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One World or Three?

The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren can live.[1]

—President Franklin D. Roosevelt
12 February 1945

A cryptic irony haunts the corridors of international trade negotiations. Although governments have spent the last half-century crafting a global trading system, businesses have divided the system into three regions. The irony has a second layer: The country that has worked hardest to forge a single world trading system is the same one that is fashioning the most formidable challenge to it.

During the Second World War, some of the most heated disagreements between US President Franklin D. Roosevelt and British Prime Minister Winston Churchill concerned imperial trade preferences. Churchill was determined to maintain the British Empire, and Roosevelt was just as certain that imperialism should end, and world trade should be free of its influence. Roosevelt's vision prevailed, although not before he died. In 1947, the United States invited 22 countries to Geneva to discuss ways to reduce trade barriers and establish a rule-based global trading system. As part of a global compromise, France and the United Kingdom were

1. In a message containing the Bretton Woods proposals to the US Congress, cited in Sidney Ratner, *The Tariff in American History* (New York: Van Nostrand, 1972), 155.

permitted to retain exclusive trade arrangements with their colonies for a period, and after independence, the former colonies received trade preferences. But both France and the United Kingdom were compelled to accept global rules that allowed nondiscriminatory access to trade by all the world's businesses.[2]

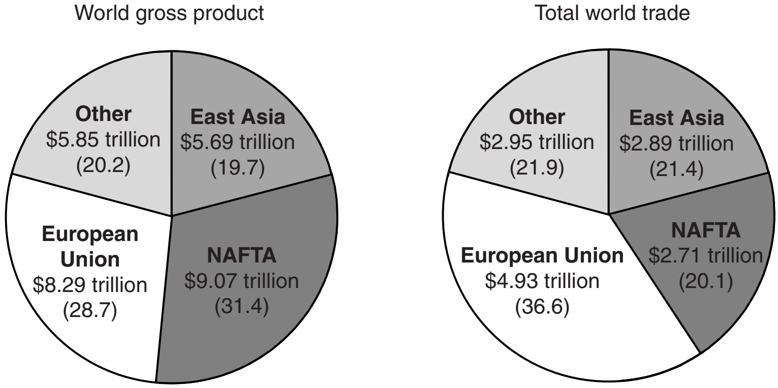
The resulting General Agreement on Tariffs and Trade (GATT) established a framework that permitted tariffs to decline and world trade to grow by more than 15 times by the end of the century. Trade expanded at more than twice the rate of the world's production, doubling its interdependence. Despite its unparalleled success, however, GATT and the World Trade Organization that replaced it in 1995 did not produce one world; it produced at least three, and the United States, the champion of globalism, sat at the center of one of those—North America. How could it happen that three regional trading systems—East Asia, the European Union, and North America—emerged from a single set of global rules, and how important are these trading units? What are the common and distinctive characteristics of each regional trading scheme, and which elements are worth replicating? The economic-gravity model can explain why trade coalesced in proximate regions,[3] but what led the United States to deviate from the principle of a single, nondiscriminatory world system that it had so long defended?

These three regions now dominate the world economy, accounting for nearly 80 percent of the world's production and trade (figure 2.1). Although the countries in each region trade with those in other regions, trade within each region has increased more rapidly than trade among them. From 1980 to 1999, the exports of EU nations to each other increased from 53.2 percent of their trade with the world to 61.7 percent (table 2.1). For East Asia, intraregional exports as a percentage of total global exports expanded from 28.8 to 39 percent in the same period. (Part of the reason for the increase was the expansion of trade by China.) Exports from the three countries of North America amounted to less than a third of their total exports in 1980; by 1999, intraregional exports constituted 54.6 percent of their total exports. Intraregional imports as a percentage of total imports also increased in all three regions. Regionalism, in short, has been growing at a much faster pace in the past two decades than globalism, and the fact that these three regions are responsible for about 80 percent of all world trade confirms the new shape of the tripartite trading system.

2. See Richard N. Gardner, *Sterling-Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade* (Oxford: Clarendon Press, 1956); and Robert A. Pastor, *Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980), chap. 3.

3. Jeffrey A. Frankel, *Regional Trading Blocs in the World Economic System* (Washington: Institute for International Economics, 1997).

Figure 2.1 The world's three main regions: Gross product and trade, 1998



NAFTA: North American Free Trade Agreement

Notes: Total trade is total of exports and imports of goods and services. *North America:* Canada, Mexico, and the United States. *European Union:* Austria, Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. *East Asia:* Association of South East Asian Nations (ASEAN), China, Japan, and South Korea. Numbers in parentheses are percent of total.

Source: World Development Report 2000, World Bank, Washington.

These three regional trading areas are the largest by far, but they are not alone. A World Bank study found a "veritable explosion of regional integration agreements (RIAs) in the last fifteen years." The WTO requires that each member notify it when it reaches such an agreement. By 1999, the WTO recorded 194 such agreements; nearly half had been registered just since 1990.[4] Most of these agreements represent associations with the European Union—for example, with Eastern Europe, the Mediterranean, and Turkey—but there has also been a proliferation of RIAs in Latin America, the Middle East, Southeast Asia, and Sub-Saharan Africa. Most arrangements involve countries at comparable levels of development; the two major exceptions are NAFTA and the less formal Asia Pacific Economic Cooperation (APEC).

Still, the three most significant schemes for trade and production remain the European Union, NAFTA, and APEC. Part of the reason for the increased importance of EU intraregional trade is simply the expansion of its membership to 15 countries during the past 40 years. The growth of intraregional trade among the NAFTA countries is quite another thing. One might expect that Canada and Mexico would rely more on the US market because of NAFTA, but the United States is the major trading

4. World Bank, *Trade Blocs: A Policy Research Report* (New York: Oxford University Press, 2000), ix, 1.

Table 2.1 Intraregional trade for three world regions, 1980-99

Trade	1980	1990	1999
Intraregional exports as percent of total exports			
North America	32.60	42.80	54.60
European Union	53.21	60.58	61.69
East Asia	28.75	35.03	39.06[a]
Intraregional imports as percent of total imports			
North America	29.50	33.50	41.30
European Union	48.19	57.92	59.25
East Asia	23.42	35.39	48.95[a]

a. Figures drop Taiwan and add Brunei, China, Myanmar, and Vietnam.

Notes: North American figures include Canada, Mexico, and the United States. European Union figures for 1980 include Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, and the United Kingdom. The 1990 figures add Greece, and the 1999 figures add Austria, Finland, and Sweden. The Asian figures for 1980 and 1990 include Hong Kong, Indonesia, Japan, Malaysia, the Philippines, Singapore, South Korea, Taiwan, and Thailand.

Sources: Organization for Economic Cooperation and Development (OECD), *Monthly Statistics on Foreign Trade*, July 1992; OECD, *Historical Statistics on Foreign Trade, 1965-1980*, 1982; International Monetary Fund, *Direction of Trade Statistics Yearbook*, 1984, 1991, 1992, 1994, 1996, and *Quarterly Report,* June 2000.

nation in the world. It purchases and sells more goods and services in the world than any other country. Had the US market not been as open as it is, Asia would not have recovered so quickly after its financial crisis in 1997. Therefore, what is surprising is the growing importance of the North American market for US business. In 1990, Americans sold 28 percent of their goods to Canada and Mexico; by 1999, they were selling 36.5 percent there.

Does the emergence of three blocs represent a defeat for Roosevelt's vision of one world? No. The regionalism of the past 50 years is qualitatively different from the imperial blocs of the previous century. Imperial powers defined the terms of trade in their jurisdiction; competition was excluded or restricted to the empire's businesses. Today's regionalism is not a fortress; it acts within a global framework of rules. Regions are not permitted under those rules to exclude the goods from particular countries; indeed, the external tariff should be no different from the one defined by the WTO. The barriers to trade and investment around these new regional units are theoretically no higher than the barriers around any of the nation-states that adhere to WTO rules.

Within these new regional areas, nation-states try to eliminate or harmonize other barriers. Tariffs and nontariff barriers, which had been the principal focus in the old trade agreements, are only one part of more comprehensive schemes today. The European Union, NAFTA, and many of the new trade agreements cover services, intellectual property rights, government procurement, and a host of sectors that had not been included in previous agreements. As such, these regional schemes can be viewed as "laboratories" for experimenting with new ways to rationalize production and improve the quality of life.

Why have these new regional schemes emerged? There are numerous theories, and many are not incompatible. Some regional agreements were established for security reasons—to build new webs of cooperation to preclude a recurrence of wars. Economic motives obviously play a large role. Seeking to improve the living standards of their people, governments seek RIAs to enlarge their markets, diminish transaction costs, increase competition, reduce the prices of consumer goods, encourage foreign investment, and lock in macroeconomic policy reforms. One scholar found that countries seek to join RIAs when they judge that the economies are doing better within the schemes than outside them.[5]

Finally, geography has asserted itself, encouraging businesses to trade and invest more in countries that are closer to home. Most people have attributed the growing interdependence in the world to sharply declining costs of transportation and communications. Such transaction costs have declined markedly over time, but they continue to vary inversely with distance, making neighbors "natural trading partners."[6] It was imperialism—not free trade—that created "unnatural" trading patterns. The United Kingdom, for example, was the principal trading partner of Australia, Canada, and India. With the end of imperialism, and the emergence of a single set of global trading rules, geography and economics replaced politics as the principal factor explaining trading patterns. In brief and with a trace of irony, the global trading system made it possible for countries to trade more with their neighbors, and this trend encouraged governments to fashion stable, predictable regional integration areas.

From Global Rules to Regional Trade

Given US determination to strengthen the global trading system, how can one explain the change in US policy toward accepting and participating in regional groups? After the Second World War, the first new and significant deviation from a global trading system occurred when France, Germany, and four other countries established the European Coal and Steel Community in 1951. The preamble to its constituting treaty emphasized security motives: "Considering that world peace may be safeguarded only by creating efforts equal to the dangers which menace it . . . [the six countries

5. For this theory and a description of the others, see Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999).

6. Frankel, *Regional Trading Blocs in the World Economic System.*

are] resolved to substitute for historic rivalries a fusion of their essential interests . . .''[7] US policymakers judged that peace in Europe was worth an economic detour from a global trading system, and the Soviet threat was a second reason why the US government would consistently support European unity.

Europe also had a second reason to seek unity. A report written by Paul-Henri Spaak in 1956 urged the establishment of a Common Market to reverse the continent's decline: ''Europe, which once had the monopoly of manufacturing industries . . . today sees its external positions weakened, its influence declining, and its capacity to progress lost in its divisions.''[8] By the 1960s, Europe's economies had recovered and had begun to compete against the United States. The US government realized it was promoting the development of a formidable competitor, but it continued to believe that world peace and prosperity would be better served by a united Europe than a divided one.

At the same time, the United States was determined to try to maintain a uniform trading system and so, in the Kennedy Round of trade negotiations beginning in 1962, US negotiators pressed the Europeans to accept a level playing field. The United States also resisted proposals to establish its own preferential trade agreements with Latin America or other areas in the 1960s. The United States did not deviate from this policy until 1982, when President Reagan proposed the Caribbean Basin Initiative, a one-way free trade agreement with the small economies in the Caribbean and Central America. Soon after, the United States signed a free trade agreement with Israel. Because both agreements were with small, strategically vulnerable countries, no serious objections were raised regarding the implications for the GATT.

The decision to negotiate a US-Canadian Free Trade Agreement, reflecting the largest bilateral trading relationship in the world and, subsequently, the North American Free Trade Agreement, were of a different magnitude, heralding the beginning of a significant regional entity. Indeed, the first reaction by senior officials in the White House Office of the Special Trade Representative (STR) was negative. Their first priority was an open world trading system, and they did not want to pursue an initiative that could jeopardize completion of the Uruguay Round of world trade talks, but President Bush realized the political significance of NAFTA and instructed his negotiators to proceed expeditiously.[9] He signed the agreement in December 1992.

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7. Cited in Walter Mattli, *The Logic of Regional Integration: Europe and Beyond* (Cambridge: Cambridge University Press, 1999), 69.

8. Cited in Mattli, *Logic of Regional Integration*, 70.

9. Frederick W. Mayer, *Interpreting NAFTA: The Science and Art of Political Analysis* (New York: Columbia University Press, 1998), 41-43.

Two challenges faced by regional trading areas are how to deepen integration by harmonizing domestic policies and how to enlarge the regions by incorporating new members. In March 1998, the European Union launched its most complex negotiations: to integrate 12 Eastern and Southern European countries. It also signed an agreement with 12 Mediterranean countries to establish a free trade area by 2010. In December 1994, the United States and 33 other countries in the western hemisphere pledged to complete negotiations for a free trade area by 2005.

East Asia is one of the most dynamic trading areas, but it does not have a regional group comparable to the European Union or NAFTA. Instead, it has two different organizations. One, the Association of South East Asian Nations (ASEAN), was established in 1967 with 5 nations (Indonesia, Malaysia, Philippines, Singapore, and Thailand). It expanded gradually to 10 members, and in 1992 agreed to establish a free trade area during the next 15 years. The other organization, Asia Pacific Economic Cooperation, a group of 21 countries including China, Japan, and the United States, agreed to establish a free trade area on both sides of the Pacific by 2020. With the periods allotted for phasing in the tariff and nontariff schedules, both the Americas and Asia should theoretically complete their free trade areas at roughly the same time. The targets, however, are probably too optimistic.

Nonetheless, the declaration of goals by APEC, ASEAN, and the Summit of the Americas all rest on the premise that economic growth depends on trade. They also agree that deepening and enlarging their regions can improve their firms' competitiveness and their countries' growth prospects.

The enlargement of these regional trading areas is especially significant because it represents an avenue toward modernity for faster-growing developing countries. The international development banks have increasingly focused on lifting the poorest countries and people. But for the poor to retain hope, they will also need to see that developing countries that succeed can find room among the industrial democracies. Much of the success of the middle-class countries in East Asia, Latin America, and Southern Europe has been derived from trade. The ability of these countries to join the industrial world depends to a great extent on whether they are allowed to join the new regional clubs of industrial countries. That is still one more reason why the enlargement of the European Union and NAFTA has a wider significance for the world.

Reconfiguring the World: Three Regional Models

From the end of the Second World War until 1989, the Berlin Wall symbolized the pivotal division in the world between East and West, between communism and democracy. As that fracture described the world's preoccupation with security, a second division—between North and South—defined two worlds in terms of relative wealth and poverty. With the collapse of the Berlin Wall, scholars sought new ways to define the landscape. Some, like Ohmae, saw the crumbling of "the modern nation-state—that artifact of the 18th and 19th centuries" to be replaced by "a borderless economy, a truly global marketplace."[10] Garten saw a coming clash between three new "empires"—the North American Empire, the German Empire, and the Japanese Empire—competing with each other, primarily on an economic chessboard.[11] With distance and academic detachment, Tonelson viewed the Cold War as "only a pause" in a 20th-century struggle between the same three powers.[12]

There are two problems with these perspectives. First, they fail to distinguish between two arenas of competition—the security and the economic. Each has different rules. A trade dispute is more likely to be resolved by a court or by negotiations than a conflict over territory or sovereignty. Second, these perspectives overlook the extent to which all three powers have a stake in the same international system. In the security arena, the three powers all are members of the United Nations; Japan and the United States are joined by a security treaty, and Germany and the United States, by the North Atlantic Treaty Organization (NATO). All three countries also play pivotal roles in the International Monetary Fund, the World Bank, and the WTO—the three pillars of the international economic system.

The security arena involves zero-sum conflicts over territory, sovereignty, status, and influence, but the rules changed after the Second World War as the ends and means of world politics were transformed.[13] Although it was not obvious at the time, the establishment of the United Nations in 1945 tolled the end of imperialism, a system by which great, and not so great, powers could acquire and govern sovereign states by force. That goal—to acquire territory and countries—had defined much of world history.

Perhaps the only change more fundamental than the global shift from imperialism to self-determination was the means by which nation-states pursued their ends. Up until the advent of nuclear weapons, states tried to amass as much firepower as they could, believing that the threat and

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10. Kenichi Ohmae, *The End of the Nation State: The Rise of Regional Economies* (New York: Free Press, 1995), 7-8.

11. Jeffrey E. Garten, *A Cold Peace* (New York: Times Books, 1992).

12. Alan Tonelson, "America, Germany, and Japan: The Tenacious Trio?" *Current History*, November 1995: 353-58.

13. For an elaboration of these themes, see Robert A. Pastor, ed., *A Century's Journey: How the Great Powers Shape the World* (New York: Basic Books, 1999), esp. chaps. 1, 6, and 9.

use of these weapons would mean greater influence, territory, and wealth. Nuclear weapons, as the major powers learned, could not be used for any effective purpose other than to deter their use by one's rival. They also meant that the major powers had to be far more cautious about confronting each other than at any previous moment in world history.

The changes in the security arena and the end of the Cold War meant that the second arena—economic competition—would rise in importance. Economic contests tend to be positive-sum games in which nation-states define the rules of the market, and the market sets the prices for goods. During the Cold War, ideologies of economic development were surrogate weapons of a larger struggle. The end of the Cold War resulted in the compression and reconfiguration of the stark struggle between communism and capitalism. Whereas the old spectrum of economic ideas had been wedged between two concepts that seem extreme today—state control of the economy and an entirely free market—today's spectrum represents different shades of a mixed economy. Indeed, the three regional groups offer distinct variations on a neoliberal theme.

The attractiveness of each regional model depends, theoretically, on the values that each person or country holds most dear. Actually, the pragmatic strain of the modern world judges the attractiveness of the model by the relative success of each region's economy, and this has changed over time. In the 1980s, the success of the Japanese economy attracted considerable interest in their approach directed by the Ministry of International Trade and Industry to facilitate technological development. "Industrial policy," a variation on a Japanese theme, was the key to economic development—at least until the Japanese economic bubble burst. In the 1990s, the longest economic boom in US history made the US quasi-laissez-faire model seem to be the one worth imitating. Japan adapted the US model by discarding its guarantees of permanent work, and Japanese firms began firing workers. Canada, Europe, and Latin America also cut some holes in their security net, made their labor policies more "flexible," and even began to reduce taxes. If the US economy flags and the euro currency soars in the first decade of the 21st century, people may turn to Europe's model.

Each region has a personality that is a composite of various factors that are reflected in its regional trade agreement—in the agreement's origin and timing, its objectives and policies on internal disparities, the composition of its membership, its security foundation, the nature of its governing authority, and the philosophy that defines its distinctive vision.

The European Union is the most integrated of the regional trading regimes, partly because it is the only common market that permits the free movement of goods, services, capital, and labor among its 15 members. It was born from two devastating wars and a compelling dread (see table 2.2).

Table 2.2 Parameters of three regional trade areas

Parameters	European Union	NAFTA	East Asia
Origin	Fear of war	Secure market	Reaction to others
Objectives	Unity, solidarity; common market	Lower trade and capital barriers; competitiveness	Cooperation; WTO; prevent other blocs
Policy on disparities	Reduce	Ignore	Oppose idea
Composition	Members (even)	Unbalanced	Unbalanced
Security base	NATO	Rio Pact/US-Canada	Rivalry: China, Japan, United States
Authority/ institutions	Supranational; national governments	National governments; dispute-settlement mechanisms	National governments
Philosophy	Social market economy	Regulated free market; litigious dispute-settlement procedures	FDI networks; export platform

FDI = foreign direct investment
NAFTA = North American Free Trade Agreement.
NATO = North Atlantic Treaty Organization.
WTO = World Trade Organization.

The preamble to the treaty for the European Coal and Steel Community, established in 1951 as the first "practical" step toward a united Europe, began by recognizing "that world peace can be safeguarded only by creative efforts," and the countries resolved that "age-old rivalries" need to be replaced by a merging of interests that would form "the basis for a broader and deeper community among peoples long divided by bloody conflicts." Six years later, in the Treaty of Rome establishing the European Economic Community, six European nations (Belgium, France, Germany, Italy, Luxembourg, and the Netherlands) were "determined to lay the foundations of an ever closer union among the peoples of Europe."[14]

As its membership expanded in distinct stages from 6 to 15, the EC broadened and deepened its mandate. In February 1986, the 12 members of the European Community signed the Single European Act (SEA), which declared their intent of speaking "with one voice" and acting "with consistency and solidarity in order more effectively to protect its common

14. "Preamble to the Treaty of Rome," in *The European Union: Readings on the Theory and Practice of European Integration*, ed. Brent F. Nelsen and Alexander C-G. Stubb, 2d ed. (Boulder, CO: Lynne Rienner Publishers, 1998), 13-15.

interests.'' On 7 February 1992, at Maastricht, the leaders of the 12 countries signed the Treaty of European Union and dedicated themselves to defining a common citizenship, forging a united foreign and security policy, and establishing a single currency (the euro).[15]

Since its beginning, the European Community has established as one of its key objectives the need to ''reduce the differences between the various regions and the backwardness of the less favored regions.'' With the first EC enlargement in 1973 to include Denmark, Ireland, and the United Kingdom, the British pressed for a more concerted approach to help poor regions, and George Thomson, a British EU commissioner, was given the responsibility of overseeing EC regional policy. The subsequent enlargement to include Greece (1981) and Portugal and Spain (1986) led to a significant restructuring and infusion of aid into these countries and Ireland. The European Union's model has been described as a ''social market economy,'' combining a system of markets with ''a commitment to the values of internal solidarity and mutual support.'' This requires a sharing of responsibilities between member states and the Union and, in the words of an EU report, a ''recognition that wide disparities are intolerable in a community, if the term has any meaning at all.''[16] To join the Union, prospective members have to meet precise standards for both economic and social policies and democracy and civil liberties.

The European Union has an elaborate supranational organization that is unique among all the regional integration agreements. At the top is the European Commission, an executive branch, composed of commissioners appointed by each member government, and charged with harmonizing policies among the countries. The Commission is increasingly accountable to a European Parliament elected by the people of Europe rather than the nation-states, but the Council of Ministers is responsible for approving legislation. The European Court has played a critical role in ensuring that EU directives are implemented in each state, and citizens can challenge their states if they feel their rights have not been respected.

The North American Free Trade Agreement was born of different soil, and until Fox it aspired to be nothing more than the basis for a region in which goods, services, and capital would be traded freely, but labor's movements would be restricted. Until Fox raised the idea of a common market, no other leader in the three countries had even broached a preliminary step—a customs union with a common external tariff. NAFTA is also silent on an issue—internal disparities—with which the European

15. *The European Union: Readings*, 45-47, 69-70. The Treaty on European Union was approved at the Maastricht meeting of the European Council on 9-10 December 1991, and signed in Maastricht on 7 February 1992. The treaty came into force in late 1993 after 12 countries ratified it.

16. European Commission, *First Report on Economic and Social Cohesion, 1996* (Luxembourg: Office for Official Publications of the European Commission, 1996), 13.

Union is preoccupied, although income and employment gaps are far wider in North America than in Europe.

The origin of NAFTA was the growing fear in Canada and Mexico that a resurgence of US protectionism could devastate their economies. The only way to make the US market secure and stable was to negotiate a free trade area. Having long sought free trade, the United States could not reject the idea when its neighbors finally proposed it. Although the debate in the United States churned up fears of jobs lost to its low-wage neighbor Mexico, the agreement was approved.

The goals of NAFTA, as specified in the preamble to the agreement, speak of strengthening ''the special bonds of friendship and cooperation among their nations''—not their peoples; of expanding and securing markets; of establishing rules consistent with the GATT; and of preserving each nation's ''flexibility to safeguard the public welfare.''[17] The two-volume treaty aims to reduce trade and investment barriers and to establish a framework for resolving disputes, but not to create a community of people of North America or to promote the well-being of all the people. The provision mentioning accession by other countries is brief and vague, allowing a country to accede to the agreement ''subject to such terms and conditions'' as the parties may decide in the future (Article 2204). It also allows each country to withdraw—just by giving 6 months notice (Article 2205).

After his inauguration in January 1993, President Clinton insisted on adding two side agreements on labor and the environment, and on establishing commissions to encourage each government to fulfill its promises in each area. These side agreements are fully consistent with the goals of the treaty—to expand trade, respect the sovereignty of each nation, and avoid sharing responsibilities or establishing any supranational authority. The philosophy is to liberalize the continental market, regulate sectors nationally but not in a manner that could be a disadvantage for the business of the other countries, and let each state cope with any transnational problems. NAFTA includes a state-of-the-art dispute-settlement mechanism with clear deadlines, but the courts are ad hoc and therefore cannot develop a historical memory. The style of NAFTA's governance is laissez-faire, reactive, and legalistic: Problems are defined by plaintiffs and settled by litigation. There is no mechanism for defining problems in a proactive way or addressing them from a continental perspective.

Asia has not resolved the first question as to which organization represents its interests. The only truly Asian regional organization is ASEAN, a group of 10 disparate countries in Southeast Asia whose per capita income ranges from the market economies of Malaysia ($4,530) and Thai-

17. *The North American Free Trade Agreement between The Government of the United States, The Government of Canada, and the Government of the United Mexican States* (Washington: US Government Printing Office, 1992), iii.

land ($2,740) to the communist government of Vietnam ($335). The widening of ASEAN to include Burma, Cambodia, and Laos, and the financial and political crises in Indonesia and the Philippines, have impeded progress toward the goal it declared in 1993 of establishing an ASEAN Free Trade Area within a decade.

The organization that has appeared to take the most initiative in the region is Asia-Pacific Economic Cooperation, though it has been dismissed as ''four adjectives in search of a noun.'' APEC was founded in 1989 with 12 members. By 1997, the group had expanded to 21 nation-states, including Canada, China, Japan, Russia, Mexico, and the United States. Its membership accounts for about half of global output and 42 percent of world trade, but that is because it includes most of the major economic powers outside Europe.[18]

APEC sits at the other end of the spectrum from the European Union. If the Union has built too many institutions and NAFTA too few, then APEC has not seriously contemplated any institutions that could implement its goals—at least until now. The philosophy of the Asian member states seems to approach mercantilism, although members of the group swear their allegiance to the WTO. The Japanese market is of growing importance to the rest of Asia, but the US market remains the region's preeminent one, and in many ways, the region can still be viewed as an export platform for selling goods to the United States. Using their multinational corporations and trading companies, the Japanese have taken the lead in establishing industrial networks that have integrated many Asian economies into a larger regional unit.[19] An indication that East Asia is more a platform for exporting than an integrated region is that its intraregional exports are the smallest proportion of its total exports—39 percent—of all the three regions (see table 2.1).

Feinberg describes APEC and the Free Trade Area of the Americas as ''non-identical twins.'' Both regional summits made their decisions to establish a free trade area in 1994, with the intention of completing and implementing the entire process by 2020. Neither has a centralized bureaucracy, though both have small, constrained secretariats. The FTAA negotiating style—modeled on NAFTA and the WTO—involves bargaining and reciprocity, whereas APEC encourages voluntary measures and individual action plans. Both seek trade liberalization across a wider agenda than just tariffs and nontariff barriers, but the FTAA has more political coherence because all the countries are democratic and members of the Organization of American States.[20]

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18. For data and background information on APEC, see http://www.apecsec.org.

19. See Peter J. Katzenstein and Takashi Shiraishi, eds., *Network Power: Japan and Asia* (Ithaca, NY: Cornell University Press, 1997), and especially the chapter by Richard F. Doner, Japan in East Asia: Institutions and Regional Leadership.

20. Richard Feinberg, ''Comparing Regional Integration in Non-Identical Twins: APEC and the FTAA,'' *Integration and Trade* 4, no. 10: 3-30.

In contrasting the three regional models—from the most integrated and institutionalized in Europe to the least in Asia—one factor that is present in the European Union and NAFTA and absent in East Asia is a militarily secure foundation. NATO guarantees Europe's security and encourages Europeans to find a common identity. Moreover, although the United States is the strongest power in NATO, many of the other governments have sufficient strength to assure that it remains an alliance of partners. North America is also built on a foundation where none of the three countries fears war with its neighbors. For a century or longer, the borders between the United States and its neighbors have not been defended by troops or bases. Unlike in Europe, however, North America has a single dominant power, the United States. And although Canada and Mexico do not fear military aggression, they live in constant anxiety that some unilateral US decision could adversely affect their economies. Still, no one doubts there is a secure foundation under both the European Union and NAFTA. That does not apply to East Asia.

In East Asia, a complex three-sided rivalry between China, Japan, and the United States precludes the kind of cooperation that seems almost a prerequisite to a free trade agreement. The absence of a ''security community'' in Asia, in Karl Deutsch's phrase, may explain the relative incoherence of the Asian regional trading group.[21] Without a consensus on security, the member states are unlikely to have the kind of confidence in each other that is needed to build a framework of cooperation. Each has to be very careful and tentative in diminishing its capacity to deal with future threats. Other explanations for the relative weakness of the Asian trade regime as compared with NAFTA and the European Union focus on the dearth of institutions and the diversity of norms and goals among its many members.[22]

Asian governments lack a coherent regional vision, and indeed, APEC is a Pacific Rim entity that includes all three NAFTA members. APEC's principal mission has seemed defensive from both sides of the Pacific. Japan and Asia wanted the United States in APEC to prevent its market from closing, and the United States wanted to prevent the emergence of an Asian group that excluded it. That might have shaped the origin of APEC; but today, some suggest that a unified Asia is beginning to emerge, and APEC or perhaps ''ASEAN plus 3'' (China, Japan, and South Korea) might be the vehicle.

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21. For an examination of Deutsch's concept and application to various regions, see Emanuel Adler and Michael Barnett, eds., *Security Communities* (Cambridge: Cambridge University Press, 1998).

22. For a systematic comparison of APEC and other regional groups in Asia and North America, see Vinod K. Aggarwal, Comparing Regional Cooperation Efforts in the Asia-Pacific and North America, in *Pacific Cooperation*, ed. A. Mack and J. Ravenhill (Sydney: Allin and Unwin, 1994), 40-65.

Bergsten reports a "new Asian challenge," a series of ideas that Asian leaders are considering, including an Asian currency and monetary fund, annual summit meetings, and an East Asian or a Northeast Asian free trade area.[23] He notes in another article that Japan has begun free trade talks with a number of countries, and ASEAN plus 3 has held annual summits for 3 years in a row to sketch a new vision of economic cooperation.[24] If this occurs, then East Asia could become the "third pole" or region. But in the meantime, it has not reached a comparable level to that of the European Union or NAFTA in regional coherence, rules, and institutions.

The European Union and NAFTA: A More Focused Comparison

To understand the relevance of the European Union's experience for NAFTA, we need to focus more intensely on the differences and similarities between the two entities. From 1960 to 1999, EU gross product expanded from less than $200 billion to $8.3 trillion as the member states expanded from 7 to 15 (see table 2.3). In comparison, the gross product of the three countries of North America grew from $565 billion to $9.8 trillion. But the aggregate size of the two region's economies masks the unevenness of its membership. In 1960, the US gross domestic product was 2.5 times larger than that of all 7 EC countries. At the end of the 20th century, the US GDP exceeded that of all 15 EU countries by $500 billion, and Canada and Mexico added another trillion dollars. A similar distribution is evident in comparing population (see table 2.4). The United States had 10 million more people than the EC 7 in 1960, and all of NAFTA exceeded the EU 15 by 34 million people in 1999.

An examination of the tables on GDP and GDP per capita (table 2.5), however, illuminates a key difference between the two regions (i.e., the relative balance among the EU countries and the asymmetry within North America). In both GDP and population, the European Union is characterized by four strong nation-states—France, Germany, Italy, and the United Kingdom—numerous middle powers, and some very small nation-states. The most powerful state—Germany—has about a fourth of the EU gross product and 7 percent of the world's product. The center and power of

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23. C. Fred Bergsten, "The New Asian Challenge," Working Paper 00-4. Institute for International Economics, Washington, photocopy (March 2000); and C. Fred Bergsten, ed., *Whither APEC? The Progress To Date and Agenda for the Future* (Washington: Institute for International Economics, 1997).

24. C. Fred Bergsten, "Towards a Tripartite World: East Asian Regionalism," *The Economist*, 15 July 2000, 23-26.

Table 2.3 Gross domestic product of Europe and North America, 1960-99 (in millions of current dollars)

Group or country	1960	1970	1980	1990	1999	1999 as percent of world GDP
EC/EU total	196,509	482,433	2,844,712	5,574,100	8,277,649	27
Germany[a]	72,765	188,612	819,206	1,522,710	2,081,200	7
France	61,318	141,525	666,090	1,002,400	1,410,260	
United Kingdom	71,864	120,670	534,240	921,120	1,373,610	
Italy	39,550	93,258	446,432	954,680	1,149,960	
Spain	11,220	37,026	209,346	481,260	562,245	
Netherlands	11,297	31,577	170,044	241,050	384,766	
Belgium	11,016	26,520	120,760	181,800	245,706	
Sweden	13,195	32,872	120,872	151,740	226,388	
Austria	6,363	13,524	83,184	140,880	208,949	
Denmark	6,500	15,795	64,730	88,050	174,363	
Finland	4,572	11,255	53,665	84,650	126,130	
Greece	4,080	10,206	50,410	99,600	123,934	
Portugal	2,934	6,399	29,420	116,160	107,716	
Ireland	2,642	3,975	17,712	46,560	84,861	
Luxembourg	563	941	5,498	8,340	17,561	
NAFTA total	565,410	1,096,359	3,260,853	5,934,746	9,795,870	32
United States	513,316	981,745	2,706,294	5,135,000	8,708,870	29
Canada	40,626	81,564	267,550	503,820	612,049	
Mexico	12,744	33,050	196,042	295,926	474,951	
World	1,346,474	2,917,900	10,704,486	21,354,000	30,212,000	

EC = European Community.
EU = European Union.
NAFTA = North American Free Trade Agreement.

a. Data include statistics on the former West Germany only, except for 1999.

Sources: World Bank, *World Development Indicators CD-ROM*, 1999; United Nations, *Compendium of Social Statistics*, 1980 and 1998; World Bank, *World Development Indicators Database*, http://www.worldbank.org/data/dataquery.html; and Heston and Summers, *Penn World Tables*, http://datacentre.chass.utoronto.ca:5680/pwt/pwt.html.

North America is the United States, with almost 90 percent of the region's gross product and 29 percent of the world's.

Beyond the sheer difference in weight among the three countries of North America, perhaps the more important disparity is the income differential between the two industrial countries of North America and Mexico (see table 2.5). The per capita GDP of the United States, Canada, and Mexico in 1960 was $2,836, $2,257, and $354, respectively. The average for all North America was $2,406, with the United States representing 118 percent of the average and Mexico 15 percent. Nearly four decades later, the differences between the three countries did not change very much. The US per capita GDP was 7.9 times higher than Mexico's in 1960 and 6.5 times higher in 1999. In comparison, the gaps within Europe were

Table 2.4 Population of Europe and North America, 1960-99 (in millions)

Group or country	1960	1970	1980	1990	1999	1999 as percent of world population
EC/EU total	171	189	260	328	375	6
Germany[a]	55	61	62	63	82	1
France	46	51	54	56	59	
United Kingdom	52	55	56	57	59	
Italy	50	54	56	58	58	
Spain	30	34	37	39	39	
Netherlands	11	13	14	15	16	
Belgium	9	10	10	10	10	
Sweden	7	8	8	9	9	
Austria	7	7	80	8	8	
Denmark	5	5	5	5	5	
Finland	4	5	5	5	5	
Greece	8	9	10	10	11	
Portugal	9	9	10	11	10	
Ireland	3	3	3	4	4	
Luxembourg	0.3	0.3	0.4	0.4	0.4	
NAFTA total	235	276	328	363	409	7
United States	181	205	227	250	281	5
Canada	18	21	25	27	31	
Mexico	36	50	67	86	97	
World	446	3,610	4,428	5,257	5,975	

EC = European Community.
EU = European Union.
NAFTA = North American Free Trade Agreement.

a. Data include statistics on the former West Germany only, except for 1999.

Sources: World Bank, *World Development Indicators CD-ROM*, 1999; United Nations, *Compendium of Social Statistics*, 1980 and 1998; and World Bank, *World Development Indicators Database*, http://www.worldbank.org/data/dataquery.html.

much more modest. In 1999, the per capita GDP of Germany was 2.4 times that of Portugal, the EU's poorest country.

There also are differences in the way Europeans and Americans view income disparities and the possible instruments for alleviating them that might shed some light on the political philosophies of the two entities. Only 29 percent of Americans believe that "it is the responsibility of government to reduce the differences in income between people," whereas 61 percent of (western) Germans, 64 percent of the British, and 81 percent of Italians believe their governments have such a responsibility.[25] One

25. These opinions were given in a survey cited by Derek Bok, *State of the Nation* (Cambridge, MA: Harvard University Press, 1998), 157.

Table 2.5 GDP per capita for Europe and North America, 1960-99 (in current dollars)

Group or country	1960	1970	1980	1990	1999
EC/EU total	1,149	2,553	10,941	16,994	22,049
Germany[a]	1,323	3,092	13,213	24,170	25,372
France	1,333	2,775	12,335	17,900	23,869
United Kingdom	1,382	2,194	9,540	16,160	23,238
Italy	791	1,727	7,972	16,460	19,948
Spain	374	1,089	5,658	12,340	14,266
Netherlands	1,027	2,429	12,146	16,070	24,349
Belgium	1,224	2,652	12,076	18,180	24,034
Sweden	1,885	4,109	15,109	16,860	25,559
Austria	909	1,932	1,040	17,610	25,841
Denmark	1,300	3,159	12,946	17,610	32,794
Finland	1,143	2,251	10,733	16,930	24,411
Greece	510	1,134	5,041	9,960	11,763
Portugal	326	711	2,942	10,560	10,782
Ireland	881	1,325	5,904	11,640	22,768
Luxembourg	1,877	3,137	13,745	20,850	40,650
NAFTA total	2,406	3,972	9,942	16,349	24,434
United States	2,836	4,789	11,922	20,540	31,915
Canada	2,257	3,884	10,702	18,660	19,999
Mexico	354	661	2,926	3,441	4,875

EC = European Community.
EU = European Union.
NAFTA = North American Free Trade Agreement.

a. Data include statistics on the former West Germany only, except for 1999.

Sources: World Bank, World Development Indicators CD-ROM, 1999; United Nations, *Compendium of Social Statistics*, 1980 and 1998; World Bank, *World Development Indicators Database*, http://www.worldbank.org/data/dataquery.html; and Heston and Summers, *Penn World Tables*, http://datacentre.chass.utoronto.ca:5680/pwt.

might conclude that this variation explains why the European Union has a "regional policy" for narrowing disparities, and NAFTA does not, except that other data blur this fine point. For example, 94 percent of Americans believe that "our society should do what is necessary to make sure that everyone has an equal opportunity to succeed."[26] And the US government does invest in a wide range of programs to give children an equal start and also to compensate for unemployment, old age, and ill health. The United States spends much more than Europe on health and education per capita. But the United States spends more privately; and the European Union, publicly. In addition, the United States has an efficient mechanism through the Federal Reserve system and via the progressive income tax and earned-income tax credit to mitigate inequalities between regions

26. *Ibid.*

and economic classes.[27] Through the tax system, the wealthiest 8 percent of the US population (earning above $100,000) paid nearly two-thirds of all taxes, and the poorest 60 percent paid about 12 percent of total taxes.[28] (The wealthiest will benefit from President Bush's tax cut, approved by Congress in May 2001, but the ratio of tax payments should not change that dramatically.)

In Canada, two provinces—Ontario and Quebec—account for about two-thirds of the country's GDP—and provincial per capita incomes vary considerably. Like the United States, Canada has multiple policies to reduce the disparities between individuals and provinces. Canada's Department of Regional Industrial Expansion (DRIE) invests in depressed regions and encourages businesses to do the same. Its average annual expenditure of $235 million between 1968 and 1973 doubled during the next 8 years. These funds, however, were roughly 3-6 percent of total fiscal transfers during the same periods. Recognizing the diminished effect of DRIE, Parliament abolished the agency in the late 1980s and replaced it with smaller regional offices. By 1993, due to the growing effects of free trade with the United States, Canada decided to promote more even development among the provinces by compelling them to reduce the barriers that impeded trade and the flows of capital and labor among them.[29]

Without government transfers, the people in Newfoundland earn about two-thirds of the per capita income of those living in Ontario. After the government's corrective measures are incorporated into the data, provincial per capita incomes vary by 14-16 percent of the national average. In 1995, in the Atlantic provinces, for example, government programs succeeded in raising the average provincial per capita income from 71 to 77 percent of that in Ontario.[30]

The differences among the states of Mexico are far wider, and the capacity of the government to reduce those disparities is less. In 1995, about half of domestic production (48.6 percent) was concentrated in Mexico City and the states of Jalisco, Mexico, and Nuevo Leon, and 25

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27. For a summary and analysis of the redistribution of fiscal transfers each year, see http://www.nemw.org/fedspend99.pdf.htm. For a good summary of the distinctiveness of the states and regions in the United States, see "America's States and Regions: How Similar? Where Different? Sectionalism at Century's End," *The Public Perspective: A Roper Center Review of Public Opinion and Polling* 9, no. 4 (June/July 1998).

28. Data provided by the US Treasury Department and US Congress, House Ways and Means Committee, published in the *New York Times*, 26 July 1999, A11.

29. Michael Howlett, Alex Netherton, and M. Ramesh, *The Political Economy of North America: An Introduction*, 2d ed. (New York: Oxford University Press, 1999), 309-11.

30. *Ibid.*, 106-08.

Table 2.6 Ratio of three richest to three poorest states or provinces in North America, 1997

Canada	United States	Mexico
2.1	1.9	4.1

Sources: For Canada, Statistics Canada, http://www.statcan.ca/english/pgdb/economy/economic/econ50.htm. For Mexico, Instituto Nacional de Estadistica Geografia e Informatica, gross domestic product at constant prices, 2000, http://www.inegi.gob.mx/difusion/ingles/portadai.html. For the United States, Bureau of the Census, http://www.census.gov/hhes/income/income99/99tabled.html.

of the 32 states accounted for less than 3 percent each of total production.[31] Per capita income in the southern states of Chiapas, Guerrero, and Oaxaca is 62 percent less than per capita income in the Northeast, and health and education statistics mirror that difference.[32] Because government expenditures as a percentage of the GDP of Mexico are about a third of that of the United States and Canada, the government's capacity to try to equalize inequalities is weak.

It is therefore not surprising that the gap between the three richest states or provinces and the three poorest states or provinces is roughly twice as large in Mexico as in its two northern neighbors.[33] (see table 2.6). This poses a serious problem for Mexico but also, as we shall see, for all of North America.

The Regional Advantage

The trend toward the development of three great world regions is not incompatible with a global trading regime. On the contrary, the challenges that preoccupy these regions—such as standards, domestic policies that unintentionally function as nontariff barriers, and agriculture programs—have also eluded international organizations. If effective solutions can be found at the regional level, they might be applied globally. In this sense,

31. Mauricio A. Gonzalez Gomez, ''Crisis and Economic Change in Mexico,'' in *Mexico Under Zedillo*, ed. Susan Kaufman Purcell and Luis Rubio (Boulder, CO: Lynne Rienner Publishers, 1998), 55.

32. Elvia Gutierrez, ''Disturbing Trend Haunts Economic Development: Regional Disparities Are Alarming,'' *El Financiero International Edition*, 31 May 1999, 15.

33. The ratios for Canada and Mexico reflect the gap in gross domestic product by provinces and states. For the United States, the ratio reflects the gap in incomes per household in each state.

the regional schemes can function in the way that states are supposed to act in a federal system, as opportunities to experiment with policies that, if successful, could become national laws.

Every step toward integration seems to encounter an almost insurmountable obstacle labeled ''sovereignty.'' And yet in the experience of the European Union, such debates on sovereignty have impeded negotiations only for limited periods. Eventually, the member-states find ways to deal pragmatically with a problem, laying aside the ideological debate—or rather redefining it—so as to permit a new transnational approach.

North America also has experience with this pattern. After its revolution in the second decade of the 20th century, Mexico's quasi-religious devotion at the altar of ''sovereignty'' was a seemingly impossible barrier to discussing issues related to the promotion of foreign investment or free trade with the United States. But this began to change after the debt crisis of the mid-1980s. The government shifted the debate, gradually but definitively, and few protested when the Mexican president proposed a free trade agreement with the United States that involved dismantling all trade and investment barriers. While Mexican policy was spinning 180 degrees, the word ''sovereignty'' could barely be heard.

The three regions have very distinctive purposes and policies. Yet—just as governments can learn from others' experience—so can regions. No region has devoted as much time and resources or experimented with more responses to the problem of inequalities than the European Union. In the next chapter, we will explore its experience in depth—beginning with a description of its policies and how they evolved, and continuing with an assessment of their effectiveness. Our principal focus will be the economic dimension—disparities of income and employment—but we will also examine political and policy implications.