: microeconomics and macroeconomics. Each focus also applies two types of methods: qualitative (theories and principles) and quantitative (econometrics). The studies can be classified by period of time (ex-ante and ex-post) and dimension of analysis: partial equilibrium or static and general equilibrium or dynamic. This observation is drawn from approximately 300 different papers from various journals¹² related to trade liberalization, regional integration and international economics issues, from 2001 to 2016.

Based on our analysis of the documents, several pertinent points may be noted: application of microeconomics (60% of cases), qualitative methods were observed in the application of common theoretical analytical issues: comparative advantage (20% of cases), H-O theory (30% of cases), trade restrictions: tariff and non-tariff barriers (50% of cases), and trade creating custom union (25% of cases). Quantitative methods were applied in 95% of cases in our review. The common models used to measure trade liberalization are the elasticity approach (ex-ante), general equilibrium models (ex-ante), import demand regression approach (ex-ante), gravity model (ex-post), an import-growth simulation and other regression approaches (ex-post), import demand regression approach (ex-post). General equilibrium or dynamic models are applied in 80% of cases.

All the above economic models of analysis persist in measuring changes in welfare based on cost/benefit consideration. This research paper, on the other hand, asserts that the study of trade liberalization should not focus merely on the cost/benefit analysis; instead it should take into consideration a series of favorable conditions that the Trade Liberalization presents in each country in the same region.

The difference in the economic theory approach from that of the political economy and trade policy approaches is that economic theory will offer the basic analytical tools to observe the impact of free trade using either qualitative methods or quantitative methods. The economic theory approach is therefore necessary as it provides an important tool to understand free trade and protectionism.

The last 40 years, many economists have tried to build alternative indicators to measure openness or trade orientation. It is important to mention that these different indicators have significantly contributed to the study of openness up to the present time. Usually, a major part of this type of work applies cross-country comparative studies to explain the link between openness and growth, productivity or income distribution. These indicators are trade dependency ratios and rate of growth exports (Balassa, 1985); the heritage foundation index (Edwards, 1998a); Sachs and Warner Openness Index (1995); Leamer's Openness Index (Barro, 1991); Trade Liberalization Index (Lopez, 1990); Average Coverage of NTB –QR- (Edwards, 1998b); black market premium (Harrison, 1996); Index of real exchange rate variability and index of real exchange rate distortion (Dollar, 1992).

Edwards (1997) presented an interesting paper entitled "Trade Policy, Growth and Income Distribution." This paper applied different trade policy indices (e.g. Deviation from Actual Trade Shares; Trade Liberalization Index; Sachs and Warner Openness Index; QR; Deviation of the black market rate; black market exchange rate premium and real exchange distortions and variation) and the coefficient of Gini to prove the link between openness and income distribution. Edwards concluded that there is no evidence linking openness or trade liberalization to increases in inequality.

5. Background Research and Analysis of Different Fields of Research in the Study of Regional Integration

Regional Integration can be studied and researched based on different focuses and approaches. This paper applies four traditional fields of research in the study of regional integration: economic, political, social and technological fields of research. In the first part of the research pertaining to this study, an effort was made to identify the inclination of the fields of research in the study of regional integration. 300 papers (100%) on regional integration from 75 journals published between the 2001 and the 2016 were selected for this purpose from JSTOR (JSTOR, 2016) and ELSEVIER (Elsevier, 2016). Next, the percentage of participation by fields of research (economic, political, social and technological) in the study of regional integration was calculated.

The following trend in terms of fields of research in the study of regional integration was observed: 65% from the economic field of research, 25% from the political field of research, 10% from the social field of research and 1% from the technological field of research. It was also observed that, compared to the 2001 and 2016, the topic of regional integration was more frequently researched and discussed in journals in the 1980's (15%) and 1990's (45%).

Economics Field of Research in the Study of Regional Integration

In the economic field of research (i.e. the largest field of research) in the study of regional integration, attention was placed on three specific areas: economic theory, political economy and applied economics. Economic theory is divided into two parts, namely microeconomics and macroeconomics, each of which has a different focus. Some of these focuses are: partial or general (type of equilibrium), ex-post or ex-antes (method analysis), static or dynamic (behavior), short term or long term (time frame). Method analysis is either quantitative (econometrics, statistics and mathematics) or qualitative (in the form of comparative studies based on theories or historical data). It is observed

that the study of regional integration from the economic perspective mainly centers on macroeconomics applications (70%), quantitative methods (85%), partial equilibrium (50%), ex-antes approach (55%), and static models (60%)¹³. Besides, these applications are used in the short term in most research.

The common theories, models and theorems used by researchers in the economic field of research in the study of regional integration are: international trade policy¹⁴ framework, optimal current area theory¹⁵, fiscal federalism theory¹⁶, Heckscher-Ohlin model¹⁷, Kemp and Wan theorem¹⁸. All these theories, the most important theory applied is the Customs Union theory¹⁹ (including the Second Best theory²⁰). The Customs Union theory is still used today by many economists to choose between trade creation and trade diversion²¹ for evaluating regional integration. However, the static analysis used in the Customs Union theory poses a problem: it frequently uses a partial competitive equilibrium framework to arrive at a general conclusion about a process that is a general equilibrium phenomenon (Devlin and Ffrench-Davis, 1998).

According to Winters (1997), many economists are of the stand that trade creation versus trade diversion is not the core of the problem. The problem lies with the deficiency of the models of dynamics and empirical foundations used for testing them. In effect, Mordechai and Plummer (2002) point out that, economists whose research into regional integration is based on ex-post models include a gravity model, an import-growth simulation and other regression approaches. This is because computational general equilibrium (CGE)²² model (multi-country and multi-commodity dimension) has become very popular among economists.

Furthermore, the economic field of research merely applies the positive theories of welfare gains and losses associated with regional integration; it provides no explanations of the political choices that allow for integrated fields of research. As such, the economic field of research negates the global context of the evolution and trend of regional integration process as a whole.

In a nutshell, this paper maintains that the economic field of research poses many limitations in the study of the effects of regional integration, and that it is merely one part of the complicated puzzle of regional integration research. On this account, this study further maintains that the study of regional integration requires a multi-dimensional analysis (economic, social, political and technological dimensions simultaneously).

Political, Social and Technological Fields of Research

The study of regional integration from the political dimension is also pervasive. It is observed many studies on regional integration involve extensive elaboration of the following politically oriented topics: institutional framework (functionalism or neo-functionalism), policy dimensions and agreements (negotiation) and international law issues.

As observed, more qualitative rather than quantitative methods of evaluation are used in the political dimension of research. Just as in the economic dimension of research, the political dimension of research in the study of regional integration has many limitations. However, as pointed out by Mattli (1999), the political context in which integration occurs has been specified in the political dimension of research and this has provided insightful accounts of the process of integration.

The third field of research, that is the social field of research, focuses on issues such as history, culture, education, social welfare programs and social policies applied by governments. Usually such research is in the form of comparative studies based on basic statistical comparison, feedbacks, interview results, history and social theoretical frameworks. Many of these studies are confined to highly important issues that are worthy of consideration in the study of the effects of regional integration.

The fourth field of research, that is the technological field of research, has a relatively smaller presence. It focuses mainly on four specific topics: regional electrical interconnection, telecommunications, technology transfer, and Research and Development (R&D). Some of these research documents involve advanced technical terminologies and the application of quantitative methods (statistics and mathematics).

Multidisciplinary Approach

Among the 300 papers published in different journals specialized on international economics and trade such as *international economics and world trade review* in the past 15 years (2001-2016), the following research orientation was common: benefit/cost, probabilistic or forecasting analysis through the application of econometric methods and use of microeconomic and macroeconomic levels secondary data. Also, among these 300 papers, and for the past 15 years, there has been an increasing dependency of regional integration analysis on econometrics models, methods and techniques. Ninety seven percent (97%) or 291 of these papers adopted the economics research approach in the study of regional integration. Only 3% or 9 of these papers adopted the institutional approach or multidisciplinary approach (entailing several disciplines such as history, economics, sociology, politics, technology and social sciences et cetera) in the study of regional integration.

This paper is of the view that the absence of non-economic variables can considerably increase the vulnerability of any analysis on regional integration. Therefore, it suggests that any regional integration analysis should take into consideration a wide range of factors, including unforeseen factors. These factors include, among others, natural disaster trends, climate changes, terrorism, crime and violence, poverty expansion, religion and beliefs, education system, social events and phenomena, social norms and behavior, et cetera. This paper maintains that it is necessary to incorporate these sorts of factors in the regional integration analysis in order to formulate strong policies of minimal vulnerability possible. However, it must be assumed that all these factors maintain a constant quantitative and qualitative transformation(s) in different historical periods of the society concerned.

Conclusion

It is discernible from the different phases of this paper that as far as the study of globalization and regional integration are concerned, there have been a large number of alternative concepts, definitions, and theoretical approaches based on different multi-disciplinary frameworks that we are explaining in this paper. Such a constraint compels globalization and regional integration to use a basic methodology to explain so deep phenomena. These methodologies and approaches on the teaching of globalization and regional integration need to be focused mainly on the multi-disciplinary aspects to measure the cost/benefit effect impacts of globalization and regional integration; Thus, their teaching and learning of globalization and regional integration for under graduate students is going to play an important role to understand the new world trade order from a young age. The above, being the general conclusion of the paper, is also the preliminary conclusion in the early learning about globalization and regional integration that led to the creation of potential academics and researchers in the future.

Annex:

¹ Globalization as a process (or set of processes) which embodies a transformation in the spatial organization of social relations and transactions - assessed in terms of their extensity, intensity, velocity and impact - generating transcontinental or inter-regional flows and networks of activity. For Juan Jose Toribio (2000) define globalization as an accelerated process of the world economies integrated through the integration of the production, trade, financial flows, technological diffusion, information networks, and cultural currents. Both authors show that globalization is a dynamic and global process based on regional integration (Held, 2000)

² High-income country is a country having an annual gross national product (GNP) per capita equivalent to \$9,361 or greater in 1998 (World Bank, 2016).

³ "Multilateralism is considered a basic principle of globalization. This principle tries to promote the free market through trade and non-trade barriers measures among nations without discrimination or some preferences under the control of the general agreement trade and tariffs (GATT)." (Deardorff and Stern, 1994). GATT Article 1: Most-favored-Nation (MFN): "With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, any advantage, favor, privilege or

immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties". GATT Article XXIV: "Territorial Application — Frontier Traffic — Customs Unions and Free-trade Areas: The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories." (WTO, 2016)

⁴ Regionalism is often given different names, shapes and forms, each with different implications and nuances. In this chapter, regionalism from a trade point of view is defined broadly: as the deepening of intra-regional economic interdependence in a given region through intra-regional trade, foreign direct investment and commercial regulations, standards and practices (Baldwin, 1998).

⁵ RIA's can be defined as agreements of mutual support between interested parties to remove total or partial tariff barriers and non-tariff barriers among all members in order integrate into a single trading bloc.

⁶ GATT Article V: "Freedom of Transit: Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without transshipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article "traffic in transit". 2. There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport." (WTO, 2016).

⁷ Trade liberalization generally means that there are no artificial impediments (tariff) to the exchange of goods across national markets and that therefore the prices faced by domestic producer and consumers are the same as those determined by the world market (allowing for transportation and other transactions costs). These prices reflected the relative scarcity and abundance of goods around the world and constitute a relevant opportunity cost to domestic firms and households (and hence to the country as a whole) because the world market is always available for trades at those prices (Irwin, 1998).

⁸ “Free trade is considered as an economic policy. In theoretical terms, free trade generally means that there are no artificial impediments (tariff) to the exchange of goods across national markets and that therefore the prices faced by domestic producer and consumers are the same as those determined by the world market (allowing for transportation and other transactions costs). These prices reflect the relative scarcity and abundance of goods around the world and constitute a relevant opportunity cost to domestic firms and households and hence to the country as a whole) because the world market is always available for trades at those prices). In reality, free trade describes a policy of the nation-state toward international commerce in which trade barriers (tariff barriers, quantitative restrictions, and other import barriers) are absent, implying no restrictions on the import of goods from other countries or restraints on the export of domestic goods to other markets. These trade interventions distort the prices faced by domestic producers and consumers away from those arising in the world market” (Irwin, 1998).

⁹ The wealth of the Nations presents that the application of free trade can generate wealth and welfare among nations. “According to Adam Smith, trade between two nations is based on absolute advantage. When one nation is more efficient than (or has an absolute advantage over) another in the production of one commodity but is less efficient than (or has an absolute disadvantage with respect to) the other nation in producing a second commodity, then both nations can gain by each specializing in the production of the commodity of its absolute advantage and exchanging part of its output with the other nation for the commodity of its absolute disadvantage (Salvatore, 2001)”.

¹⁰ The comparative advantage has strong relation with opportunity cost theory (Haberler, 1952). The opportunity cost theory can be illustrated with the production possibility frontier or transformation curve. It can show alternative combinations of the two commodities that a nation can produce by fully utilizing all of its resources with the best technology available to it (Salvatore, 2001). In the analysis of the comparative advantage is based on a basic mathematics and graphs to explain the relationship between two nations and goods based on the absolute advantage that each one country present.

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¹² *American Economic Review, Canadian Journal of Economics, Econometrica, Economic History Review, Economic Journal, International Economic Review, Journal of Economic History, Journal of Economic Literature, Journal of Political Economy, Journal of Policy Modeling, Economic Development Journal, Oxford Economic Papers, Quarterly Journal of Economics, Review of Economic Studies, Review of Economics and Statistics, Canadian Journal of Economics and Political Science, Journal of Economic Abstracts, Contributions to Canadian Economics, Journal of Labor Economics, Journal of Applied Econometrics, Journal of Economic Perspectives, Publications of the American Economic Association, Brookings Papers on Economic Activity, Microeconomics and American Economic Association Quarterly.*

¹³ *American Economic Review, Canadian Journal of Economics, Econometrica, Economic History Review, Economic Journal, International Economic Review, Journal of Economic History, Journal of Economic Literature, Journal of Political Economy, Journal of Policy Modeling, Economic Development Journal, Oxford Economic Papers, Quarterly Journal of Economics, Review of Economic Studies, Review of Economics and Statistics, Canadian Journal of Economics and Political Science, Journal of Economic Abstracts, Contributions to Canadian Economics, Journal of Labor Economics, Journal of Applied Econometrics, Journal of Economic Perspectives, Publications of the American Economic Association, Brookings Papers on Economic Activity, microeconomics and American Economic Association Quarterly.*

¹⁴ It includes the basic tariff analysis; cost and benefits of trade; tariff and non-tariff trade barriers analysis and the new protectionism. (Krugman and Obstfeld, 2000).

¹⁵ The optimal currency areas were introduced by Mundell (1961) and Mckinnon (1963). “This approach based its study on monetary policy issues (money, markets for goods, and markets for production factors.) First, we will present the concept of a currency area defined as an area in which a common currency exists (Mattli, 1999). Optimal is defined in terms of the ability of an area to achieve both internal balance (maintenance of full employment and stable internal average price level) and external balance (maintenance of balanced international payments equilibrium). The main idea of optimal currency area was developed because of a dilemma between introducing fixed versus flexible exchange rate. Therefore, Mundell’s argument that before applying the optimum currency area, it is necessary to ask what economic characteristics determine the optimum size of the domain of a single currency.”

¹⁶ “The fiscal federalism is an offshoot of public finance theory that analyzes the special fiscal problems which arise in federal countries, drawing on the literature on public goods, taxation, income distribution and public debt incidence, and various parts of location theory” (Mattli, 1999). We can observe that this approach focuses on fiscal policy issues based on the fiscal coordination. The general objective

of this theoretical approach is the improvement of market efficiency focused on the interaction of market and public goods. The method was applied in the fiscal federalism is positive dynamic (general equilibrium).

¹⁷ The Heckscher-Ohlin (H-O) model (Breton, Scott, and Sinclair, 1997), “which is the whole theoretical construction concerning trade and production based upon a difference between countries in their factor endowments, and four hypotheses or propositions which arise from this model. The H-O model hypo paper that each country will export products that are intensive in the use of that country’s abundant factor of production (labor or capital), and will import products that are intensive factor of production (labor and capital) in the use of the country’s scarce factor of production.”

¹⁸ Kemp and Wan theorem present this proposition related to the formation of custom unions. “It is consider any competitive world trading equilibrium, with any number of countries and commodities, and with no restrictions whatever on the tariffs and other commodity taxes of individual countries, and with costs of transportation fully recognized. Now let any subset of the countries form a customs union. Then there exists a common tariff vector and a system of lump-sum compensatory payments, involving only members of the union, such that there is an associated tariff-ridden competitive equilibrium in which each individual, whether a member of the union or not, is not worse off than before the formation of the union.” (Kemp and Wan, 1976).

¹⁹ “The custom union argument is based on the free-trade point of view, whether a particular custom union is a move in the right or in the wrong directions depend, therefore, so far as the argument has as yet been carried, on which of two types of consequences ensue from that custom union. Where the free trade-creating force is predominant, one of the members at least must benefit, both may benefit, the two combined must have a net benefit, and the world at large benefits; but the outside world loses, in the short-run at least, and can gain in the long-run only as the result of the general diffusion of the increased prosperity of the custom union. Where the trade-diverting effect is predominant, one at least of the member countries is bound to be injured, both maybe injured, the two combined will suffer a net injury, and there will be injury to the outside world and to the world at large.” (Viner, 1950).

²⁰ “The second best theory was presented by Lipsey and Lancaster (1997). These two authors present a deeper study about the custom union theory of Viner based on the application of a positive dynamic method (general equilibrium) to explain the custom union effect on the world trade. The contribution of Lipsey and Lancaster in the custom union theory follows the Paretian optimum which requires the simultaneous fulfillment of all the optimum conditions based on the general economic problem of maximization. A function is maximized subject to at least one constraint, in this case production function and utility function.”

²¹ “Trade-creation effect occurs when some domestic production in a nation that is a member of the custom union is replaced by lower-cost imports from another member nation. Assuming that all economic resources are fully employed before and after formation of the custom union, this production is based on comparative advantage. The Trade-diversion effect occurs when lower-cost imports from outside the custom union are replaced by higher cost import from a union member. This result because of the preferential trade treatment given to member nation. Trade-diversion effect, by itself, reduces welfare because it shifts production from more efficient producers outside the custom union to less efficient inside in the union. Thus, trade diversion worsens the international allocation of resources and shifts production away from comparative advantage.” (Salvatore, 2001)

²² “The CGE models are standard tool for analyzing trade policy. The case of general equilibrium models are: first liking trade and productivity growth; second foreign investment and productivity growth; third, endogenous growth and CGE modeling.” (Mordechai and Plummer, 2002).

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