

# **Regional Trade Agreements: Promoting conflict or building peace?**

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October 2005



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Published by the International Institute for Sustainable Development

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## Abbreviations

ASEAN	Association of Southeast Asian Nations
DSB	dispute settlement body
CU	customs union
EPA	Economic Partnership Agreement
EU	European Union
FDI	foreign direct investment
FTA	Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
MERCOSUR	Southern Common Market
OAS	Organization of American States
OECD	Organization for Economic Co-operation and Development
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SADC	Southern African Development Community
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asian Preferential Trading Arrangement
WTO	World Trade Organization

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<sup>1</sup> This paper is derived from research produced for a project funded by the International Development Research Centre (IDRC), Ottawa, Canada. Oli Brown is a Project Manager at IISD, other authors are based at the Sustainable Development Policy Institute, Islamabad, Pakistan (<http://www.sdpi.org>). The views expressed here are those of the authors alone and do not necessarily reflect the positions of their institutions.

## 1. Introduction

Over the last fifteen years Regional Trade Agreements (RTAs) have become defining features of the modern economy and a powerful force for globalization. By the beginning of 2005 more than 250 RTAs had been notified to the World Trade Organization (WTO).<sup>2</sup>

The example of the European Union as an economically successful trade agreement and peaceful political arrangement has much to offer the world. Whilst the EU is the product of a unique political and economic landscape, other RTAs also have the potential to build peace and prosperity.

However, without a clear understanding of their potential hazards, RTAs also run the risk of escalating tensions and hindering development. RTAs can be divisive and exclusive, and their terms can embed regional tensions and power imbalances. Especially when negotiated between countries of differing economic power, trade agreements can exert powerful leverage on the political stability of the economically weaker partner.

Poorly designed and implemented RTAs have led to heightened tensions between countries and arguably increased the risk of inter-state conflict. At the same time, the political and economic adjustment costs involved in pursuing regional trade integration have undermined local livelihoods and created winners and losers, spurring competition between groups.

As the December 2005 Ministerial meeting of the WTO in Hong Kong draws closer there is a growing realization that intransigence amongst both developed and developing country trade negotiators may yet stall progress toward lowered tariff barriers and increased market access. With a multilateral trade system that is repeatedly frustrated by the competing interests of the 148 members of the WTO, countries are increasingly seeking to advance their national interests outside the agreed multilateral framework of the General Agreement on Tariffs and Trade (GATT).

If the talks fail to produce substantive results then it is likely that renewed energy will be put toward regional trade integration as a more flexible way of liberalizing trade and pursuing other geo-political goals. In short, the Regional Trade Agreements is likely to become a more, not less, common feature of the world economy.

The debate on RTAs has tended to revolve around the somewhat narrow topic of what the trend means for multilateral trade liberalization; whether RTAs are a “stumbling block” or a “stepping stone” to multilateralism.

However, as the European Union shows, trade agreements can presage deep and profound economic, social and political changes. Aid donors and the international community have been particularly keen to promote regional integration in the developing world as a ‘hands-off’ stepping-stone toward greater interdependence, trade liberalization and stability. Yet while the process promises much in terms of greater interdependence and stronger regional institutions it also presents grave dangers.

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<sup>2</sup> Jo-Ann Crawford and Roberto Fiorentino, “*The Changing Landscape of Regional Trade Agreements*”, WTO, 2005, p.1.

This paper attempts to outline the relationship between Regional Trade Agreements and violent conflict.<sup>3</sup> It charts the development of RTAs around the world and questions the extent to which the trend is an internally or externally driven process. It then investigates some of the non-trade concerns that are being bundled into modern RTAs – particularly those that attempt to use trade agreements as a way to improve the quality of governance in signatory countries. Finally, it attempts to assess the positive and negative impacts of RTAs on peace and security around the world.

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<sup>3</sup> Violent conflict is understood in this context as encompassing both violent conflict and destabilizing but non-violent disputes between and within states.

## 2. The Rush to Regionalism: The rapid growth of RTAs since the 1990s

The number of Regional Trade Agreements (RTAs) has been steadily increasing over the last 15 years as has the share of preferential trade in world trade. By the beginning of 2005 nearly 260 RTAs had been notified to the World Trade Organization (WTO) (see Table 1 for a list of the most prominent RTAs). Of these: 170 are currently in force, approximately 20 are awaiting ratification and a further 70 are under negotiation. All but one WTO Member, Mongolia, are engaged in RTAs of one sort or another.<sup>4</sup> While some agreements count as few as three Member nations, the majority have ten or more signatories.

Regionalism is accelerating. In the 13 months between January 2004 and February 2005, 43 RTAs were notified to the WTO. In the words of Jo-Ann Crawford and Roberto Fiorentino of the WTO, “*this [is] the most prolific RTA period in history*”.<sup>5</sup> For some WTO Members preferential trade now represents over 90 percent of their total trade.

**Table 1: Sample of prominent RTAs**

<b>AFTA</b>	ASEAN Free Trade Areas	<b>EFTA</b>	European Free Trade Association
<b>ASEAN</b>	Association of Southeast Asian Nations	<b>GCC</b>	Gulf Cooperation Council
<b>CAN</b>	Andean Community	<b>LAIA</b>	Latin American Integration Association
<b>CARICOM</b>	Caribbean Community and Common Market	<b>MERCOSUR</b>	Southern Common Market
<b>CACM</b>	Central American Common Market	<b>MSG</b>	Melanesian Spearhead Group
<b>CEFTA</b>	Central European Free Trade Agreement	<b>NAFTA</b>	North American Free Trade Agreement
<b>CEMAC</b>	Economic and Monetary Community of Central Africa	<b>OCT</b>	Overseas Countries and Territories
<b>CIS</b>	Commonwealth of Independent States	<b>PTN</b>	Protocol relating to Trade Negotiations among Developing Countries
<b>COMESA</b>	Common Market for Eastern and Southern Africa	<b>SADC</b>	Southern African Development Community
<b>EAC</b>	East African Community	<b>SAPTA</b>	South Asian Preferential Trading Arrangement
<b>EAEC</b>	Eurasian Economic Community	<b>SPARTECA</b>	South Pacific Regional Trade and Economic Co-operation Agreement
<b>ECO</b>	Economic Cooperation Organization	<b>UEMOA</b> – <b>WAEMU</b>	West African Economic and Monetary Union

<sup>4</sup> Crawford and Fiorentino, p.1.

<sup>5</sup> *ibid.*

Crawford and Fiorentino's 2005 study points to four emerging trends in regional trade integration:

1. Countries are increasingly making RTAs a central objective of their trade policy which may take priority over multilateral trade objectives.
2. RTAs are becoming more complex, in many cases establishing regulatory regimes that go beyond multilaterally agreed trade regulations.
3. The emergence of trade agreements between key developing countries may be evidence of strengthened "South-South" trading patterns.
4. RTAs are generally expanding and consolidating. On one hand, there are a growing number of cross-regional RTAs which account for a large proportion of the total increase in RTAs. On the other hand, regional trading blocks that span continents are in the making.<sup>6</sup>

#### **Acronym Soup - a word on terminology**

There are a number of different types of trade agreements and a variety of ways to describe them. As these phrases are often interchangeable and confusing it is worth briefly noting what we understand by them in this paper:

> A *Free Trade Agreement* (FTA) is where each party to the agreement reduces tariffs and other non-tariff barriers to trade, but maintains its own trade policy vis-à-vis third parties.

> A *Preferential Trade Agreement* (PTA) is exactly the same as an FTA but the phrase highlights that the lowered trade barriers between partners are preferential to those offered to third parties.

> A *Customs Union* (CU) is more politically ambitious requiring as it does a common external tariff and the harmonisation of external trade policies.

> *Regional Trade Agreements* (RTAs) simply refer to any of the three above when concluded between members of a regional group.

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<sup>6</sup> Crawford and Fiorentino, p.1

### 3. Understanding the growth of RTAs

The socio-economic and political “drivers” of regional trade integration can be divided into “internal factors” (drivers that originate from within a particular region) and “external factors” (drivers that come from outside a region or nation).

#### 3.1 Internal Factors

New markets and trade opportunities: Typically, by expanding access to foreign markets, Regional Trade Agreements (RTAs) promise cheaper imports and more valuable exports. In theory they can also help promote foreign direct investment (FDI), improve economic growth, improve a countries’ balance of payments position, and open access to new skills and technology;

- MERCOSUR, the RTA concluded between the countries of southern Latin America<sup>7</sup>, is credited, for example, with significantly increasing regional trade flows in the decade between 1990 and 2000. Exports between MERCOSUR members rose from US \$4.1 billion to \$17.6 billion while imports grew from \$4.2 billion to \$17.9 billion. Between 1995 and 2000, exports of every MERCOSUR state to other members showed an upward trend.

Geo-strategic and political interests: While economic self-interest is generally the principal engine of RTA growth, such agreements are also increasingly being guided by political, strategic and security concerns. The fact that the negotiation and commitments of RTAs tends to be less transparent than multilateral trade negotiations makes such an approach easier. There are several examples of South-South RTAs that reflect a combination of economic and security goals that have very little to do with trade;

- The Association of Southeast Asian Nations (ASEAN) was initially created as a response to the perceived spread of communism in the region in the 1960s. Although ASEAN has since set itself the task of maintaining regional peace and stability, it has been careful to pursue a policy of non-interference in domestic conflicts – most controversially refusing to censure Myanmar over its human rights record.

Growing frustration with multilateral trade negotiations: There is mounting scepticism that the glacial progress of negotiations at the World Trade Organization (WTO) will deliver substantive progress;

- The perception is that negotiating trade agreements within smaller blocs is more flexible and rapid than attempting to bring the 148 Members of the WTO to consensus. In addition, regional trade agreements can be more specific to the needs of a particular region than the “lowest common denominator” solution often offered at WTO negotiations.

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<sup>7</sup> Members are Argentina, Brazil, Paraguay and Uruguay. Bolivia, Chile and Peru are associate members



Counterbalancing the negotiating power of other blocs: Regional blocs are a powerful tool to negotiate common interests both within and outside the WTO. Increasingly, many developing countries are realizing that their interests may be best served by integration with like-minded countries that have similar economies;

- In the case of Latin American economies, regional integration has been used to counter the negotiating power of the US while it sought to expand the North American Free Trade Agreement (NAFTA) to the Free Trade Area for the Americas (FTAA). The formation of blocs such as ASEAN, MERCOSUR and the Andean Community of Nations are examples of such bloc building efforts to insulate both against regional and global trading blocs.

Building on socio-cultural similarities: Sharing a common language and culture can encourage closer integration;

- While differing in terms of development and prone to intra-regional conflicts the Commonwealth of Independent States (CIS), which emerged from the collapse of the Soviet Union, was brought together, at least in part, by socio-cultural similarities.<sup>8</sup>

Reducing illegal trade and smuggling: Regional Trade Agreements can establish the institutions for shared information and action to reduce illegal trade in drugs and weapons. Meanwhile, the setting of common tariffs for trade between members helps to undermine the economic incentive for smuggling.

- MERCOSUR, made up of Argentina, Brazil, Paraguay and Uruguay, was created with the explicit intention of creating a common market and a common external tariff, but also provides a platform for member states to discuss common security issues such as drug trafficking.

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<sup>8</sup> The CIS was created in 1991 and closer economic union was signed in 1993. At present the CIS consists of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and the Ukraine. See <http://www.cisstat.com/eng/cis.htm> (accessed 21st September 2005).

## 3.2 External Factors

*“Exporting” the model of regional integration:* EU delegations are actively encouraged to help “export” the EU’s model of regional integration. This is backed by EU funds that bankroll regional organizations like the African Union and the Pacific Forum. Often this has the explicit rationale of contributing to the prevention, management and resolution of violent conflicts.<sup>9</sup> The same is true of the US. According to Edward Mansfield of the University of Pennsylvania, both the Clinton and Bush Administrations have made spreading regional economic agreements a foreign policy priority;<sup>10</sup>

- In July 2005 for example, Louis Michel, the EU Commissioner for Development and Humanitarian Aid signed an agreement to provide €30 million to COMESA as part of the EU’s five year €223 million Regional Integration Support Programme.<sup>11</sup> This follows a similar payment, of €45 million, to SADC in November 2002.<sup>12</sup>

*Pursuing strategic bilateralism:* Such are the perceived benefits of trade to peace-building that external powers have tried to promote trade links between countries with the specific goal of reducing tensions between previous enemies. Regional trading initiatives can help to reintegrate countries into their regions, especially if they have been isolated as a result of conflict;

- In the case of India and Pakistan, the fear that this region could continue to be unstable has motivated regional and global players such as SAARC, ASEAN and the US to try to develop a more stable (trading) relationship between the two countries.
- Afghanistan has launched a series of bilateral negotiations to develop trading links with its neighbours. For example; cotton produced in northern areas of Afghanistan is now being transported by new roads to Pakistan where it is used in the textile industry. Agreements like these can give neighbouring states a greater stake and interest in the reconstruction and reintegration of countries that were previously politically and economically isolated.

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<sup>9</sup> Council of the European Union, “*Council Common Position concerning conflict prevention, management and resolution in Africa*”, SN 1010/04, January 2004, p. 3.

<sup>10</sup> Edward Mansfield, “*Preferential Peace: Why Preferential Trading Arrangements inhibit interstate conflict*” University of Pennsylvania, 1999, p. 14.

<sup>11</sup> Europa Press Release, 20 July 2005, (accessed 19<sup>th</sup> September 2005) The RISP runs between 2002 and 2007 <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/991&format=HTML&aged=0&language=EN&guiLanguage=en> see also [http://europa-eu-un.org/articles/sk/article\\_4943\\_sk.htm](http://europa-eu-un.org/articles/sk/article_4943_sk.htm) .

<sup>12</sup> Europa “*EU Humanitarian Aid Package to SADC*”, November 2002 (accessed 19 September 2005) [http://europa-eu-un.org/articles/en/article\\_1759\\_en.htm](http://europa-eu-un.org/articles/en/article_1759_en.htm) .

## 4. RTAs and Peace Building - The visionary ideal

The links between international trade and security have been recognized for centuries. As the French philosopher Montesquieu said in 1748; peace is a, “*natural effect of commerce*”.<sup>13</sup> The Italian economist Pareto argued in 1889 that customs unions could help to achieve peace between countries.

At the most basic level, equitable trade promotes prosperity and reduces poverty. But beyond that, free trade has also been seen as a vehicle to promote internationalism and end war. “*For the disbanding of great armies and the promotion of peace*” wrote John Blight, one of the leaders of the Anti-Corn Law League in 1840s’ Britain, “*I rely on the abolition of tariffs, on the brotherhood of the nations resulting from free trade in the products of industry*”.<sup>14</sup>

Recent empirical studies also seem to confirm the adage that countries that trade with each other (on equitable terms) are less likely to fight each other.<sup>15</sup> Trade can be a powerful driver of growth, reducing poverty and creating jobs. In theory at least, there are a number of ways that regional trade integration can support peace:

1. Given the relatively small size of many economies in the developing world, and their dependency on a handful of primary commodities, regional trade integration offers poorer countries mutual development gains through pooled resources, expanded markets, increased regional trade and investment, and greater economic diversification.
2. Economic integration makes conflicts more costly for individual states. Attacking a neighbouring economy becomes just as damaging as attacking one’s own.
3. Through interdependence, nations can use trade to access one another’s resources, instead of using violence to capture them.
4. Regional groupings such as MERCOSUR and SAARC can serve as aspirational clubs and can play a stabilizing role for countries on their borders.
5. Regional cooperation can help reduce the trade in small arms and conflict resources such as blood diamonds and illegal timber. In 1998, the Economic Community of West Africa States (ECOWAS) established the world’s first regional moratorium on small arms, banning imports of new weapons without approval from other member states.<sup>16</sup>
6. Regional Trade Agreements provide non-military ways to resolve disputes and promote understanding and dialogue between countries. Many such agreements have

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<sup>13</sup> Cited in Humphreys, *Economics and Violent Conflict*, p. 8, n. 71 from Brack, D. “*Trade, Aid and Security: Introduction, background and conceptual framework*”, IISD-IUCN, 2004, p. 10.

<sup>14</sup> Cited in J. L. Sturgis, *John Bright and the Empire* (1969) from Brack, *ibid*.

<sup>15</sup> Humphreys, *Economics and Violent Conflict*, p. 8 also Mansfield, 2003, p. 222.

<sup>16</sup> UNDP, “*Human Development Report 2005. International cooperation at a crossroads: Aid, trade and security in an unequal world*”, UNDP, 2005, p. 173

institutional dispute settlement mechanisms to mediate economic conflicts that have also been used for managing wider political disagreements.

Several economic and trading arrangements have been established with the explicit purpose of preventing conflict between or within states. For instance:

- MERCOSUR was originally established to reduce tensions between Argentina and Brazil. It also helped to avert a possible coup in Paraguay following reaffirmation by the presidents of the MERCOSUR member countries that democracy was a necessary condition for membership.<sup>17</sup>
- Concerns about the threat of the spread of fundamentalism motivated the governments of Egypt, Morocco and Tunisia to negotiate regional agreements with the EU.
- The Stability Pact for Southeastern Europe was initiated in 2000 to create a free trade area designed to promote economic recovery and integration in the war-devastated Balkan region.<sup>18</sup>
- In December 2004 Israel and Egypt signed a trade protocol with the US designed to accelerate the two countries' rapprochement. The deal creates five special zones where Egyptian goods will have free access to US markets, as long as 35 percent of the goods are the product of Israeli-Egyptian co-operation.<sup>19</sup>

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<sup>17</sup> <http://www.state.gov/r/pa/ei/bgn/1841.htm>

<sup>18</sup> Council on Hemispheric Affairs, Press release "*Argentina-Brazil Relations: Urgent Challenges come to the forefront*" 12 July 2005, (accessed 20<sup>th</sup> September) <http://www.coha.org>.

<sup>19</sup> BBC, "Egypt and Israel seal trade deal", <http://news.bbc.co.uk/1/hi/business/4095011.stm>.

## 5. RTAs and Good Governance

A notable trend in North-South trade agreements is the increasing inclusion of non-trade commitments as part of the agreement. Typically, these attempt to encourage various aspects of “good governance” such as the transparency and accountability of government, as well as respect for the rule of law and democratic principles.

The 2000 Cotonou Agreement between the EU and countries of the African Caribbean and Pacific (ACP) region is a case in point. It lists three so-called “essential elements” that should be respected: human rights, democracy and the rule of law. Contravention of any of these “essential elements” can lead to suspension of co-operation, including the cancellation of preferential access.<sup>20</sup>

Similar conditions are being negotiated as a part of the trade agreements that will succeed Cotonou when it expires in 2007. Known as Economic Partnership Agreements (EPAs), the EU is negotiating these trade agreements with regional blocs of ACP countries: a process that is itself designed to promote regional integration as different countries group themselves into negotiating blocs.

Former EU trade commissioner Pascal Lamy argued that trade agreements like the EPAs should contain even more extensive conditionality. He suggested that the agreements should allow the EU to ban any imports that do not meet the EU’s “collective preferences”. The term is deliberately broad and vague but would likely enable unilateral trade sanctions in cases of human rights abuse, poor governance or rigged elections.<sup>21</sup>

In essence, rich countries are using trade agreements as an inducement to extract largely unrelated governance concessions. That this is possible at all is indicative of their negotiating and trading power. South-South RTAs have not gone as far down this path, perhaps because negotiations tend to be less one-sided and focus on extracting trade concessions rather than other non-trade commitments.

That said, the trend of bundling governance conditions into trade agreements may be catching on. A handful of South-South RTAs do include such provisions. A table laying out the governance and security commitments in six current South-South RTAs is included as an annex to this paper (see Page 17).

The majority of these RTAs establish some degree of dispute resolution between signatories. However, ECOWAS and SADC go further: signatory countries agree to co-operate on specific security concerns and establish ways of mitigating conflict between members. The agreements even contain weak provisions on respect for democracy, human rights and the rule of law. The links between good governance and peace are well established. If South-South RTAs can encourage “good governance” this could add a new dimension to their role in building peace between and within countries.

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<sup>20</sup> ECDPM. 2001. *Cotonou Infokit: Essential and Fundamental Elements* (20). Maastricht: ECDPM.

<sup>21</sup> Euractiv “‘Collective preferences’ is an EU attempt to silence domestic critique: Vandana Shiva” (accessed 27<sup>th</sup> September 2005) <http://www.euractiv.com/Article?tcaturi=tcm:29-113110-16&type=News>

## 6. RTAs and Conflict - The occasional reality

Regional trade integration is progressing fast, propelled by a growing number of Regional Trade Agreements and the support of many OECD countries. For example, in December 2004, the members of MERCOSUR and the Andean Pact signed an agreement for closer economic and political integration – the South American Community of Nations – with an explicit nod to the trail-blazing role of the EU.<sup>22</sup>

But can we expect other regions to follow the same path toward economic integration and enhanced regional stability and security? The answer to this question is probably, no. There is no convincing reason why South-South RTAs should follow the same trajectory as the EU.

The first thing to note is that an RTA may not be much of a “brake” on conflict. Even when war is costly and the option of a negotiated bargain exists, rival states can nevertheless go to war, propelled by incentives to misrepresent or keep information private, commitment problems after a settlement, or indivisibility of issues.<sup>23</sup> Certainly, there are many examples of conflict between members of Regional Trade Agreements:

- Border clashes between Armenia and Azerbaijan – members of the Commonwealth of Independent States (CIS);
- The outbreak of war in the Great Lakes with foreign involvement in the Democratic Republic of Congo from Angola, Namibia, Rwanda, Uganda and Zimbabwe – all members of the common market for eastern and southern Africa (COMESA);
- The Iraqi invasion of Kuwait and violent border clashes between Egypt and Sudan – all members of the Council of Arab Economic Unity.

The EU emerged out of a unique set of circumstances; the devastation of the EU’s productive capacity after WWII and the determination of its political leaders to banish any chance of future war. Other regions may not be willing, or able, to pursue certain aspects of integration, such as opening labour markets and allowing the free movement of people across borders.

Perhaps most importantly, and in contrast to many other regional agreements, the EU has provided a means of redistributing income from rich to poor countries. This has proved to be an effective compensation mechanism for the losers of trade liberalization: facilitating economic integration, promoting partnership between countries, and preventing the marginalisation of certain groups and countries. Following the fall of the Iron Curtain, the EU concluded bilateral trade agreements with the Eastern European countries that helped stabilize them and prepared them for eventual inclusion as new member states.

So, while many liberal economists claim that regional trade agreements build stability and encourage peace, there is also a convincing case for the reverse; that regional trade

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<sup>22</sup> Euractiv “*First steps taken towards a South American EU*”, 8 December 2004.  
(<http://www.euractiv.com/Article?tcaturi=tcm:29-133262-16&type=News>)

<sup>23</sup> Fearon, 1995

agreements may even increase the chances for instability and conflict between and within countries.

## 6.1 Instability and Conflict Between Countries

There is no rule that says regional integration is an automatic force for mitigating tensions or conflict. Without careful negotiation and implementation, regional integration between countries of widely differing size, wealth and influence can cement inequalities, create tensions and trigger conflict. This is particularly likely if there is a lack of transparency, consultation and accountability in the negotiation of the agreement and its subsequent implementation.

Membership of a trade institution doesn't necessarily create bonds of trust. Trade ties can actually provoke hostilities between states: gains are rarely felt proportionally and large inequalities in the relative distribution of gains can shift the balance of interstate power.<sup>24</sup> There may also be tensions between members of the RTA and non-members who may find that trade diversion within the RTA results in lost markets. In a sense trade "gives people something to fight about".

Neither are trade institutions necessarily the best mechanism to mediate disputes – especially if those disputes have wider social and political dimensions. In addition, trade institutions are not usually designed to deal with militarized disputes. In conflict prone areas, international institutions built around trade agreements can have adverse effects on conflicts among member states by mismanaging crisis situations and worsening conflict intensity<sup>25</sup>, or producing rivalry among states due to their relative social positions.<sup>26</sup>

During the 1980s and 1990s the EU encouraged rapid regional integration and structural adjustment policies on Francophone West Africa. It urged the free movement of goods but not people and without providing for a redistributive wealth mechanism that would have helped smooth the adjustment costs of trade liberalization and integration. Some analysts argue that this uncompromising process, which drove up unemployment and undermined government social programs, explains much of the subsequent instability in Francophone West Africa.<sup>27</sup>

Finally, there is also a concern, though one without much empirical investigation, that trade integration, by reducing border controls and customs formalities, may help to facilitate the illegal trade in conflict resources such as blood diamonds and illegal timber. It may also increase access to weapons. After all trade agreements are about reducing barriers to trade: the increased trade that can result can be both legal and illegal.

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<sup>24</sup> Hirschman, 1945

<sup>25</sup> Gallarotti, 1991

<sup>26</sup> Hafner-Burton and Montgomery, 2005

<sup>27</sup> Interview by author in Oli Brown, *EU Trade Policy and Conflict*, International Alert & IISD, 2005, p. 13.

## 6.2 Instability and Conflict within Countries

Regional Trade Agreements typically involve concessions to greater liberalization. Trade liberalization can result in painful adjustment to new tariff barriers, new regulation and the influx of fierce new competition. Over the short term, trade liberalization can lead to industrial contraction, unemployment and social unrest. If new market opportunities fail to materialize, this can set a trend of increased poverty and economic instability over the long term.

In addition, trade liberalization creates winners and losers. The resulting increased wealth disparities can create tensions and lead to conflict. A reduced tax base as well as reduced receipts from duties on exports and imports can severely strain government revenues and undermine health and education spending. The costs of integration itself can be a further burden. In the case of the former East African Community, the establishment and cost of suitable organizations to oversee trade integration proved to be highly contentious both within and between countries.<sup>28</sup>

In general, if managed carelessly economic integration can be socially destabilizing, undermine established national policies and reduce state capacity to provide for poor and marginalized segments of the population. Such socio-cultural challenges of integration are one element in the Zapatista rebellion in Chiapas.

RTAs can help to reinforce both the perception and reality of trade dominance by an external power. Public perceptions of trade dominance can be a powerful force. Examples of such sentiment can be seen in the anti-globalization riots of Seattle and Genoa or in the way US headquartered franchises based in developing nations are treated during times of protest against US foreign policy. In extreme circumstances, such strong domestic opinion can undermine peaceful relations between countries.

Finally, RTAs can generate high expectations of increased economic growth, new job opportunities and reduced poverty. However, RTAs between countries that are reliant on the export of primary resources and that have relatively undiversified economies can fail to live up to their proponents' rhetoric.

Countries tend to exclude key goods from liberalization agreements. When those countries trade in a similar, and narrow, basket of goods the net economic impact of the RTA can be limited. For example, West Africa's reliance on cocoa and palm oil leaves little else to trade between countries. Consequently, mismanaged expectations coupled with the adjustment costs of joining an RTA can lead to the perception that governments have let their citizens down.

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<sup>28</sup> Wu, Jennifer Pedussel, "Trade Agreements as Self-Protection" Review of International Economics, 13 (3), 472-484, 2005, p. 476.



## 7. Conclusions

The rise and rise of the Regional Trade Agreement is an important development in the global economy that has significant implications for security between and within countries. RTAs are increasing both in number and in scope. A complex, overlapping web of trade agreements stretches around the world. There are now few countries that are not members of at least one RTA.<sup>29</sup>

The received wisdom is that regional trade integration can be a powerful force for peace. Building interdependence between countries, creating economic incentives for peace and developing non-military means for resolving disputes are all goals of the advocates of trade integration. Using trade as the cement, regional trade agreements should help to bind countries' interests into a shared future.

However, in light of recent experience, this assumption requires close analysis. RTAs vary tremendously and their impact on peace between and within signatory countries depends on a number of domestic and regional factors. The many conflicts between member countries of RTAs imply that regional trade integration is not an automatic brake on conflict. Moreover, trade integration can actually create tensions and trigger conflict. Entering an RTA can trigger painful adjustment costs, social dislocation and widening wealth inequalities. RTAs can be divisive and exclusive. Negotiations can embed power disparities and undermine interstate relations. Finally, trade diversion and exclusion can create tensions between members and non-members of trade agreements.

That said isolation can be dangerous too. A study by the US State Failure task force found that the likelihood of state failure is affected by international influences, particularly the openness to international trade and membership of international organizations. Those countries outside regional integration processes, or with no obvious regional "club" to join, such as Taliban Afghanistan, Myanmar or Belarus, are arguably more likely to suffer state failure and further isolation.<sup>30</sup>

Isolation is not the best option. But the uncritical rush to regional integration that is being pushed by many OECD countries is also dangerous. Experience shows that regional integration is no panacea for regional conflict. Without careful assessment of the political context of would-be signatories and an understanding of the policies that are necessary for integration to work; RTAs are at best ineffective and, at worst, create new reasons to fight.

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<sup>29</sup> Only one member of the WTO, Mongolia, is not a member of an RTA

<sup>30</sup> Goldstein et al., "*State failure task force: phase three finding*" 2000 See <http://www.cidcm.umd.edu/inscr/stfail/SFTF%20Phase%20III%20Report%20Final.pdf>.

# Annex: Good Governance conditionality in South-South RTAs

Agreements	NON-TRADE CONCERNS														Dispute Settlement				
	Security clauses	General security exception	Cooperation on specific security concern	Conflict mitigation/resolution within member states	Coordination of stance on international issues	Civil society involvement	Social/cultural aspects	Transparency	Democracy	Governance	Respect for rule of law	Human Rights	Gender issues	Property Rights	Anti-corruption	Consultation	Arbitration	Decision by established body	Others
<b>NORTH-SOUTH AGREEMENTS (MODEL AGREEMENTS)</b>																			
Association Agreement between EU and Chile	O		●	X	O	●	●	●	●	X	O	O	X	X	X	●	●	X	X
COTONOU Agreement	X		●	●	●	O	O	●	●	●	●	O	O	O	O	O	●	●	X
<b>SOUTH-SOUTH AGREEMENTS (BY REGION)</b>																			
<b>North and South</b>																			
<b>America</b>																			
Caribbean Community and Common Market (CARICOM)	O	X		X	O	O	X	X	X	X	X	X	X	●	X	●	●	X	●
Common Market Between Argentina, Brazil, Paraguay, and Uruguay (MERCOSUR)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	●	X	●	X
Economic Community of West African States (ECOWAS)	X	●		●	X	X	X	O	X	X	O	O	O	X	X	●	●	●	X
Southern African Development Community (SADC)	O	●		●	X	●	X	O	X	X	O	X	X	X	X	X	O	X	X
<b>Asia</b>																			
South Asia Free Trade Agreement (SAFTA)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	●	X	●	X
SAARC Preferential Trading Arrangement (SAFTA)	X	X		X	X	X	X	X	X	X	X	X	X	X	X	●	X	●	X
<b>Legend</b>																			
● Mentioned in sufficient detail to be implemented under the agreement																			
O Mentioned in agreement but with minor detail; No implementation procedure provided																			
X Not mentioned in agreement																			

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