CHAPTER – 7

CONCLUSION

The debate on regionalism has reached today a higher degree of maturity and a broader geographical outlook. Scholarship is less interested in reviving the old discussions of the past and is engaging in epistemological and ontological ardent discussions on the cognitive identity of different regions and on the positioning of regions vis-à-vis other regions and other global actors.

Traditionally, Europe monopolised studies on regionalism; either inductively, as a ground from which theories and approaches derived or deductively, as a general phenomenon scholars wanted to replicate in the continent. Ernest Haas to a large extent was right, when he noted that, as regional integration studies were being monopolised by Europe and as their replication capacities outside Europe were poor, then regionalism was becoming increasingly obsolete as a discipline. Over the last decade, however, regionalism (academically and politically) became a truly universal occurrence and innumerable studies have been carried out on/in South America, East Asia, South Asia and Southeast Asia.

The current study on the themes of commercial diplomacy as an element in regional integration with application to the case studies of European Union, (EMU phase) and efforts in South Asian region towards an Economic Union falls into this category. As the concept of regionalism is an open ended one, concluding any study on it becomes difficult because the concept itself is a dynamic one and constantly
acquiring new meaning and interpretations. Emphasising this factor, we can still draw certain conclusions of this study. The major ones are summerised here.

First we list the findings on the issue of Commercial Diplomacy, followed by conclusions on the theme of Regional Integration. In the next section we draw conclusion on European integration process and South Asian region.

1. Commercial Diplomacy

The end of cold war was instrumental in reframing and reshaping the current international order, which supplemented the emergence of economic diplomacy, as central driving force affecting international relations. This factor found firm roots in International Monetary Fund (IMF), World Bank (WB), and World Trade Organisation (WTO), bypassing United Nations as the solitary forum for multilateral negotiations. The international trade liberalisation brought in enormous policy reorientations in foreign policies of many countries. Economic considerations are affecting external relations, giving way to the emergence of the concept of Foreign Economic Policy (FEP). The diplomatic staff today, is engaged in performing various functions in multilateral trade negotiations, acting as facilitators, representing the commercial and business interests of their respective countries which has led to the emergence of "Trade Diplomats". The diplomacy carried out by these trade diplomats is called Commercial Diplomacy.

Due to these developments the traditional area of diplomacy is undergoing academic reorientations. The current study particularly focuses on the influence of commercial diplomacy on the traditional concept of diplomacy, as a new area of study. During the course of study, it has been fairly established that the emergence of
commercial diplomacy is real and relevant in the current international relations framework, to assess the strength of a country in international standing. It has been moderately proved that this concept is not new and was present traditionally but without having an approach to analyse it. The study brings out efforts to develop a political economy approach to study international relations, thereby, establishing the presence and relevance of the concept of commercial diplomacy. The case study of India comes handy in this effort.

2. Regional Integration

Regional integration is not an end in itself but rather an instrument for achieving a set of policy goals and objectives. The old Post-War inward-looking integration initiatives in Latin America and the Caribbean (LAC) were designed to support and deepen an inward-looking and state-led import substitution industrialisation strategy. This approach to economic development collapsed with the economic crisis of the 1980s, as did the regional integration schemes supporting it. However, the 1990s witnessed the emergence of a New Regionalism. The instrumental role of the New Regionalism inserted itself into support of a new development policy framework of structural reform aimed at opening up economies to the forces of globalisation, transforming production and competitiveness, all with the aim of stimulating economic growth, fostering peace and democracy, and reducing poverty. Evidence indicates that regional integration and cooperation contributes in achieving these objectives by creating new market opportunities and new and broader market participation. The New Regionalism gained expression in a wave of formal trade and integration agreements as well as other initiatives involving functional regional cooperation. The New Regionalism
initially emerged in traditional subregional fora, but as the process matured there has been a growing web of intraregional bilateral initiatives as well as an increasing presence of extra regional integration and functional regional cooperation arrangements with major industrialised countries.

The current study apart from looking into the evolution of integration process and the debate between the old ad new regionalism focuses on debates on the impact of regionalism on multilateralism, regionalism as a force of convergence or divergence in international trade.

Achieving preferential free trade, secure, rules-based market access and creation of a regional market have been the starting point of all regional integration agreements and the central component for Latin America and the Caribbean in their broad-based extra regional cooperation initiatives with North America, Europe and Asia. Some agreements limit their ambitions to a “business only” free trade area while all the subregions aim at deep integration through the creation of a common external tariff as a step in the formation of a common market or community. Broader regional cooperation on economic and non-economic fronts has emerged directly as a formal instrument of deep integration or is being induced through increasing commercial interdependence on account of trade, investment and the geopolitics of globalisation. Some of these cooperative efforts are essential to regional market development. Among them development of adequate, reliable and efficient regional infrastructure stands out.

Regional integration aims to combine with unilateral and multilateral trade liberalisation to strengthen the opening up process and competition; to create trade
through the promotion of new access to inputs, technology and new export markets; to support productive transformations through export diversification and attraction of foreign direct investment; and to provide an anchor for policy reforms. More broadly, regional cooperation, whether functional, or in the context of a formal integration scheme, aims to produce desirable outcomes that are difficult or impossible to achieve at the level of an individual nation in isolation.

Advances in regional integration have been real. Reciprocal preferential trade liberalisation in regional agreements has been relatively quick, universal and WTO consistent. Moreover, a number of agreements have advanced to so-called “second generation” liberalisation involving the new issue areas of services, investment, intellectual property, etc. Moreover, attempting to magnify the effects of regional integration, countries have shown increasing disposition to link up in free trade areas with industrialised countries, something that would have been inconceivable before the 1990s. As far as regional cooperation in areas other than trade, it has gained unprecedented expression in subregional agreements in areas such as collaboration in international trade negotiations, macroeconomic cooperation and preservation of democracy. Intersubregional and extra regional functional cooperation on a grand scale has also emerged in multicountry initiatives focusing on a very broad range of economic, social and political issues.

Major bottleneck is the dearth of data for evaluating the effects of regional integration. This is especially true for the dynamic transformation effects of regional integration which demand detailed data on preferences, direct investment (national,
intraregional and foreign), learning curves, costs and productivity of firms/sectors, technology spillovers, market structures, employment and income effects, etc.

Broad-based intersubregional and extra regional cooperation initiatives have had very uneven results to date. They are inherently very challenging due to the large number of countries involved, the broad scope and complex nature of the agendas, limited practical experience in implementation and evaluation and technical, financial and logistical resource constraints.

There have been a number of quantitative studies of the impact of world trade liberalisation and of the formation of sub regional free trade areas such as the North American Free Trade Agreement (NAFTA), MERCOSUR in South America, and the new Asia Pacific Economic Cooperation (APEC). Most of these studies focus on the impact of changes in policy, analysing the efficiency gains and structural changes that might be induced by changes in import protection.

The study suggests that the formation of a free trade area improves the welfare of member countries if the total volume of trade by those countries increases; that is, if trade creation among the members exceeds the diversion of trade away from nonmember countries. Recent empirical studies indicate that the formation of free trade areas in Western Europe (European Union), South America (MERCOSUR), North America (NAFTA), and the Asia-Pacific region (APEC and ASEAN) should be expected to result in much greater trade creation than trade diversion and hence appreciable improvements in economic welfare for member countries.

In some cases, especially for small countries that are dependent upon trade with member countries before the formation of a free trade area (for example, some
Central American and Caribbean countries relative to NAFTA), trade diversion can be significant, raising an issue of possible compensation or other special arrangements for such countries. With regard to the coverage and enlargement of regional trading arrangements, in some situations individual countries might be better off to strike separate (bilateral) trade agreements with potential new entrants to a free trade agreement (Mexico and the United States under enlargement of the NAFTA). In other cases, it is to the benefit of all member countries to achieve the widest possible coverage of a regional free trade agreement (the proposed APEC free trade areas).

From the standpoint of the Integration Process the lessons learned are the following

First, sustained macroeconomic stability in member countries is essential for advancing regional integration. Second, regional integration and cooperation needs political commitment at the highest level and sustained benevolent leadership from the major market partner(s). Third, regarding subregional or extra regional integration agreements, consolidating quickly and preserving secure preferential market access for trade is essential "glue" for deepening integration, or even pursuing parallel cooperation programs.

A fourth major lesson for regional integration is the importance of maintaining forward momentum in the development of transparent and equitable rules-based systems (with formal contingent mechanisms) as well as functional regional institutions and national counterparts with a capacity to formulate, coordinate, and implement regional policy. Likewise, agenda setting must be accompanied by realistic
roadmaps and calendars with fallback positions that can help preserve forward momentum.

Fifth, the effects of regional integration are highly conditioned by factors in the home market. Effective domestic policies and rules-based democratic institutions are necessary to ensure equitable public access to the benefits of regional integration and to provide social protection and conditions for socially efficient adjustment in the face of increased competition and economic transformations which create losers as well as winners. Particular attention should be given to the poor so that they benefit from the integration process. Finally, for regional integration to be effective, both collectively and for the individual partner, there is a need for efficient national counterparts of regional policy.

There are clear positive synergies among various regional agreements and between them and gradual unilateral opening and development of the multilateral system. Hence policies on these fronts must work in tandem.

Good and sustainable trade and integration agreements demand: good negotiations (including channels of communication with civil society and its representatives in the legislative branch); effective implementation; and socially efficient adjustments. There are severe asymmetric capabilities on all three of these fronts in the emerging initiatives with North America, the EU, Asia and the WTO. Without capacity building these initiatives could be in jeopardy.

Broad-based functional cooperation initiatives —while not necessarily bearing the same level of political commitment as formal integration— nevertheless needs political backing from the participating countries at the highest national level and
sectorally, a prioritisation of agendas, forward looking calendars with precise collective work programs, benchmark reviews, monitoring and follow-up. They also need adequate collective technical, financial and logistical support.

3. EMU

The economic and monetary union phase within the European process falls into the category of new regionalism. The launch of Uruguay round of trade negotiations in 1986 was a major development in the field of international trade because for the first time the negotiations focused on new issues apart from tariffs. The new regionalism was a force to respond to the new challenges and opportunities brought about by these developments. The roles of France and Germany in balancing geo-political considerations with geo-economic considerations, during this phase is of significant importance of study. The current study focuses on these aspects and establishes the predominance of economic over political implications.

4. South Asia

The events of recent months have brought South Asia into the international limelight with literally a bang. This has been accompanied by a vigorously renewed interest in studies pertaining to patterns of cooperation and conflict among the major South Asian countries. This study attempts to explain the lack of cooperation in South Asia in terms of its shortcomings as a region. The main contention here is that South Asia is still in the process of evolving as a 'region' due to two basic factors: an adequate degree of complementarity of interests has not yet been achieved among the South Asian states and the almost perpetual preoccupation with intra-state conflicts and
crises leaves individual states with scarce time or resources to work towards regional solutions.

At the outset, it would be useful to elaborate upon these two points and outline the broad parameters of this study. Basically, a region can be defined on the basis of certain specific indicators that confirm its existence. A set of countries in close geographical proximity with each other can be categorised as a 'region' when, first and foremost, they share a certain commonality of (national) interests. These interests could incorporate a whole gamut of social, economic, political, cultural, historical, and other factors. Secondly, this set of countries should be sufficiently enlightened so as to understand the significance of placing cooperation above conflict in the conduct of inter-state relations. This should also be bolstered by a collective desire to come together on a common plank to create some lasting mechanism for regional cooperation. These sentiments are more or less lacking among the South Asian states, as is evident in years of lack-luster performance by the South Asian Association for Regional Cooperation (SAARC). Following the conception of the SAARC in 1983, very little has been actually done to promote this sole existing mechanism for collective cooperation in the subcontinent.

Such lack of 'region-ness' in South Asia can also be understood in terms of another related phenomenon, that is, the persistence of myriad social, economic and political problems in practically each and every South Asian state. And, the current study elaborates, such intra-state problems are often either the cause or consequence of inter-state disputes and misperceptions as well. Thus, there emerges an inextricable connection between the internal and external relations of South Asian states with
patterns that are further complicated by what has been succinctly explained as the pursuit of 'order, welfare and legitimacy.'

SAARC member countries face challenging external environment. Commodity prices are in declining trend because of the weakening of world growth and demand. These countries are more vulnerable to competition from other developing countries of Asia and Africa after phasing out the quota system of textile in 2005. Trade gains from integration among member countries and trade creation with developed economies can be expected provided that establishment of free trade area is expedited.

Majority of the countries suffer lack of export supply capabilities, low savings rate for making investable resources available and technological backwardness. Together with these constraints, regulated investment regime has made the distribution of benefits among the member countries asymmetric.

Bangladesh, India and Nepal export jute goods and garments to U.K., EEC, and the United States competing for the same foreign markets. India, Sri-Lanka and Bangladesh export tea to EEC, U.K., Japan and Australia competing for the same markets. Competitive edge of the export products in respective countries varies significantly. Domestic policy restructuring and the modalities for taking the realistic approach on the basis of comparative advantage needs to be devised.

In South Asia the richest one fifth of the population earns about 40% of the income and the poorest one fifth makes less than 10%. This inequality has left 515 million people as poverty-ridden and destitute. Inequalities are especially found in the areas of trade, manufacture and services making it difficult to carry out viable economic system. The reasons for low trade among SAARC member countries are
manifold. Major problems include, restrictive trade policies, dominance of foreign
capital, competitive behavior of economies, and poor level of information technology.

The conclusions drawn from the G8 foreign ministers meeting during July 2001 observe that SAARC is an organisation with strong ambitions, but restricted powers. The policies of arriving at unanimity by excluding areas of disagreement and consultative nature of procedures that get awfully delayed have reduced the prospect for making SAARC a dynamic partnership. Bilateral problems have no place in multilateral solutions, a conditionality given by India in 1985. Commercial discrimination still exists concerning the opening or closing of frontiers and transport corridors. These are the reasons why total external trade of the region amounts to 0.8% of world exports and 1.3% of world imports. Intra-regional exchanges represent only 5.3% (exports) and 4.8% (imports) of the total.

SAARC's existence, however, has enabled the South Asian political leaders to meet regularly and carry on informal discussion to address their mutual problems. This is no mean achievement given South Asia's past history and low level of interaction among South Asian countries since their independence. Informal talks among the leaders at regularly held SAARC meetings have led to inter-elite reconciliation on many sensitive issues, producing some noteworthy results in South Asia. The informal talks between the Indian and Pakistani Prime Ministers at the second SAARC Summit meeting at Bangalore in November 1986 led to the diffusion of tension between the two countries on the issue of India's troop exercise (Operation Brasstacks) on the Indo-Pakistan border; the India-Sri Lanka talks at the 1987 SAARC foreign ministers' meeting led to their accord on the Tamil problem. As a result of an informal meeting
and discussion between the Prime Ministers of India (Narasimha Rao) and Pakistan (Nawaz Sharif) at Davos (Switzerland) in 1992, the Pakistani government took action to prevent the move of the Jammu and Kashmir Liberation Front (JKLF) to cross the cease-fire line in Kashmir later that year. The Davos meeting was possible because of an earlier informal agreement between the two leaders at the sixth SAARC Summit meeting at Colombo in December 1991. Given this utility of SAARC, can the organisation grow or expand its role in the coming decade? In order to understand the future prospects of SAARC, it is essential to examine three important features of this organisation. First, the economic and security concerns and interests of the South Asian states led the policy makers to take the first initiatives for the establishment of SAARC. Even today, initiatives for SAARC programs and activities are primarily taken by the governmental actors. Second, unlike the European Union, the Association of the Southeast Asian Nations, and the Gulf Cooperation Council, external actors or developments did not play any major role in the emergence of SAARC. Third, SAARC came into existence primarily as a response to the domestic political and economic needs of the South Asian countries. Consequently, SAARC's future growth is not likely to be affected adversely by the vagaries of the international system, but rather will be predominantly driven by the domestic political and economic dynamics of the South Asian countries.

Though the EMU phase and SAARC started in the same period around 1985, the EMU phase has been completed, and the European integration process is currently passing through the phase of complete integration of political and social issues. Despite the tensions over a single constitution, there is a great deal of hope and
confidence among the European leaders that things will pass off as they have planned. The role of civil society is being considered crucial in this phase.

On the other hand, even though South Asian integration process has completed two decades of SAARC, is still struggling to pull off a free trade area (SAFTA). A complete integration involving a single market and common social and security policies is still a distant dream. The crucial lesson from the European integration is that the role of commercial diplomacy can overcome the impediments of national identities, standing in the way of south Asian regional integration. The role of Track-11 diplomacy to fill the gap of governmental negotiations is expected to play a crucial role in realizing the dream of South Asian integration. What stands out clearly from a comparison between different regional formations is that the heavily legalised and institutionalised European experience stands out when contrasted with regional integration in South Asia, where the process is driven by informal mechanisms based on consensus.