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Globalisation or regionalism? States, markets and the structure of international trade

THEODORE PELAGIDIS AND HARRY PAPASOTIRIOU*

Abstract. The structure of international trade is determined not only by market forces, but also by the political objectives of states. Weak states participate least in the open international trading system. The strong states that do participate channel trade largely within regional trading blocks. The major states in Europe and East Asia have an incentive to diminish their dependence on the hegemonic power, that is, the United States, which has reacted with its own regionalism (NAFTA). Moreover, regionalism is interpreted as a strategy that reduces states' exposure to major shocks in the global economy. Additionally, it permits them to support weak sectors of their economies at a regional level without entirely undermining the long-term growth benefits of international trade, since a substantial degree of autarky is more feasible and efficient at a regional rather than at the national level.

Introduction

Globalisation has become the most fashionable catch-word of our time. By the most enthusiastic of its supporters it is seen as a process that will result in the melting away of national boundaries and the unification of mankind in one peaceful and prosperous world community. By its fiercest critics it is seen as the source of all the ills that inflict the poorest—and collectively the most populous—countries and/or social groups. It will be argued in this article that these positions are both flawed, though in different ways.

What both these views have in common is that they regard globalisation as a set of international and transnational (that is, non-state) phenomena that are progressively eroding the power of states as actors in relation to markets. Many supporters of globalisation view the supposed weakening of states as a positive trend, since they suppose that it promotes the utopian vision of a unified world community. To many opponents of globalisation the supposed weakening of states, particularly in the Third World, exposes them to external pressures from international market forces that are detrimental to their societies and which they cannot resist.

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In this article we argue, on the basis of an analysis of the structure of international trade, that states remain a central factor shaping the international economy. States that are weakest *vis-à-vis* society participate least in the international economy, while strong states that do participate shape its structure on the basis of political as well as economic objectives.

The theoretical argument

One argument in this article is that there is no positive correlation between state weakness and participation in international economic transactions. Indeed, the opposite is true: weak states participate less. The direction of the causality is not international economic factors weakening states, but state weakness prohibiting participation in the international economy. The reason is that weak states do not provide a stable, uncorrupt and efficient regulatory framework, which is a precondition for the flourishing of international transactions.[1]

An examination of international economic trends shows that there is no real globalisation at all. International transactions are not truly global, but flourish in the advanced regions of the world and, in lesser degrees, in some of the former Warsaw Pact and Third World regions. The parts of the Third World that participate least, are also the least developed. Indeed, Third World countries that in recent decades participated to a high degree in the open international economic system have now approached or reached 'first-world' levels of development. This refutes the arguments that see the open international economic system as the source of Third World poverty.

The weakest states in the world are in sub-Saharan Africa, where some states have collapsed, others are riven by civil or international warfare and most of the remainder are characterised by high levels of corruption and institutional instability. At the same time, sub-Saharan Africa as a whole (see Figure 1 below)—with the notable exception of South Africa—is the region with the lowest indicators of participation in international economic transactions. This suggests that it is not international market forces that weaken the states of sub-Saharan Africa, but rather that their political weakness prevents them from participating in the open international economic system.

The central argument in this article concerns the economic interdependence between the advanced nations of the 'first world'. Examining trade patterns, we find that the current degree of interdependence is similar to that of the second half of the nineteenth century. This fact undermines arguments which suggest that the advanced part of the world is so interdependent that it has become irreversibly a tightly knit community of peace and prosperity. Warfare between highly interdependent states does result in higher economic costs than would otherwise be the case. But this did not prevent the European great powers from going to war in 1914,

[1] This argument is presented extensively in Robert Evans, 'The Eclipse of the State? Reflections on Stateness in an Era of Globalisation', *World Politics*, 50 (October 1997), pp. 62–87. On the more general importance of strong political institutions for the stability and development of Third World countries, see Samuel Huntington, *Political Order in Changing Societies* (New Haven, CT: Yale University Press, 1968).

and hence is no guarantee that there will be no more armed conflict between the advanced nations in the future.[2]

Regarding the relation between states and markets, we argue that the evidence of recent trade patterns does not suggest that states are losing power and control over markets. International trade depends on a framework of international agreements and institutions, which are created by states. Whether or not a state will desire increased participation in the open international trade system depends on a variety of factors.

On the one hand, long-term economic growth is associated with high participation in the open international trade system. For the advanced nations, the two periods of high interdependence, that is, the period from the middle of the nineteenth century to 1914 and the period after 1945, have been eras of historically unparalleled economic growth. Formerly underdeveloped nations in South-East Asia have reached advanced levels of development by participating to a very high degree in international trade.

On the other hand, three economo-political factors may pull states in the direction of less exposure to international trade:

1. Asymmetric economic interdependence can create political dependence for the economically more dependent states.[3] In the contemporary context, this means that the United States, the leading economic power, stands to gain from maximum openness in the international economy, since it will be asymmetrically less dependent than its smaller trading partners on bilateral trade relations. Other major powers, on the other hand, have an incentive to limit their trade dependence on the United States, in order to avoid political dependence. Since the United States no longer hold the kind of hegemonic position in the distribution of power that they enjoyed in the first three post-World War II decades, they can no longer impose their preference for openness on other major powers.[4]
2. The open international economic system might suffer so severe a shock, that it collapses as it did in 1930–31. The political consequences of such a major shock can be profoundly destabilising, as is shown by the example of Germany in the 1930s. An open international economic system can better withstand shocks, if one nation holds a hegemonic position in the international distribution of economic power. In the nineteenth century it was Great Britain which dominated the international economy. Since 1945 it has been the United States. The financial shock that began in South-East Asia in 1997 and spread to Russia and Brazil in 1998 was succesfully contained by American policies. But American economic

[2] This point has often been made by realists, most recently for example by Kenneth Waltz in 'Structural Realism after the Cold War', *International Security*, 25: 1 (Summer 2000), p. 14.

[3] For a summary of the intellectual history of this argument, going back to Alexander Hamilton and Friedrich List, see Robert Gilpin, *The Political Economy of International Relations* (Princeton, NJ: Princeton University Press, 1987), pp. 180–4. An early economic model of the political dependence that can result from asymmetric trade interdependence was formulated, in the context of German economic relations with the states of Central Europe during the Nazi period, by Albert O. Hirschman in *National Power and the Structure of Foreign Trade* (Berkeley, CA: University of California Press, 1945).

[4] This argument derives from Stephen Krasner, 'State Power and the Structure of International Trade', *World Politics*, 28: 3 (April 1976), pp. 317–48.

primacy today is weaker than in the 1950s, and may well erode further in the future. It is thus quite possible that some future shock will not be contained by the leading economic power, resulting in a widespread crisis, a rise in protectionism and an abrupt decline in international trade. In order to shield themselves from the effects of such a severe international shock, states have an incentive to limit their exposure to global economic transactions.[5] If the arguable 'delinkage' of the EU economy from that of the United States is confirmed by evidence of variance in their respective business cycles, this thesis will be enhanced.

3. While the long-term economic growth benefits of participation in the open international trade system cannot be disputed, they are not evenly spread in a national society. In the Schumpeterian process of 'creative destruction', some industries thrive and others decay. But since, as Gilpin has pointed out, the growth benefits are spread wide in a society, while the costs of decay are often highly concentrated regionally or sectorally, the latter may become politically more potent and pull a state in the direction of protectionism.[6]

Has interdependence become so deep as to undermine the power of states in relation to international markets? Those who maintain that it has, argue that such economo-political factors can no longer counterbalance the push of the markets towards ever increasing global economic integration. Yet an examination of trade data shows that the growing international trade in the advanced world is concentrated in regional clusters, especially in the case of Europe. We argue that this outcome can be explained as the result of state strategies aimed at minimising the risks of exposure to the open global trading system through regionalism. Regional agreements and institutions, ranging from the highly integrated EU to more limited regional frameworks in North America (such as NAFTA) and South-East Asia, channel the external trade of the participant states towards regional, rather than truly global, interdependence.[7]

Regionalism, as opposed to genuine globalisation, allows states to reduce their dependence on the global hegemon by becoming more economically competitive against him. This was one of the explicit justifications for the European Single European Act (1987) and the EU's Monetary Union (fusion of 12 national currencies into the euro). Regionalism also helps cushion states from global shocks, and thus makes them less vulnerable to a collapse like that of 1930–31. Moreover, regarding vulnerable sectors that are threatened by international competition, regionalism

[5] The 'hegemonic stability' argument was first formulated from a purely economic point of view by Charles Kindleberger, as a central explanation of the Great Depression of the 1930s, in his *The World in Depression* (Berkeley, CA: University of California, 1973). Stephen Krasner in 'State Power and the Structure of International Trade', *World Politics*, 28: 3 (April 1976), pp. 317–48, generalised the argument by including political factors and by examining the entire industrial era. For an overview of the literature that Krasner's article evoked in the following 20 years, see Robert Keohane, 'Problematic Lucidity: Stephen Krasner's, 'State Power and the Structure of International Trade', *World Politics*, 50 (October 1997), pp. 150–70.

[6] Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), p. 92–3.

[7] On the EU and regionalism, see Peter Robson, 'The New Regionalism and Developing Countries', and Deepak Lal, 'Trade Blocs and Multilateral Free Trade', both in Simon Bulmer and Andrew Scott (eds.), *Economic and Political Integration in Europe: Internal Dynamics and Global Context* (Oxford: Blackwell, 1994).

can provide an alternative to national protectionism (the EU's Common Agricultural Policy, CAP, is a prime example), without entirely undermining the long-term growth benefits of international trade, since a substantial degree of autarky is more feasible and efficient at a regional rather than at the national level.[8]

International trade evidence

World exports and Gross Domestic Product (GDP) growth

As Table 1 shows, global exports since World War II increased at faster rates than the global GDP, with the exception of the period 1980–85. Thus, the consensus in the literature about the fast rates of increase of trade flows in the post-World War II years is confirmed.

Table 2 highlights the relationship between the rates of increase of international trade (exports) and the rates of increase of global GDP *per capita* during 1870–1913, a period often compared with today in the literature.

As can be seen from Table 2, during the period 1870–1913 the rate of increase in exports was more than double the rate of *per capita* increase in GDP for Western Europe, USA, Canada and Japan. It should be noted that this period (1870–1913)

Table 1. *Indicators of the growth of international economic activity, 1964–94 (average annual percentage change).*

Period	World export volume	World real GDP
1964–73	9.2	4.6
1973–80	4.6	3.6
1980–85	2.4	2.6
1985–94	6.7	3.2

Source: UNCTAD Trade and Development Report 1997 (Geneva: UN and Oxford University Press, 1997).

Table 2. *Growth of trade and industry in selected countries, 1870–1913 (average annual volume change, per cent).*

	Exports	Manufacturing industry	*Per capita* GDP
Western Europe	3.2	3.0	1.3
United States	4.9	5.7	1.8
Canada	4.1	5.3	2.2
Russia	–	3.0	0.9
Japan	8.5	3.0	1.4

Source: UNCTAD Trade and Development Report 1997 (Geneva: UN and Oxford University Press, 1997).

[8] Alan Milward argues, from the perspective of economic history, that the European Communities were created in the 1950s in order to strengthen the West European nation states, the weakening of which during the Great Depression of the 1930s facilitated the German conquests of 1939–41. See Alan S. Milward, *The European Rescue of the Nation-State* (London: Routledge, 1992), pp. 1–45.

was also characterised by a breakthrough in transportation and communications that indeed promoted the development of trade among these nations. This is also true today when new technologies have facilitated interstate communications, while transportation costs have fallen decisively.

From these tables we can argue that the sheer magnitude of trade has certainly grown since the inter-war period, both in volume (*per se*) and *vis-à-vis* GDP growth. However, the way we measure trade may influence our perception about the trade globalisation phenomenon and its magnitude. A safer way to measure exports and imports is to measure them against GDP, rather than just compare growth rates in exports and GDP.

Trade against GDP in modern/contemporary economies

Despite the fact that trade (as a percentage of GDP) for OECD countries has increased from 12–13 per cent in the middle of the 1970s to around 19–20 per cent in the middle of the 1990s, development seems to vary among the regions of the international economy. In the Middle East, North Africa, Latin America, parts of Asia, as well as in countries of a considerable size, such as Brazil and India, the volume of trade as a percentage of GDP has remained stagnant for the last 25 years. Noteworthy is the case of underdeveloped sub-Saharan Africa countries where the volume of trade has decreased, while, on the contrary, the increasing trade openness of the countries of SE/dynamic Asia and China is rather impressive (see Figure 1). Thus, certain countries or regions seem to be excluded from the so-called trade globalisation.

Particularly interesting are the data of Table 3, which show a decrease in trade openness in the early 1990s for many developed economies (France, Germany, USA, Italy, Japan and Great Britain, while as far as the G7 countries in particular are concerned, the percentages of Germany and Canada remain stagnant). However, in 1997 trade openness for most of the countries increased (late 1990s), but it is still hard to argue that trade openness today marks a quantitative difference from previous experience (in 1910 and 1920), as can be confirmed by the Human Development Report.[9]

Focusing in particular on OECD countries which continue to conduct around 80 per cent of total world trade, Table 4 shows the index of trade against GDP for groups of developed countries. For all of them, as can be seen, the trade/GDP ratio has remained almost unchanged during 1990–94 compared with the 1980s.

In Table 5, comparing the evidence for the three protagonists of the twentieth century (USA, Germany and Great Britain), the aforementioned trends are confirmed particularly for Great Britain. As far as the United States and Germany are concerned, trade again reaches the levels of the beginning of the century only during the 1970s (and has continued to increase since then). Noteworthy is the US rate that remains at low levels, indicating for the United States a rather low degree of incorporation with the international economy.

[9] UNDP, *Human Development Report 1999* (Geneva: UN and Oxford University Press, 1999).

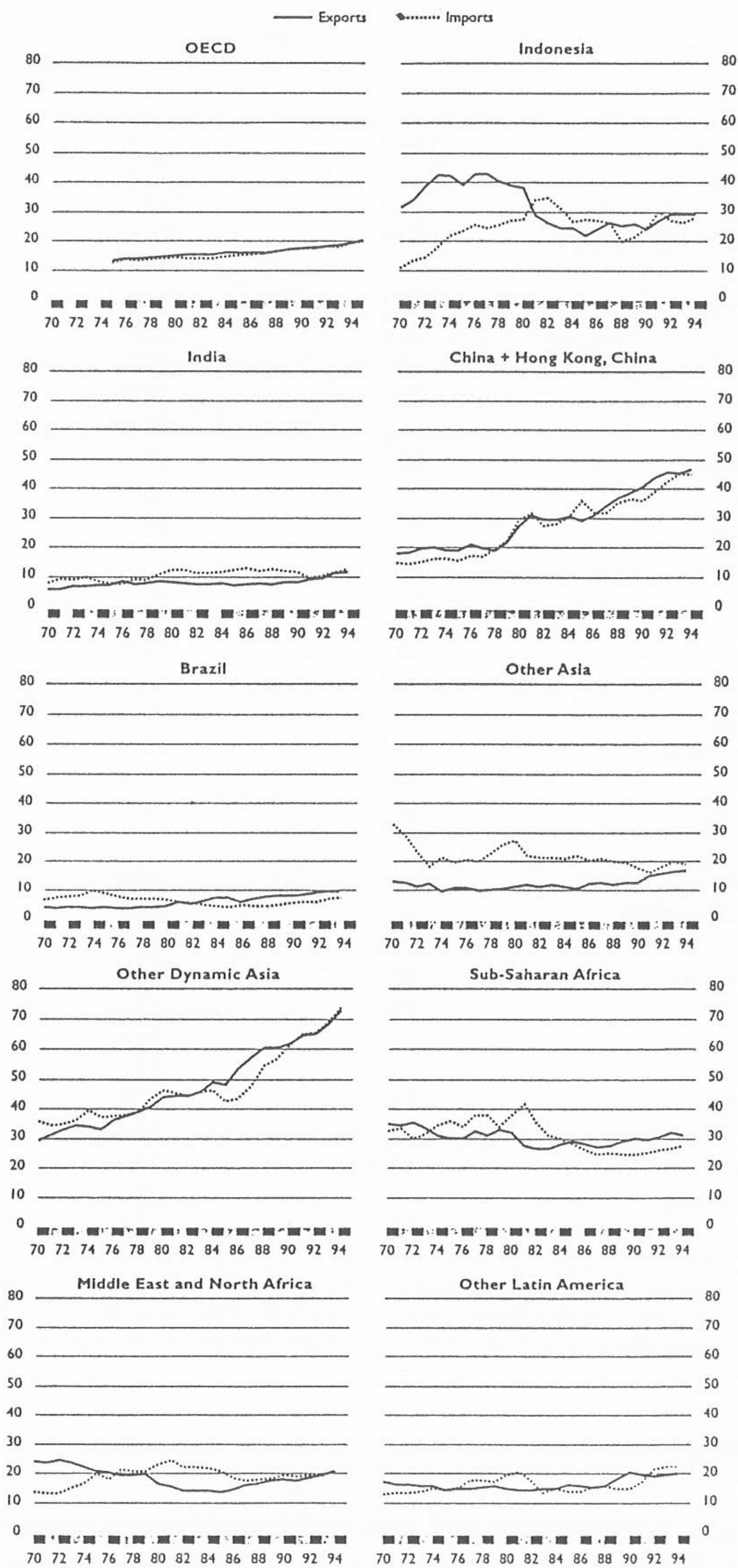

Figure 1. *Trade to GDP ratios.*
Source: OECD, World Bank.

Table 3. *Trade to GDP ratio (exports and imports divided by GDP×2).*

	Country	1980	1992	1997*
1	Hong Kong	104.1	126.6	133.5
2	Singapore	206.9	123.4	n.a.
3	Malaysia	44.9	62.7	93.5
4	Belgium/Luxembourg	58.0	54.1	66.0
5	Ireland	55.2	50.4	68.5
6	Netherlands	42.8	44.9	50.5
7	Taiwan	N.a.	35.3	N.a.
8	Thailand	23.5	29.7	46.5
9	Portugal	32.0	28.7	34.5
10	Hungary	N.a.	28.6	45.5
11	Switzerland	32.5	27.3	34.0
12	Austria	27.3	26.6	41.0
13	Denmark	27.0	26.0	33.0
14	Norway	30.9	24.9	36.5
15	Indonesia	23.4	24.2	28.0
16	Chile	N.a.	24.0	28.0
17	Korea	34.2	23.9	38.5
18	Canada	24.2	23.7	38.0
19	Germany	23.2	23.4	23.5
20	New Zealand	23.3	22.9	28.5
21	Sweden	26.2	21.4	36.5
22	Venezuela	25.5	21.0	24.5
	Greece	22.0	21.0	19.5
23	Finland	29.8	20.9	34.0
24	United Kingdom	22.5	19.8	30.0
25	France	18.9	17.8	22.5
26	South Africa	30.1	17.6	27.5
27	Pakistan	18.5	17.1	18.5
28	Turkey	9.8	16.6	27.5
29	Italy	22.5	15.0	24.0
30	Australia	14.3	14.6	20.0
31	Spain	13.8	14.3	25.5
32	Mexico	10.4	11.5	30.0
33	United States	9.1	8.3	12.5
34	Japan	12.7	7.8	9.5

Sources: John Dunning, 'The Advent of Alliance Capitalism', in John Dunning and Khalil Hambani (eds.), *The New Globalism and Developing Countries* (New York: UN University Press, 1997), pp. 12–50.
* *UNDP Human Development Report 1999* (Geneva: UN and Oxford University Press, 1999).

The geography of trade

Embarking now on trade geography, OECD data presented in Table 6 indicate that, despite the high rate of increase in trade volume, there is a relatively low degree of trade openness both for developed and the least developed countries.

During the 1990s, exports and imports of OECD countries with the European Union (EU) are approximately 12 per cent of their combined GDP, which is almost

Table 4. *Trade of goods and services as a percentage of GDP.*

	Exports 1980–89	Exports 1990–94	Imports 1980–89	Imports 1990–94
G7	15.6	15.4	15.8	15.4
OECD	18.1	17.8	18.3	17.9
EU	29.1	28.3	27.5	26.3
OECD Europe	27.7	26.7	27.4	26.2

Source: OECD Historical Statistics 1960–95 (Paris: OECD, December 1997).

Table 5. *Percentage trade shares† in the United Kingdom, the United States and Germany.*

Country	1913	1950	1970	1987	1990*
Great Britain	27.7	13.1	16.6	21.1	20.6
United States	3.9	2.9	4.4	7.4	8.0
Germany	19.9	9.8	17.4	23.3	24.0

Notes: †Merchandise trade, measured as the average of exports and imports, as a share of GDP.
*Robert Feenstra, 'Integration of Trade and Disintegration of Production in the Global Economy', *Journal of Economic Perspectives*, 12: 4 (1998), pp. 31–50.
Source: Liesner 1989, from Paul Krugman, 'Growing World Trade: Causes and Consequences', *Brookings Papers on Economic Activity*, no.1 (1995), p. 331.

1 per cent higher than in the 1980s and is double the percentage since the beginning of the 1960s. In any case, this rate remains at relatively low levels confirming that the most developed countries remain relatively 'closed economies', and trade mainly with each other. To put it more precisely, the orientation of those countries' trade flows remains very narrow and directed towards regional and developed partners. It is worth mentioning that the trade of OECD countries with non-OECD countries represents only 4 per cent of their GDP. According to Eurostat, developed countries in general conduct about 72 per cent of world trade (1994), instead of 63 per cent back in 1960.[10]

Besides the OECD, the same holds for large countries or integrated blocks/regions such as the EU, the United States and, especially, Japan (Table 6). Japan, in particular, imports far less from OECD countries and the United States than in the past. Similarly, EU trade has developed mainly among its member-states. Last but not least, Table 6 also confirms that the United States remains a relatively closed economy (around 11 per cent 'open').

Table 7 provides a more precise picture of the geography of international trade, by looking at particular countries. Trade remains strongly geographically concentrated, despite the fact that the international economy today is less 'transport intensive', 5 per cent of the total value added, than it has been in the past (10 per cent).[11]

[10] M. Dent, *The European Economy: The Global Context* (London, Routledge, 1997), p. 169.
[11] See Jeffrey Frankel, *Regional Trading Blocks* (Washington, DC: Institute for International Economics, 1997).

Table 6. *Geographical structure of OECD trade, percentage of nominal GDP.*

Source	Destination		Source of imports						Destination of exports					
			1962	1972	1982	1992	1996	1999	1962	1972	1982	1992	1996	1999
OECD	OECD		6.14	8.10	10.52	11.48	12.56	12.96	5.89	7.98	10.17	11.28	12.63	13.02
		EU	3.56	4.87	6.07	6.75	7.06	7.03	3.56	4.79	6.29	6.90	7.23	7.21
		USA	1.22	1.26	1.63	1.71	2.03	2.13	0.86	1.38	1.65	1.88	2.30	2.72
		other	1.35	1.97	2.82	3.01	3.47	3.81	1.48	1.82	2.23	2.50	3.11	3.09
	Non-OECD		2.33	2.32	4.53	3.38	4.21	4.02	2.29	2.19	4.08	3.23	4.15	3.36
	DAEs+China		0.22	0.36	0.92	1.31	1.81	1.93	0.25	0.38	0.80	1.21	1.66	1.41
	OPEC		0.66	0.81	2.13	0.82	0.79	0.63	0.33	0.41	1.41	0.60	0.50	0.40
USA	OECD		1.86	3.55	5.09	6.02	7.18	7.50	2.29	3.01	4.35	5.32	5.95	5.49
		EU	0.71	1.18	1.50	1.68	1.93	2.12	0.99	1.16	1.75	1.79	1.73	1.64
		other	1.14	2.37	3.60	4.34	5.25	5.38	1.30	1.86	2.61	3.53	4.22	3.86
	Non-OECD		1.02	1.06	2.63	2.80	3.52	3.57	1.51	1.11	2.37	2.10	2.48	1.99
	DAEs+China		0.11	0.29	0.82	1.52	2.02	2.09	0.09	0.18	0.56	0.87	1.09	0.30
	OPEC		0.26	0.22	0.99	0.55	0.60	0.44	0.18	0.23	0.72	0.36	0.32	0.22
Japan	OECD		5.42	4.15	4.72	3.38	3.90	3.59	4.18	5.59	6.68	5.54	4.97	5.85
		EU	0.89	0.72	0.79	0.91	1.08	0.99	0.98	1.40	1.82	1.80	1.37	1.73
		USA	2.97	1.92	2.22	1.42	1.74	1.54	2.32	2.95	3.35	2.60	2.46	2.94
		other	1.56	1.50	1.70	1.05	1.09	1.07	0.88	1.24	1.51	1.14	1.14	1.17
	Non-OECD		3.83	3.56	7.36	2.89	3.70	3.55	3.89	3.82	6.03	3.59	3.97	3.80
	DAEs+China		0.94	0.99	2.41	1.51	2.23	2.03	1.25	1.55	2.34	2.44	2.97	2.81
	OPEC		1.12	1.50	4.45	1.05	1.03	0.94	0.52	0.61	2.00	0.51	0.38	0.31
EU	OECD		11.07	13.42	17.93	18.09	19.10	20.50	10.35	13.47	17.05	17.40	20.15	21.61
		EU	7.57	10.19	13.19	13.75	14.31	15.03	7.44	10.16	13.31	13.81	15.35	16.18
		USA	1.75	1.43	2.04	1.55	1.77	2.07	1.04	1.36	1.55	1.34	1.68	2.25
		other	1.75	1.80	2.70	2.78	3.02	3.40	1.87	1.95	2.19	2.24	3.12	3.18
	Non-OECD		4.16	3.68	6.18	3.53	4.00	4.39	3.35	3.04	5.46	3.30	4.19	3.97
	DAEs+China		0.27	0.29	0.57	1.00	1.33	1.58	0.28	0.25	0.51	0.71	1.16	0.91
	OPEC		1.20	1.38	2.82	0.74	0.67	0.59	0.55	0.60	2.07	0.73	0.62	0.56

Sources: OECD Economic Outlook (Paris: OECD, June 1998); for 1996 and 1997: *OECD Economic Outlook* (December 1998); for 1999: *OECD Economic Outlook* (June 2000).

Table 7. *Neighbourly leading world exporters, 1996.*

Countries	Biggest export market (%)*
United States	Canada (21.3)
Germany	EU (56.4)
Japan	USA (27.5)
France	EU (62.6)
Britain	EU (52.7)
Italy	EU (55.4)
Netherlands	EU (78.1)
Canada	USA (82.3)
Belgium/Luxembourg	EU (70.4)
China	Hong Kong (21.8)
South Korea	USA (16.7)
Singapore	USA (18.4)
Taiwan	Hong Kong (39.6)
Spain	EU (79.0)

Note: *Per cent of total exports.
Source: International Monetary Fund (IMF) database.

As Table 7 reveals, the highest percentage of exports goes to countries that are geographically close. Thus, the United States trades mainly with Canada although, it must be born in mind that Canadian provinces trade about twenty times as much with each other as they do with US States of similar size and distance.[12] This fact confirms the large influence of domestic markets both on the direction and the pattern of the national production systems, even between such integrated regional partners.

The tendency of strengthening regional trade ties is particularly true for Europe, where 61 per cent of the EU countries' trade (average) takes place between themselves. This rate has been continuously increasing, by 6.1 per cent during the period 1985–1990 and by 2.6 per cent during 1985–97.[13] It should be pointed out that intra-EU trade as a share of total world trade increased from 13.5 per cent in 1960 to 24.5 per cent in 1994, while extra–EU trade as a percentage of total world trade decreased from 20.5 per cent in 1960 to 15.0 per cent in 1994.[14]

Eurostat also confirms the above evidence. Table 8 presents the share of US, Canada, 'Australasia', Latin America and OPEC in total EU external trade, a share that has been decreasing since 1970. By contrast, that of Newly Industrialised Countries (NICs) and Japan has increased. The share of Eastern Europe and OECD Europe has increased as well.

For Western Europe as a whole, the share of intra-regional trade in its own region over total trade has increased since 1928, and in 1995 reached around 69 per cent, according to the World Trade Organisation (Table 9). The corresponding share of intra-regional trade also increased in almost all regional blocks and notably in the Americas.

[12] See John Helliwell, 'Do National Borders Matter for Quebec's Trade?', *Canadian Journal of Economics*, XXIX: 3 (August 1996), pp. 507–22.
[13] European Economy, *Convergence Report,* no. 65 (Brussels: EU, 1998) p. 153.
[14] Eurostat and IMF from M. Dent, *The European Economy: The Global Context* (London: Routledge, 1997), p. 169.

Table 8. *EU exports as percentage of total exports—EU imports as percentage of total imports.*

	1970	1994	1970	1994
USA	18.0	17.6	21.7	17.3
Canada	2.8	1.8	4.9	1.7
L. America	6.7	5.3	7.9	5.0
Australasia*	3.4	1.7	3.1	1.1
OPEC	7.5	6.9	16.3	7.5
NICs	2.1	7.6	1.5	6.2
Japan	2.6	4.9	3.4	9.0
EU, Europe	56.9	54.2	41.2	52.2

Note: *Australasia consists of Australia, New Zealand and South-East Asia.
Source: Eurostat, from M. Dent, *The European Economy: The Global Context* (London: Routledge, 1997), p. 172 and authors' calculations.

Table 9. *Percentage share of intra-regional trade in each region's total trade, 1928–1995.*

Regions	1928	1958	1968	1979	1990	1995
W. Europe	51	53	63	66	72	69
N. America	25	32	37	30	32	36
L. America	11	17	19	20	15	21
Australasia*	46	41	37	41	45	51
Africa	10	8	9	6	6	10
M. East	5	12	8	6	8	8

Note: *Includes South-East Asian countries, N. Zealand and Australia.
Source: WTO, Annual Report (Geneva: World Trade Organisation, 1997); according to the *UNCTAD Trade and Development Report 2000* (Geneva: UNCTAD, 2000), p. 32, the intra-regional Asian–10 trade represents around 50 per cent of its total trade.

These data demonstrate that the post-World War II growth in international trade is much more regionally focused than in the inter-war period before the collapse of 1930–31. Moreover, regionalism is growing over time, which fits the argument that the United States are less hegemonic today than in the 1950s, permitting their main economic rivals to channel their external trade into regional blocks.

The above evidence is confirmed by Frankel.[15] The author presents additional evidence from the World Database and UN Cometrade database (Table 10), in which the increase in intra-regional trade is reconfirmed.

Kleinknecht and Wengel focus on the EU case. Comparing intra-EU and extra-EU exports as well as the sum of intra- and extra-European trade (as percentage of GDP), they confirm that intra-EU exports have doubled, while extra-EU exports are unchanged (see Table 11).[16]

This trend towards increased intra-EU trade derives from deliberate state decisions to channel trade within the region. The Single European Act of 1987 resulted in a

[15] See Jeffrey Frankel, *Regional Trading Blocks* (Washington, DC: Institute for International Economics, 1997).
[16] See Alfred Kleinknecht and Jan T. Wengel, 'The Myth of Economic Globalisation', *Cambridge Journal of Economics*, 22: 4 (1998), pp. 637–47.

Table 10. *Intra-regional trade as a percentage of total trade.*

Group of countries	1962	1994
South-East Asia-11	33	50
Europe-32	65	73
EU-12	49	58
EU-15	56	64
EFTA-6	22	12
Western Hemisphere-34	48	50
Mercosur-4	6	19
NAFTA-3	36	43
Africa-48	4	3

Source: Jeffrey Frankel, *Regional Trading Blocks* (Washington, DC: Institute for International Economics, 1997).

Table 11. *Intra-EU exports as a percentage of GDP—Extra-EU exports as a percentage of GDP.*

	1960	1995	1960	1995
EU (12)*	6.0	14.4	8.7	8.6
EU (15)	7.8	14.6	6.1	8.9

Note: *Austria, Sweden and Finland excluded.
Source: European Commission, from Alfred Kleinknecht and Jan T. Wengel, 'The Myth of Economic Globalisation', *Cambridge Journal of Economics*, 22: 5 (1998), pp. 640–1.

massive EU programme of reducing or eliminating non-tariff barriers to intra-EU trade, including removal of physical barriers (customs controls), transport industry deregulation (especially regarding road haulage and air transport), removal of technical barriers through harmonisation of standards, intra-European liberalisation of formerly closed national markets in energy, telecommunications and public sector procurements (except defence), banking and financial services deregulation and the abolition of exchange controls. One of the explicit objectives of the Single European Act was to make the EU more economically competitive and politically influential *vis-à-vis* the United States. By deliberately confining the deregulation and liberalisation policies to an intra-European scope, it has had a pan-EU protectionist effect in relation to non-EU competitors in the liberalised sectors. The EU's Common Agricultural Policy also remains highly protectionist.[17]

The openness indicator of South-East Asian economies (Korea, Malaysia, Indonesia, Thailand, Singapore and Hong Kong), reaches an average 78.4 per cent of their combined GDP. However, it should be noted that this increase is due to high trade flows with Japan and the United States, as is shown in Table 12.

[17] For the Single European Act, see Clive Archer and Fiona Butler, *The European Community: Structure and Process* (London: Pinter Publishers, 1992), pp. 45–59, and Robert Gilpin, *The Challenge of Global Capitalism: The World Economy in the 21st Century* (Princeton, NJ: Princeton University Press, 2000), pp. 193–226.

Table 12. *OECD trade with major regions: percentage shares in total merchandise trade.*

	Exports			Imports		
	USA	Japan Europe	OECD	USA	Japan Europe	OECD
USA						
1970	–	31	8	–	29	10
1980	–	24	5	–	17	8
1990	–	32	7	–	23	7
1993	–	29	7	–	23	8
Other North America						
1970	25	3	2	31	6	2
1980	22	3	1	21	4	1
1990	28	3	1	24	4	1
1993	30	3	1	25	4	1
Japan						
1970	11	–	1	15	–	2
1980	10	–	1	13	–	3
1990	12	–	2	18	–	4
1993	11	–	2	18	–	5
OECD Europe						
1970	32	15	66	28	10	61
1980	29	17	67	19	7	59
1990	28	22	72	22	18	68
1993	23	18	67	20	15	65
Other Asia and Oceania						
1970	11	29	5	11	23	4
1980	15	29	5	13	22	5
1990	18	32	6	21	30	6
1993	21	39	8	24	35	8
Central and South America						
1970	9	4	3	9	6	4
1980	8	5	2	8	3	3
1990	6	2	4	5	3	2
1993	7	3	2	4	3	2

Source: P. Richardson, 'Globalisation and Linkages: Macro-Structural Challenges and Opportunities', *OECD Economic Studies*, no. 28 (1997).

In the same Table 12 we also note that US imports and exports with Japan and Europe (as a percentage of US total trade) are declining constantly. Japan's exports to the United States and to Europe (as a percentage of its total exports) remain stable, at very low levels with the United States and at even lower levels with Europe (approximately 2 per cent). Another important fact is that Europe's trade with the United States (as a percentage of its total trade) is decreasing. In contrast, the significant increase of intra-EU trade is confirmed again.

There is an increase of trade interdependence between Asian countries and Oceania with Japan and the United States. In contrast, the East European as well as Central and Latin American countries seem to remain quite remote from the large economic and trade blocks in terms of global trade integration. Despite the fact that Latin American countries are 'trade open' (by 18 per cent as a percentage of their combined GDP 1990–95, on average), only 3 per cent of their trade is conducted with the United States, 3.5 per cent with the EU and only 1.3 per cent with Japan.[18] A similar, if not even more reduced, relationship holds for the Middle-Eastern countries with the three large trade blocks, despite the fact that these countries are much more open (52 per cent, on average) than those of Latin America.

Last but not least, regarding the EU block (six core countries), Table 13 is particularly illuminating. European economies are approximately on average 25–30 per cent 'trade open'. Half of this percentage, however, is intra-industry/regional trade among the six most developed countries, which, by the way, share geographical borders and all display a high degree of industrial and technological development.

Table 13. *Trade weights in Western Europe 1990–95.*

	USA	EU6	Japan	Openness
EU6				
Germany	1.8	10.8	1.0	26.0
France	1.8	11.9	0.7	23.4
UK	3.1	10.6	1.1	26.2
Italy	1.3	10.0	0.5	20.9
Netherlands	3.4	34.7	1.3	56.3
Belgium/Luxembourg	3.8	46.9	1.4	70.4
Iberia				
Spain	1.3	11.9	0.6	20.6
Portugal	1.3	18.4	0.7	34.0
Scandinavia				
Sweden	2.6	14.2	1.1	32.3
Denmark	1.8	16.9	1.3	35.0
Norway	2.4	17.5	1.2	36.2
Finland	1.9	11.1	1.0	28.9
Iceland	3.8	14.6	2.5	33.5
Other				
Austria	1.4	23.5	1.2	39.1
Greece	0.9	12.9	1.0	23.4
Switzerland	2.5	20.0	1.3	33.2
Ireland	7.6	40.5	2.6	64.3

Source: Michael Artis, Marion Kohler and Jacques Melitz, 'Trade and the Number of OCAs in The World', European University Institute Working Papers (ECO no. 98/16, 1998), p. 24.

[18] See Michael Artis, Marion Kohler and Jacques Melitz, 'Trade and the Number of OCAs in The World', European University Institute Working Papers (ECO no. 98/16, 1998), elaboration from Table 29.

Overall, in spite of the dramatic progress in modern telecommunications and transportation facilities at a global level, the increase of international trade flows is predominantly confined within the three developed trade blocks of the global economy (USA, EU, Asia-Japan). Large parts of the world continue to be excluded from the trade boom. The emerging reality is more a process of deepening regional integration (regionalism) of particular groups/blocks of countries rather than a global increase of cross-border trade flows and production interdependence. Europe's intra-regional trade is increasing more than its trade with the globe, and this is directly the result of state decisions, as demonstrated above. The Asia-Japan block, although less integrated, has a large part of its trade taking place within the region (50 per cent). The NAFTA block includes only three countries, but regional trade ties seem also to be strengthening. Japan and the United States, the strongest and more developed economies of today, remain relatively closed. This is the case, despite the fact that the total volume of global trade has increased relatively more than the increase in GDP in most of the regions of the international economy.

Capital markets and global capital mobility are beyond the scope of this article, which focuses on trade. Nonetheless, some brief remarks will be included here, since capital mobility is often seen as a prime source of state weakness in the face of global market forces. If states were indeed powerless in relation to global capital mobility, their tax policies on capital and income would tend to be harmonised. This is not the case, according to the available evidence from the advanced economies. Taxation of wealth and income as a percentage of GDP differs widely both within the EU (in Greece it is 8.6 per cent, in Sweden 22.2 per cent) and internationally (EU average 13.4 per cent, USA 14.9 per cent, Japan 9.0 per cent).[19] Similarly, overall revenues from direct taxation as a percentage of GDP, as well as social spending as a percentage of tax revenues, are far from harmonised, as would be the case under conditions of a pure international tax competition that in turn would reveal state weakness. Social security spending varies considerably between advanced states (21.2 per cent in Germany, 25.7 per cent in France, 13.9 per cent in the United States), while even within the United States there is variance in the taxation of capital, though on average it is 40 per cent lower than in Europe.[20] These variances suggest that states are far from weak in relation to global capital mobility and are on the contrary able to pursue their differing tax and social priorities without suffering prohibitive punishment in the international capital markets.

Conclusions

The evidence of the structure of international trade shows an emergence of regional trading blocks in the EU, NAFTA and South-East Asia, instead of genuine globalisation. This evidence is inconsistent with theoretical arguments that suggest that economic interdependence has weakened state power to the point where international markets are beyond political control. On the contrary, the evidence suggests

[19] See European Economy, Convergence Report, no. 65 (Brussels: EU, 1998), p. 330.
[20] See Maurice Obstfeld, 'The Global Capital Market: Benefactor or Menace?', *Journal of Economic Perspectives*, 12: 4 (1998), pp. 9–30.

that states are able to channel international trade in directions that promote not only economic, but also political objectives.

Only weak states are unable to affect international trade, and they participate least in the international economy. Thus the strength of states is a precondition, in terms of a stable and efficient framework, of international economic transactions. And this very strength allows states to channel international trade in directions that reflect their political objectives. The purely economic world of profit-maximising markets adjusts to the politically motivated framework that states create, as much as the other way around.

The dynamics of international trade that follow from our analysis are related to the 'hegemonic stability' theory. The hegemonic power provides the public goods that are necessary for the orderly functioning of the international economic system, since it has the most to gain politically from the growth of international trade in terms of asymmetric interdependence. Other major powers have political as well as economic incentives to reduce their dependence on the hegemonic power, but they can only achieve this through regional blocks. Their regionalism in turn forces the hegemonic power to resort to its own regionalism (such as NAFTA). With the entrenchment of regionalism, the power of the hegemonic state is likely to decline, *ceteris paribus*, making it less likely to be able to provide the public goods in terms of managing a major shock to the international economic system—though the ability of the United States to contain the 1997–98 shock suggests that this has not happened thus far. But should some future shock to the international economic system prove uncontainable, the emerging regionalisms are designed to help cushion their members from the consequences of a decline in inter-regional transactions, so as to make a near-ubiquitous and disastrous collapse of all international trade in the manner of the 1930s less likely.