

# Chapter 84

## Economic Crisis and its Impact on Regionalism and Globalism

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### ABSTRACT

*This chapter reviews the financial crisis of 2008-09 and its impacts on the international trade in terms of regionalism and globalism. The chapter glances over different aspects of globalism and regionalism as well as looks on historical pattern and recent developments of regionalism and globalism. The data used in the chapter indicates that the financial crisis of 2008-09 negatively affected both globalization and regionalization trends. In addition, the EU has experienced an interesting transformation from regionalism to globalism. This chapter suggests that the issue is not only related with the great trade collapse of 2008-09 but also the sovereign debt crisis of 2010-12.*

### INTRODUCTION

In 2009, according to the World Trade Organization (WTO) (2010), world trade volume and Gross Domestic Product (GDP) growth respectively decreased 12.2 per cent and 2.3 per cent, after the 10-year average increase of 4.1 per cent and 3.0 per cent. This sharp fall in the trade growth of the world economy came up with a quick recovery in 2010 but fell again in 2011 and 2012, 3.8 per cent, 2.4 per cent, and 2.1 per cent, respectively. Therefore, an experience in international trade caused countries to give a reaction to the financial crisis of 2008-09 in various ways, the analyses

on regionalism and globalism got a possession of significant importance.

International trade has always been a significant issue for both developed and developing countries in order to integrate to the global markets to increase growth and welfare. This process make more vulnerable to the external shocks through the export dependence of economy and bring the protection necessities subject to bilateral or regional agreements (Whalley, 2008). While some empirical studies in literature suggest that there is a significant positive correlation between trade liberalization and growth (Wacziarg and Welch, 2008), the issue is still much debated and seems

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to be complex. However, some other studies argue the deeper roots of this relation, a developing country's economy can be more unstable subject to the relative impact of trade liberalization on exports and imports performance and its balance of payments (shock)—or terms-of-trade shocks that reflect the trade balance, and be more vulnerable to external shocks, particularly for commodity exporters (Cavallo and Frankel, 2008). However, significance of the distance is associated with the substitutability of goods and the level of trade costs, rather than changes in tariff levels or transportation costs (Berthelon and Freund, 2008).

By the short time after the second war, globalization process had begun in an institutional route that conducts the negotiations under the General Agreement on Tariffs and Trade (GATT) in 1947, leading to a unified global economy. For reaching such an objective, globalism requires the path of multilateralization. However, nearly in sixty years, it was experienced that the GATT arrangements, which are the fundamental structure of the multilateral trade liberalization, was supported much less than the arrangements in regional economic integrations. In this context, particularly by the mid-1990s multilateral and regional solutions for global trading system became a considerable issue that if the relation between them is complementary or substitutive. The WTO firstly stated in 1995 that the linkage between regional and multilateral integrations have characteristics of complementary and reinforced its statement by the conception of “multilateralizing regionalism” in 2007 (World Trade Organization, 2010).

The regional economic integration was first suggested by Viner (1950) as a customs union theory. This approach of economic regionalism is termed as “old” or “first” regionalism that represents a “closed” and “shallow” economic integration by trade agreements. Cadot et al. (1999) suggest that “deep” regional tend to strengthen the protectionist feature of the region and free trade agreements have mostly “shallow” integration structure, the competition in the tariff-revenue

and consumer arbitrage possibilities in region lead member countries to set trade agreements with non-members separately. Following Viner (1950), Meade (1955) (the Nobel Memorial Laureate in 1977), Lipsey and Lancaster (1956), and Lipsey (1960) evolve and contribute to his approaches. In the customs unions, trade barriers in the region should be eliminated and made one tariff of imports from non-member countries. Viner (1950) examines the effects of customs unions and argues whether regional integration agreements rely on either trade creation or trade diversion that has positive and negative influence respectively on the welfare of a member country. He also suggests that the influence of such these agreements like customs unions on trade and welfare of a country is ambiguous and depends on the balance between trade creating and trade diverting effects. If a member country that sign the regional agreements cause to a high-cost domestic production to low-cost import, this situation turns out to be a trade creating effect. On the other hand, this agreements cause low-cost production from previous a non-member partner to high-cost partner and this situation generates trade-diverting effect.

From an economic development point of view, regional integration provides developing countries lower barriers to intra-regional trade, and an economic interaction between countries that have open development strategies, promoting trade in the region and in international markets, improving technology transfers, variation in the structure of the production and trade, increased foreign direct investments (FDI), and rapid economic growth. There are two different regional integration patterns that make the differentiation between “regionalism” and “regionalization”. While the former term represents the integration between countries through agreements among formal governments under not only economic also political and cultural conditions have importance such as the European Union (EU), the North American Free Trade Agreement (NAFTA), and the Association of Southeast Asian Nations

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