# Assessing the Impact of Regional Integration:

## Do regional trade institutions shape trade patterns?

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**Abstract:** Economic interdependence plays a major role in most theories of regional integration: As precondition, and as outcome of regional integration. For Europe, the nexus between interdependence and integration is almost taken as given. However, for other integration projects, empirical analyses are scarce. The paper analyzes the relation between regional integration institutions and economic interdependence applying diachronic network analysis to five regional integration projects: the EC/EU, NAFTA, MERCOSUR, ASEAN and SADC. The development of economic interdependence patterns is compared to elucidate the impact of regional integration on interdependence. The main result is that regional integration projects comprising countries of the North exhibit a significant amount of interregional interdependence. Regional integration projects of the South are much more oriented towards partners in the North. Interregional interdependence in the South emerges only very seldom, and is very susceptible to external shocks. Thus, to account for regional integration projects in the South, one should study their effect on interregionalism, i.e. their relationships to external partners in the Northern hemisphere.

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## 1. Introduction

Since the early 1990s, the number of regional integration organizations has increased considerably. The Common Market of the South (MERCOSUR) was founded in 1991, the Association of Southeast-Asian Nations (ASEAN) and the Southern African Development Community (SADC) were reanimated in 1991 and 1992, and the North American Free Trade Agreement (NAFTA) was signed in 1994. At the same time, European integration proceeded with the establishment of a common market and a monetary union (Moravcsik, 1998). Thus, regional integration has reemerged as an important topic of study in international relations, after it was already declared obsolete in the 1970s (Haas, 1976). The "new regionalism" literature (Mansfield & Milner, 1999; Breslin *et al.*, 2002; Schirm, 2002; Preuße, 2004) argues that regionalism will become a distinguishing feature of the global economy, and that regional integration is an instrument for both industrialized and developing regions to meet the challenges of globalization. However, an open question is whether regional trade institutions had an impact on the structure of world trade.

A major theoretical tenet of regional integration literature, new and old alike, is that economic interdependence lies at the heart of integration dynamics. According to classic and modern trade theory (Ricardo, 1821; Krugman, 1980; Heckscher *et al.*, 1991), international trade – and thus also regional trade – is welfare-increasing, because it allows to exploit comparative cost advantages and economies of scale (Mattli, 1999b). The potential to exploit these advantages creates demands for regional integration, which can be either directed towards national governments (Moravcsik, 1998), or towards supranational institutions (Haas, 1958; Stone Sweet & Sandholtz, 1997). If these demands are met, economic interdependence increases, which may lead to even more demands for regional trade liberalization.

However, the potential for regional trade and economic interdependence is by far not equal in different world regions. Less developed regions of the Southern hemisphere have less potential to exploit comparative cost advantages and economies of scale than industrialized regions of the North. Southern countries often depend on the export of primary products to industrialized countries. Additionally, their markets are small, which reduces the potential for economies of scale. As a result, classical theories face difficulties in dealing with the new regionalism in the Southern hemisphere. They predict only limited success for Southern regional integration projects (Mattli, 1999b), and cannot explain the current popularity of regional integration among less developed countries.

Nevertheless, regional integration may be beneficial for less developed countries, if it is embedded in an export-based development strategy. Unlike the old regionalism of the 1960s and 1970s, the new regionalism of the 1990s does not advocate a development strategy of import substitution (Baer, 1972). Instead, it proposes an opening of the regions' markets (Elek, 1992; Frankel & Wei, 1998). Accordingly, regional integration may help less developed regions to become more attractive for foreign direct investment, as regional markets provide more potential for economies of scale (Krugman, 1991; Bende-Nabende, 2002; Jaumotte, 2004; Büthe & Milner, 2008). Additionally, integrated regions may act as more powerful players in global and interregional trade negotiations (Hänggi, 2003; Mansfield & Reinhardt, 2003), which may facilitate their access to other regions' markets.

However, an export-based development strategy does not cause increasing economic interdependence in the short-run. Its success depends on the inflow of foreign direct investments and the exports to other world regions. Thus, *inter*regional and not *intra*regional interdependence should be increasing in the short. Only if an open regionalism strategy is successful in the long-run – i.e. if foreign direct investments and exports are increasing – economic interdependence in the regions may emerge as a result of economic development.

In order to analyze the impact of regional integration, the following paper conducts a diachronic network analysis of trade flows in the ASEAN, EC/EU, MERCOSUR, NAFTA and SADC. Network analyses have only seldom been used in International Relations (Knoke & Burmeister-May, 1990; Hafner-Burton *et al.*, 2009; Maoz, 2009), although their epistemological underpinnings provide an excellent match for many theories of International Relations and International Political Economy.[1] The advantages of a network perspective are manifold. Network analysis allows to elucidate the magnitude and scope of interdependence and communicate the results in a convenient way (Brandes *et al.*, 1999), without conflating the complexity of these interdependence relations in an unduly manner. Additionally, network analysis emphasizes how interactions between actors generate relatively durable structures

[1] Network *metaphors* are very often used in different subfields of international relations (Börzel, 1997; Keck & Sikkink, 1998; Krapohl, 2008). However, the use of network metaphors is too seldon accompanied by the use of network *methods and theory* (Christopoulos, 2008).

that in turn constrain the actors choices (Hafner-Burton et al., 2009), and in this way complements existing approaches that mostly neglect these emergent structures.

The main result of the diachronic network analyses is that – taking into account all regional specifities – a bifurcated pattern emerges. Regional integration projects comprising two or more countries from the North exhibit a significant amount of interregional interdependence from their beginnings, and this interdependence increases over time. Regional integration projects of the South are more oriented towards partners in the North. Intraregional interdependence in the South emerges only very seldom, and is very fragile to external shocks. Thus, to elucidate the rationale behind regional integration projects of the South, one should primarily look for their effect on *interregionalism*, not their effect on *intraregional* interdependence.

The paper is structrured as follows. The second part gives an overview of the theoretical debate and argues that questions of economic interdependence lie at the heart of integration theories. The third part argues that network analysis is – from ontological, epistemological and methodological viewpoints – the most appropriate approach to research economic interdependence. The fourth section comprises an extensive analysis of the trade networks in five regional integration projects. The last section concludes.

## 2. Regional Integration and Economic Interdependence

### 2.1 Classical Theories of Regional Integration

It is a cornerstone of economic theorizing that international – and thus also regional – trade is welfare increasing. This idea goes back to the work of Ricardo (1821), who postulated that trade is welfare increasing, because trading partners can concentrate on producing goods for which they have a comparative cost advantage. Later, these static effect of international trade has been complemented by modern trade theory, which stresses the importance of economies of scale and the resulting dynamic effects of trade liberalization on economic welfare (Krugman, 1980). Thus, in a world of relatively closed economies, regional trade liberalization leads to welfare gains for the participating economies – even if global trade liberalization would be preferred by economic orthodoxy. However, the positive effects of regional integration only occur if they lead to a net liberalization of trade. If customs unions cause higher barriers against trade, trade diversion prevails over trade creation and the welfare effects of regional integration are negative (Viner, 1951).

Despite the long-standing debate between neofunctionalism (Pierson, 1996; Stone Sweet & Sandholtz, 1997) and intergouvernementalism (Moravcsik, 1998), all theories of European integration rely implicitly on this economic rationale of comparative cost advantages and economies of scale. If trade is liberalized, intraregional trade flows and thus economic interdependence increase. Intraregional interdependence is a necessary precondition for both neofunctionalist and intergouvernementalist reasoning on integration. On the one hand, neofunctionalism stresses the concept of spill-over (Haas, 1958; Stone Sweet & Sandholtz, 1997). Integration in one policy field leads to frictions in other policy fields, which need to be addressed by further integration, and a self-reinforcing dynamic emerges. For example, the creation of the Single Market can be explained as a spill-over dynamic (Krapohl, 2008). However, the precondition for spill-over is economic interdependence. If trade in the European Single Market were low, there would be no need for supranational regulation. Thus, without economic interdependence in the region, neofunctionalism loses its motor of political integration. On the other hand, the concept of asymmetric economic interdependence between the EU member states lies at the heart of liberal intergouvernementalism. According to Moravcsik (1998), the member states of the EU mainly cooperate for economic reasons. The result of cooperation is determined by asymmetric interdependence between the member states. Thus, if there were no intraregional trade and no economic interdependence within Europe, liberal intergouvermentalism would conclude that the member states would see no need for regional integration.

Thus, despite the fact that European integration theories fundamentally disagree about the importance of supranational institutions for the *supply* of regional integration, they implicitly share the assumption that economic interdependence determines the *demand* for regional integration.

However, traditional integration theories suffer from 'Eurocentrism' and cannot uncritically be applied to other world regions (Söderbaum, 2008). The potential for regional economic interdependence is by far not equal around the globe. In this respect, the EU profits from the highly developed economies of its member states. As a result of high economic development, the European economies constitute attractive markets for each other. Member states' exports are diversified enough to exploit comparative cost advantages, and the Single Market is big enough to generate significant economies of scale. However, these preconditions only apply to highly developed world regions – i.e. to Europe and North America. In less developed regions, the potential for comparative cost advantages and economies of scale is much lower. To a large degree, less developed countries export primary products to more industrialized countries in other world regions. Additionally, their markets are relatively small, which reduces the potential for economies of scale. Consequently, Mattli (1999a) concludes that regional integration should only be successful in the industrialized regions Europe and North America, whereas regional integration projects elsewhere are deemed to fail.

### 2.2 Open Regionalism as a Development Strategy

Despite the insistence of classic theories on intraregional interdependence as a driver of integration, regional integration in the South is a significant phenomenon. One reason for this might be a change in the dominant development paradigm. In the 1960 and 1970s, the 'old regionalism' often advocated the development strategy of import substitution (Baer, 1972). Accordingly, regional integration was used by developing countries to generate well-protected regional markets, in which self-contained industrialization and economic development should emerge. However, the participating economies were not able to generate competitive industries behind tariff walls. After this failure became evident in the 1980s (Bruton, 1998), the 'new regionalism' of the 1990s follows a more open and export oriented strategy. Although regional integration still aims to create larger markets among developing countries, these markets are no longer shielded that much against the global economy (Frankel & Wei, 1998).

According to open regionalism, regional integration allows developing countries to become more attractive locations of production (Schirm, 2002) and more powerful actors in trade negotiations (Mansfield & Reinhardt, 2003). Thereby, it may help them to attract foreign direct investment and to achieve market access to other world regions. First, in respect to foreign direct investment, regional integration may lead to increased political and economic stability. This, in turn, reduces the risk for investors. If countries of a region integrate to a security community (Adler, 2000), political and military conflicts become less likely to liquidate investment. If the member states of a regional integration organization cooperate in monetary issues, rapid changes of exchange rates are less likely to reduce the payoffs of investment (Dieter & Higgott, 2003; Fritz & Mühlich, 2006). Second, regional integration may abolish barriers to trade within the region, which improves the potential for economies of scale and attracts market-seeking investment (Bende-Nabende, 2002; Schirm, 2002; Jaumotte, 2004; Büthe & Milner, 2008).[2] Thus, if regional integration results in a free trade area or a customs union, goods produced in one member state may be sold in another member state without paying tariffs at national borders. If the member states of a regional integration project invest in common infrastructure, transport costs – which can be regarded as non-tariff trade barriers – are reduced (Ndulu, 2006). Finally, in respect to market access, regional integration allows the respective member states to become more powerful in trade negotiations with other countries or world regions. Trade negotiations may take place in a multilateral, interregional or bilateral setting, e.g. within the World Trade Organization (Mansfield & Reinhardt, 2003), with other regional integration projects like the EU (Aggarwal & Fogarty, 2004; Ramesh & van Langenhove, 2006), or directly with other countries like the USA or China. If the member states of a regional integration organization manage to speak with one voice in these trade negotiations, they may be able to exploit politics of scale and to achieve better trade conditions than if each country negotiated on its own.

For the analysis of trade patterns, it is important to note that such a strategy of open regionalism in developing countries should only indirectly cause increasing economic interdependence in the regions. In the short-run, the regions attract more foreign direct investment from other world regions and, in return, export more goods to other regions' markets. Thus, the direct effect of regional integration is growth of interregional foreign direct investment and trade. Intraregional economic interdependence may only emerge in the long-run, if the export-based development strategy is successful – a result, for which regional integration is likely to be supportive, but not necessary or sufficient. In these cases, the structure of production within the developing regions should diversify as a result of foreign direct investment and market size should grow as a result of increasing incomes. If such a development takes place, intraregional trade becomes more attractive and economic interdependence increases, as the potential for comparative cost advantages and economies of scale grows.

[2] This argument only applies to market-seeking investment, i.e. investment in production which aims to supply the regional market. Investment in order to exploit cheap production factors like labor and raw materials is not affected by market size (Dunning, 1988).

Thus, the hypothesis to test empirically is that regional integration in the South should cause increased trade with regions of the North, but not necessarily be followed immediately by increased intraregional interdependence. We expect the Southern regions to follow a development path that is different from that of the EC/EU. That is, not only should the *static* economic interdependence structures be different in the Southern regions (more outward-oriented), but in the short run, the *development patterns over time* should be self-reinforcing. An increasing intraregional interdependence in the South is unlikely in the short run, as the development strategy of open regionalism should only in the long run lead to intraregional trade flows.

## 3. Research Design and Methods

### 3.1 Cases and Data

To analyze the hypothesis put forth in the theoretical section, this paper compares intraregional and interregional interdependence patterns of five regional integration projects (the European Community EC; the North American Free Trade Agreement, NAFTA; the Common Market of the South, MERCOSUR; the Association of Southeast Asian Nations, ASEAN; and the Southern African Development Community, SADC). To provide a common ground for comparison, the paper analyzes the integration projects – given data availability – in the year of the founding, three years after, at the beginning of the millenium, and in 2008. For the most projects, this means one time point at the beginning of the 1990s, mid-1990s, about 2000, and 2008. Thus, we study four time points for each project. As the European Community is the implicit reference point for most theories of regional integration, the “early” European Community is used as a comparison case, with the development in 1962, 1970, and around the time of the Single European Act as time points. Thus, our research design encompasses a within-time and a between-cases dimension of comparison.

Concerning the operationalisation of economic interdependence, we use data about international trade flows. These data have at least two advantages in comparison to other measurements like intraregional and interregional flows of foreign direct investments. First, the available trade data are more comprehensive than the data on foreign direct investments, as the former include information about the origins and addressees of goods, whereas investment data are only available in a highly aggregated manner.[3] Second, trade data should also reflect with some time lag the developments of other important indicators. If foreign direct investment increases within a region, this should either lead to more intraregional trade, if investments are market driven, or to more interregional trade, if investments are driven by the search for cheap labour or natural resources. The source for trade data are the UN ComTrade (Feenstra *et al.*, 2005).[4] Following the approach of Feenstra et al. (2005), we rely on the reports of importers to assess the quantity of trade flows (measured in US$, adjusted for inflation). As some countries are poor reporters, we use reports by exporters to fill gaps in the data set. For each regional integration project, we gathered data on trade between the members of the project (intraregional trade), and trade between the members of the project and the three most important extraregional trade partners of the region (interregional trade).[5]

### 3.2 Network Visualization

As the argument made in the theoretical section is basically a relational argument, the empirical analysis is based on relational methods, namely network analysis and network visualization (Brandes et al., 1999). Network methods have been used primarily in policy analysis (Kenis & Schneider, 1991; Serdült & Hirschi, 2004; Ingold, 2007; Grote *et al.*, 2008), the study of interest intermediation, social movements and collective action (Diani & McAdam, 2003; Beyers & Kerremans, 2004; Parau, 2009), or political communication (Caiani & Wagemann, 2009). However, in international relations, the potential of network analysis has not yet been used to the full extent. Apart from some applications in the 'dependencia' or 'world system' school (Snyder & Kick, 1978; van Rossem, 1996), international relations scholars have only seldom used network methods and reasoning. This is surprising, as interdependence – a key concept of international relations – is also the cornerstone of network analysis. Additionally, the basic logic of network analysis is independent of the character of the units, be they individuals, organizations, or states. Network theories tend to work

[3] See for example the data base on foreign direct investment from the United Nations Trade and Development Conference: http://stats.unctad.org/fdi/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en.
[4] http://comtrade.un.org
[5] Thus, the paper does not rely on simple indicators like the ratio of intraregional versus extraregional trade flows – attributional data which are often criticized in the literature (Frankel, 1997; Lombaerde *et al.*, 2009), and which do not fully reflect the concept of interdependence.

relatively well on different levels of analysis (Marsden & Podolny, 1990, 438; Borgatti & Foster, 2003, 1001), and nothing in the logic of network analysis precludes its use on states as units. Thus, on the methodological side, this paper is an attempt to demonstrate the usefulness of network analysis for international relations.

We use visone[6] to visualize the trade networks. In order to ensure a structured and focused comparison, all network graphs contain the same information (see Figure 1).[7] For each member state of the respective regional integration project, we plotted the network connections to their three most important export partners.[8] Thus, the networks reflect the relations between the respective states to their most important partners, as it figures in the calculations of policymakers.[9] The width of the network ties reflects the intensity of the trade relations. The arrows indicating intra-regional trade are depicted using black lines, whereas extra-regional trade is depicted using grey lines. Member states of the respective regional integration project are depicted in dark blue, whereas external partners appear in light blue. The relative position of countries as importers or exporters can be elucidated from the shape of their node symbols – the width of the node reflects the amount of exports (outdegree), whereas the height of the nodes reflects the amount of imports (indegree) (following Thurner and Binder (2009)).

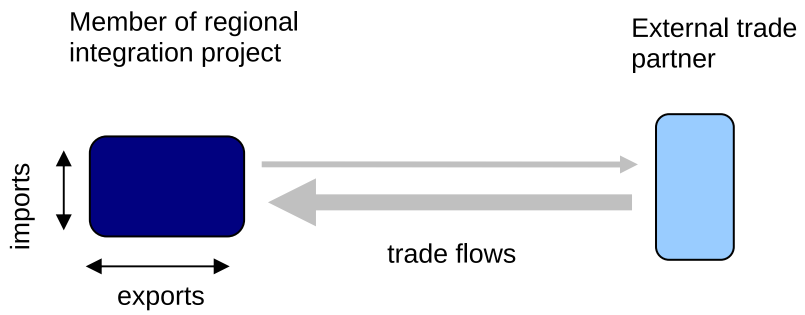


Figure 1: Interpretation scheme for the network graphs

[6] www.visone.info

[7] Note that to ensure proportionality of the network graphs, the different network graphs of a region are technically part of *one* network plot depicting the evolution of the network. For example, we do not have four different networks for the ASEAN with the node "Cambodia" in four networks, but *one* large networks with nodes denoted Cambodia1992, Cambodia1995, and so on.

[8] In the case of ASEAN, we aggregated China, Japan and Korea as ChJpKor, because China, Japan, and Korea are part of the ASEAN+3 process (Stubbs, 2002; Hund, 2003).

[9] Trade between the external partners was omitted, because of visualization reasons, and because trade between external partners does not pertain to the theoretical argument.

The theoretical argument suggests that the five regional integration projects should exhibit significant differences in the relations between intraregional and interregional trade flows. Regional integration projects of the South should not be able to generate a large amount of intraregional interdependence, while regional integration projects of the North should be driven by intraregional interdependence. Additionally, these differences should be stable at least in the short run.

## 4. Regional Trade Networks around the World

### 4.1 The European Community

The European Community (EC) was founded with the Treaties of Rome in 1957. Thus, it does not belong to the generation of the new regionalism. Nevertheless, the EC is often used as a baseline example of regional integration, and it is likely to have influenced the foundation of regional organizations elsewhere (Börzel & Risse, 2009). In order to allow a fruitful comparison of the EC with other regional integration projects, the trade patterns of the "early" EC (Armstrong *et al.*, 1996, 138-164 ; Dinan, 2005) – 1962, 1970 and around the time of the Single European Act – will be studied.[10] During this time, the EC developed from a customs union with six member states into a common market with twelve member states. This choice of time period establishes a baseline, against which the development of the other integration projects can be evaluated, given that these other integration projects do not have a history as long as the EC.[11]

The development of trade in the EC clearly demonstrates that economic interdependence between the member states has existed from the beginning of European integration. Despite the empty chair crisis and the following Eurosclerosis (Armstrong et al., 1996; Dinan, 2005), a viable internal market existed already in the 1960s and 1970s. Most trade relations between the original EC-6 members were symmetric, i.e. the European countries were mutually important trade partners. Primarily the tandem Germany-France already had a large amount of bilateral trade, but the smaller members were also fully integrated in the European trade network. In

[10] Of course, it would be desirable to use trade data of the original EC members *before* the founding of the EC, e.g., in 1954. However, valid and comparable data are not available.
[11] Put another way, the first 30 years of European Community are compared against the first 20 years of the other projects.

comparison, trade with external partners was less important (Figure 2 and Figure 3). This already-existing interdependence grew considerably with the years. After the accession of the United Kingdom (UK), the tandem Germany-France developed into a strong trade triangle including the new member state in the 1980s (Figure 4 and Figure 5). The other original member states – the Benelux countries and Italy – were also closely integrated in the intra-European trade network, whereas the smaller new member states Denmark, Greece, Ireland, Portugal and Spain established a new rim of periphery around the old “core”. Overall, increasing intraregional connections dominate the picture from the 1960s to the 1980s.

Thus, the trade patterns of the EC from the 1960s to the 1980s clearly support traditional European integration theories. The economies of the EC member states were highly industrialized. Accordingly, they were able to exploit comparative cost advantages and economies of scale. Potential economic interdependence led to trade liberalization, which in turn led to increasing interdependence, and a self-reinforcing dynamic ensued. Political integration – i.e. the establishment of regional institutions – was on the one hand a reaction to interdependence and on the other hand a catalyst for further integration. This finding is consistent with both neofunctionalism and liberal intergovernmentalism. It makes no claims about the way in which economic demand for regional integration is met. Regional integration could have been supplied by either supranational institutions or intergovernmental negotiations, but the precondition for both is economic interdependence in the region.

### 4.2 The North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA) was founded in 1994. Until now, it has not been subject to fundamental reforms. Thus, the time points to study are 1994 and 1997. Additionally, 2002 and 2008 are taken into consideration in order to get a view on more recent developments in trade between Canada, Mexico and the USA. In comparison to the EC, NAFTA is only a free trade area and does not aim to integrate further (Hufbauer & Schott, 1993, 2005). NAFTA consists of three member states, from which one, namely Mexico, is an emerging market, and the other two are highly industrialized countries. Nevertheless, this combination of a low-wage country and two highly developed markets suggests a considerable potential for economic interdependence, because it allows the member states to concentrate either on capital intensive (Canada, USA) or on labor intensive (Mexico) production (Chase, 2003).

Despite all differences, North-American trade developed in a similar way as European trade. Due to the preceding Canada-United States Free Trade Agreement, Canada and the USA already had a high bilateral trade volume when NAFTA was founded (Figure 6). In the following years, NAFTA had a considerable impact on the integration of Mexico in North American trade. Whereas Mexican trade with Canada and the USA was negligible in 1994, it grew considerably from 1997 to 2002 and 2008 (Figure 7, Figure 8, Figure 9). Even the Mexican peso crisis in 1994/95 could not impede this development – presumably as a result of US support for its new NAFTA partner (Calvo & Mendoza, 1996). As a result, intraregional trade is relatively high in the NAFTA zone – despite the fact that the agreement has only three member states and that trade between these three states is highly asymmetric, with the USA as the economic giant of the region. In comparison, extraregional trade – especially trade of Canada and Mexico with the EU, China and Japan – is modest. Although trade between the EU and the USA is considerable and increasing, it grew less from 1994 to 2008 than trade between Canada, Mexico and the USA.

Thus, North American trade patterns from 1994 to 2008 follow the logic of economic trade theory and traditional integration theories. In the NAFTA case, regional institutions – i.e. the free trade agreement – are a reaction to potential economic gains, and they led to increasing intraregional trade and economic interdependence. It is important to note that this development occurred despite the fact that NAFTA's integration is much weaker than that of the EC. As a free trade area, NAFTA only reflects a low level of integration, but economic actors nevertheless reacted to these modest incentives. The comparative cost advantages and economies of scale, which could be exploited by production in Mexico and the supply of the North American market, were already present at the outset of the project. The lowering of tariffs at the North American borders allowed to exploit these economic advantages, and led to a significant increase of trade.

### 4.3 The Common Market of the South

The Mercado Común del Sur (MERCOSUR) was founded in 1991 by the Treaty of Asunción, which was amended in 1994 by the Protocol of Ouro Preto and in 2002 by the Protocol of Olivos (Roett, 1999; Estevadeordal *et al.*, 2001). Thus, the time points to study are 1991, 1994, 2002, and 2008; additionally, 1997 is considered to account for the “golden age of MERCOSUR” and obtain a more nuanced picture of the development. Its member states Argentina, Brazil, Paraguay and Uruguay[12] are all developing and emerging countries. Paraguay is the poorest member state, Brazil the wealthiest and economically by far most powerful member. Soon after its establishment, MERCOSUR already had established an (incomplete) customs union, which makes it the most advanced regional integration organization on the Southern hemisphere. Consequently, commentators expected that MERCOSUR could become a model for regional integration in the Southern hemisphere (Vaillant, 2005).

Concerning its trade patterns, one can distinguish three periods of MERCOSUR’s development. From its foundation in the early 1990s to the end of the 1990s, MERCOSUR was a surprising success of South-South trade creation (Figure 10, Figure 11, Figure 12). Whereas the early MERCOSUR was clearly dominated by Brazil´s trading power and Brazil´s external trade relations, the “Golden Age of MERCOSUR” denoted a major surge in regional trade activity (Estevadeordal et al., 2001; Preuße, 2004). From 1991 to 1997, the external trade of Brazil increased, but so did the internal connections to Argentina, Uruguay, and Paraguay. This development may also be seen in the trade relations of the smaller states in the region. While in 1991, two of three of Uruguay and Paraguay´s most important export partners were *outside* the region, in 1997, the picture is reversed. Two of three of Uruguay’s and Paraguay´s most important partners were *inside* MERCOSUR Figure 10 and Figure 12). However, with the major economic crises of Brazil in 1998/99 and Argentina in 1999-2002 (Feldstein, 2002; Ferreira & Tullio, 2002), this first successful period ended. The growth of Argentina declined, and, instead of developing into a major trade partner of Brazil, the country fell back to pre-MERCOSUR trade levels (Figure 13). The Argentinean economy as the second half of the South American tandem broke away for a long time. The roughly symmetrical interdependence pattern between Brazil and Argentina is only one-legged now, as Argentina is no longer a major export partner of Brazil. After the crisis, the regional interdependence pattern that had developed in the 1990s is gone (Figure 13). The regional network has thinned out considerably, and external trade relations dominate the pattern. Brazil has emerged from the crisis as the regional winner: Its exports to external partners have increased, making Brazil the dominant power of the region (Dinkel &

[12] Venezuela has signed an accession treaty in 2006, but this has not yet been ratified by the Paraguayan and Brazilian parliaments.

Fink, 2010) (Figure 14). Contrary to Lula´s rhetoric that stresses the independence of Brazil from the North, Brazil is closely interdependent with the EU, the USA, and China. The other MERCOSUR member states did not profit from this export boom, because MERCOSUR has not been able to use its bargaining power to conclude the negotiations about an EU-MERCOSUR trade agreement (Santander, 2002; Doctor, 2007) or the Free Trade Area of the Americas (Bruner, 2002; Fishlow, 2004; Schott, 2008) at favorable terms.

To sum up, MERCOSUR is the only example of South-South cooperation that at least for some time exhibits genuine intraregional trade interdependence. The 1990s saw the development of a trade pattern that resembled the early EC and NAFTA. At this time, intraregional trade grew faster than extraregional trade, even if the latter was still more important in volume. This indicates that there was a potential for comparative cost advantages and economies of scale in the region. However, with the Argentinean crisis, this development has been reversed due to the economic collapse of one part of the MERCOSUR motor. From the late 1990s onwards, the trade pattern of MERCOSUR seems to confirm sceptics of South-South integration. Regional trade has declined. Instead, the relations to external partners have become more important. Particularly Brazil profits from the export boom, and has become one of the world's most important emerging exporters, whereas its intraregional relationships became much less relevant. The increase of extraregional exports of the smaller MERCOSUR member states has been much lower, because MERCOSUR has not yet concluded preferential trade agreements with its most important trading partners.

### 4.4 The Association of Southeast Asian Nations

The original ASEAN (Association of Southeast Asian Nations) was founded in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand as a security community. However, for the purpose of our argument, the decisive integration step is not the original ASEAN, but the Asian Free Trade Area (AFTA) – a common preferential tariff scheme to promote the free flow of goods within ASEAN – which was signed in 1992. Thus, the time points considered are 1992, 1995, 2003, and 2008. Since the beginning of AFTA, membership has expanded to include Brunei, Myanmar, Cambodia, Laos, and Vietnam (Tay, 2000; Fukase, 2003). Thus, the ASEAN now includes ten member states ranging from the poorer countries on the mainland, to the Asian tigers Indonesia, Malaysia, the Philippines, Thailand and Singapore.

In the early years of the AFTA, the internal trade networks were very thin (Figure 15). Trade in the region concentrated on the tandem Singapore-Malaysia, and on Thailand as the import hub for mainland Southeast Asia (Vietnam, Cambodia, Laos and Myanmar). The central role of Singapore at this time was mainly due to the fact that Singapore is de facto a 0% tariff zone, with 99% of goods entering duty-free, and leaving Singapore without export duties (Tay, 2001). For many countries in the region, external trade was considerably more important than trade within the region. For example, the Philippines and Indonesia had none of their three most important export partners within the ASEAN, but traded extensively with the EU, the USA, China, Japan and Korea. When intraregional and extraregional trade increased up to 1995 (Figure 16), the existing interdependence patterns were reinforced. Trade between Malaysia and Singapore became more important, but the main driver of growth was still the extraregional trade with the US, China, Japan and Korea. In 1997/98, the region was hit by the Asian crisis (Rüland, 2000). The ensuing stagnation in trade can still be seen in the ASEAN trade pattern in 2003 (Figure 17), which looks similar like that of 1995. This similarity is even more striking, if the high Asian growth rates of the early 1990s are taken into account. The trade pattern of 2008 shows that economic recovery from the Asian crisis was driven by extraregional trade with China, Japan and Korea (Figure 18). This export-based development was supported by the establishment of free trade agreements between the ASEAN and Korea (in 2006), Japan (in 2008) and China (in 2010) (Obermeier, 2009). Parallel to this export boom, intraregional trade within the ASEAN grew only modestly, and trade networks within the region remained very thin. The only major trade relations in the region are between Singapore and Malaysia, and Singapore and Indonesia. Singapore keeps its privileged position and is the main beneficiary of the new role of Southeast Asia in world trade, as Singapore is the major trade hub for the region. Growth in countries like Vietnam or the Philippines is still mainly driven by trade with external partners, most importantly China, Japan and Korea.

Consequently, ASEAN is a good example for a successful export-based development strategy. Although its member states integrated their economies to a free trade area, their major economic partners are outside the regional integration organization. As a result, intraregional trade grew only modestly from 19992 to 2003, with free-trading Singapore as the economic winner. However, the ASEAN member states successfully used their concentrated bargaining power to improve their standing in the global economic system. Most notably, they concluded free trade agreements with their three most important trade partners in East Asia. These external relationships are extremely important for the region, so that observers already regard the ASEAN+3 as a more successful integration project than ASEAN itself (Stubbs, 2002; Nabers, 2005) – regardless of the fact that ASEAN+3 cannot work without a well-functioning ASEAN (Obermeier, 2009). As a result, Indonesia, Malaysia, the Philippines, Thailand, Singapore and Vietnam increased their extraregional export volume considerably in the first decade of the new millennium. In the meantime, we can already observe that ASEAN's export-based development spills over into the region with intraregional trade growing slightly from 2003 to 2008.

### 4.5 The Southern African Development Community

The Southern African Development Community (SADC) was founded in 1992 as a successor of the Southern African Development Coordination Conference. It currently consists of 15 member states, most of which are least developed or developing countries, some with extremely low incomes (e.g. 140$ per capita/year in the Democratic Republic of the Congo in 2007). The Republic of South Africa is the economic hegemon of the region and produced roughly to thirds of the regions gross domestic product in 2007 (Krapohl & Muntschick, 2008). SADC began the formation of a free trade area in 2000, which was implemented in 2008 without participation of Angola and the Democratic Republic of the Congo. Data from 2008 is not yet available, therefore we choose 1992, 1995, 2001 and 2007 to analyze the influence of regional institutions on trade patterns in Southern Africa.

In 1992, South Africa was not yet member of the SADC. However, the network graph already shows the enormous importance of South Africa for the region (Figure 19). Regional trade was either focused on South Africa, or on external partners (as e.g. is the case with Angola or the Congo). Only South Africa and Zimbabwe exhibit considerable amounts of mutual trade. The EU was by far the most important extraregional trade partner, followed by the USA. This pattern did not change considerably with the accession of South Africa. In 1995, the regional network was still extremely thin and focused on South Africa as the regional hegemon (Figure 20). The year 2001 saw a massive increase in South Africa´s external trade with the EU

(Figure 21). This increase was probably caused by the Trade and Development Cooperation Agreement, which the EU and South Africa signed without participation of the other SADC member states in 1999 (McQueen, 2003; Frennhoff Larsén, 2007). In contrast, the importance of intraregional trade declined when crisis-ridden Zimbabwe lost the position it once had in the region. In general, this trade pattern continues until today (Figure 22). Intraregional trade develops only very slowly, and the intraregional trade network is still extremely thin. Instead, the growth of trade is driven by trade of South Africa with the EU and by the export of raw materials from the commodity-rich Congo and Angola to China and the USA.

Generally, SADC seems to have only modest or no influence on the trade pattern in Southern Africa. Intraregional trade was and is negligible, and is even declining at the beginning of the due to the shrinking of the Zimbabwean economy. Although some SADC member states managed to increase their exports at the beginning of the new millennium, it is unlikely that this success is due to the SADC. It is more likely that extraregional trade increased due to the bilateral trade agreement between the EU and South Africa and increasing Chinese demands for raw materials from Angola and Congo. So far there are no interregional trade agreement between the SADC and China, the EU or the USA. Although the EU currently aims to negotiate an Economic Partnership Agreement with the SADC, the negotiations proceed slowly and do not include all SADC members (Stevens & Kennan, 2006; Krapohl & Muntschick, 2008). Thus, regional integration in Southern Africa seems to be the least successful from all analyzed regional integration projects.

## 5. Conclusion

The diachronic trade network analysis of the EU, NAFTA, MERCOSUR, ASEAN and SADC demonstrated that regional integration organizations have a large direct impact on trade among industrialized countries. However, their impact on trade among less developed countries is considerably smaller. As a result of regional trade liberalization, the members of the EU and NAFTA were able to exploit significant comparative cost advantages and economies of scale. Consequently, intraregional trade increased to a greater extent than extraregional trade. Particularly within the EC/EU, regional integration and economic interdependence seem to be mutually reinforcing. The well-known integration path from a customs union via a common market to a monetary union can describe the evolution of the EC (Balassa, 1961). Of the three regional integration organizations in the developing world, only MERCOSUR was temporarily able to achieve a development similar to the EU and NAFTA. In the 1990s, the ‘Golden Age’ of MERCOSUR, intraregional trade increased considerably – even if extraregional trade remained more important for the member states. However, the decline of the Argentinean economy at the beginning of the new millennium stopped this development, and intraregional interdependence fell back to the level of the early 1990s. The region has recovered from the crisis in recent years. However, the recovery is not due to intraregional interdependence and regional integration, but can be better explained by a boom of extraregional exports, particularly with Brazil as a major emerging export nation.

Despite low potential for intraregional interdependence in less developed regions, the example of ASEAN demonstrates that regional integration may nevertheless pay off indirectly for developing countries. From the early 1990s onwards, the ASEAN countries followed an export-based development strategy, which made them the most successful cases of economic development in the last twenty years. At least at the beginning of the new millennium, regional integration in the ASEAN clearly supported this export-based strategy. The ASEAN member states used the ASEAN to negotiate preferential trade agreements with their most important trade partners China, Japan and Korea, which led to a further increase of extraregional trade. However, the other two regional integration organizations among developing countries did not follow this successful a strategy. Neither MERCOSUR nor SADC have so far been able to negotiate interregional trade agreements with their most important trade partners. On the contrary, regional integration in Southern Africa is even obstructed by a bilateral trade agreement between the EU and South Africa, and by the ongoing negotiations about Economic Partnership Agreements between the EU and several groups of SADC member states. As regional integration seems neither to affect intraregional nor extraregional trade in Southern Africa, the SADC is probably the least effective of all regional integration projects analyzed here.

The theoretical lesson from this analysis is that regional integration among developing countries cannot be understood without considering the global economic environment. The potential of regions in the Southern hemisphere to develop intraregional interdependence from within themselves is limited. These regions are dependent on good economic relationships to more developed regions in the Northern hemisphere. This is reflected in the fact that the success of regional integration among them is to a large degree dependent on the reaction of external actors. If regional integration among developing countries is followed by increasing foreign direct investments, and by better market access in the Northern hemisphere (like in the case of ASEAN), regional integration may be part of a successful export-based development strategy. However, if this reaction does not occur (like in the case of SADC), regional integration is unlikely to have any effect at all.

Complementing the substantive conclusions of the paper are the methodological lessons. So far, the study of comparative regional integration has mainly used highly aggregated indicators, characterizing regions “as a whole”. This line of inquiry has been criticized for paying too little attention to nuances in development patterns, and differences between countries in the region (Frankel & Wei, 1998; Lombaerde et al., 2009). The network approach of this paper allows for substantive conclusions on the overall patterns, similar to the old approaches. However, the network approach does not conflate complex interdependence patterns to simple measurements. The complexity is preserved in the network graphs. Therefore, the network approach may help to stimulate further research of region experts, who may be interested in the relative positions of specific countries in the regions, or in subregional patterns. Thus, the paper showed the affinity of network analysis to new regional integration theories, and demonstrated how these two might work hand in hand to create a new approach to regional integration.

## Appendix: Network Graphs

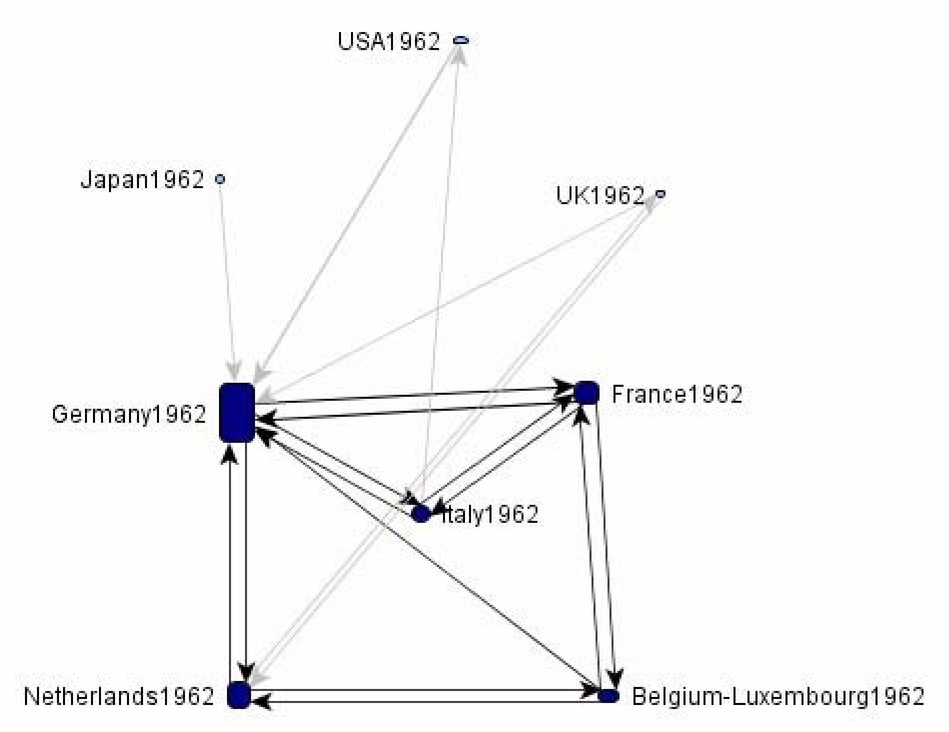


Figure 2: Trade interdependence EC 1962

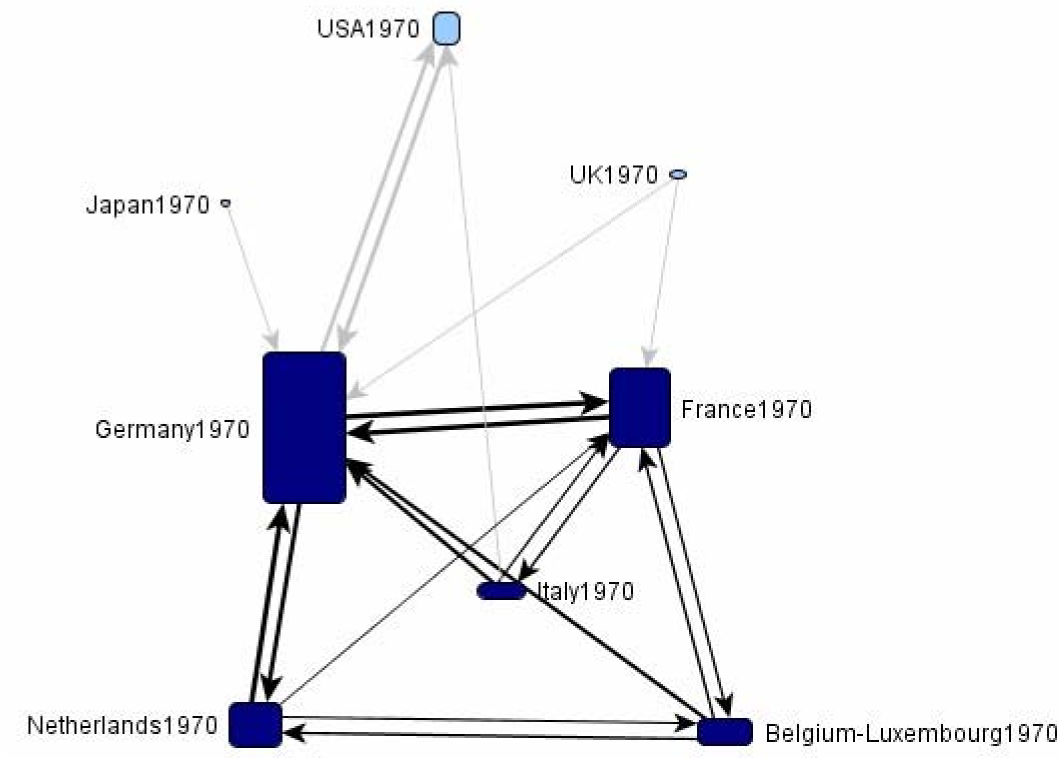


Figure 3: Trade interdependence EC 1970

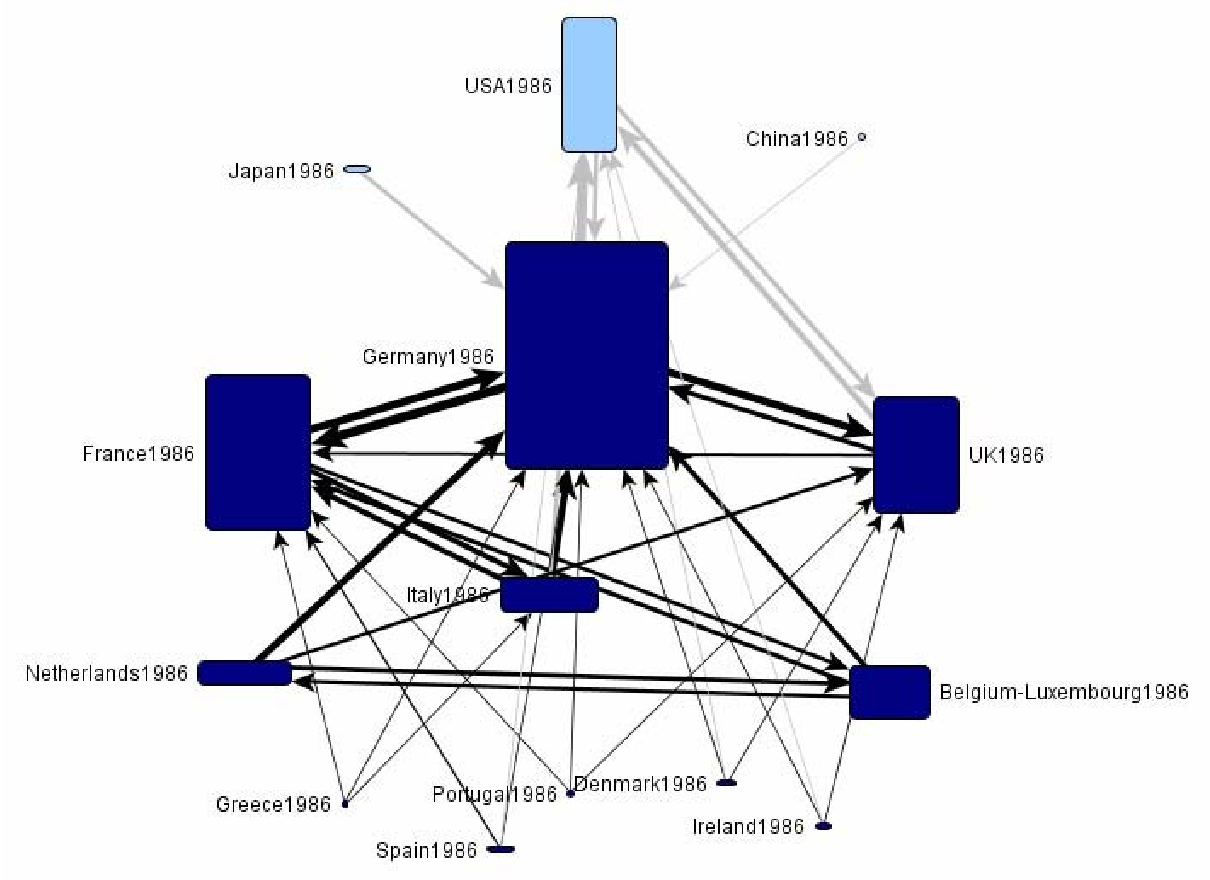


Figure 4: Trade interdependence EC 1986

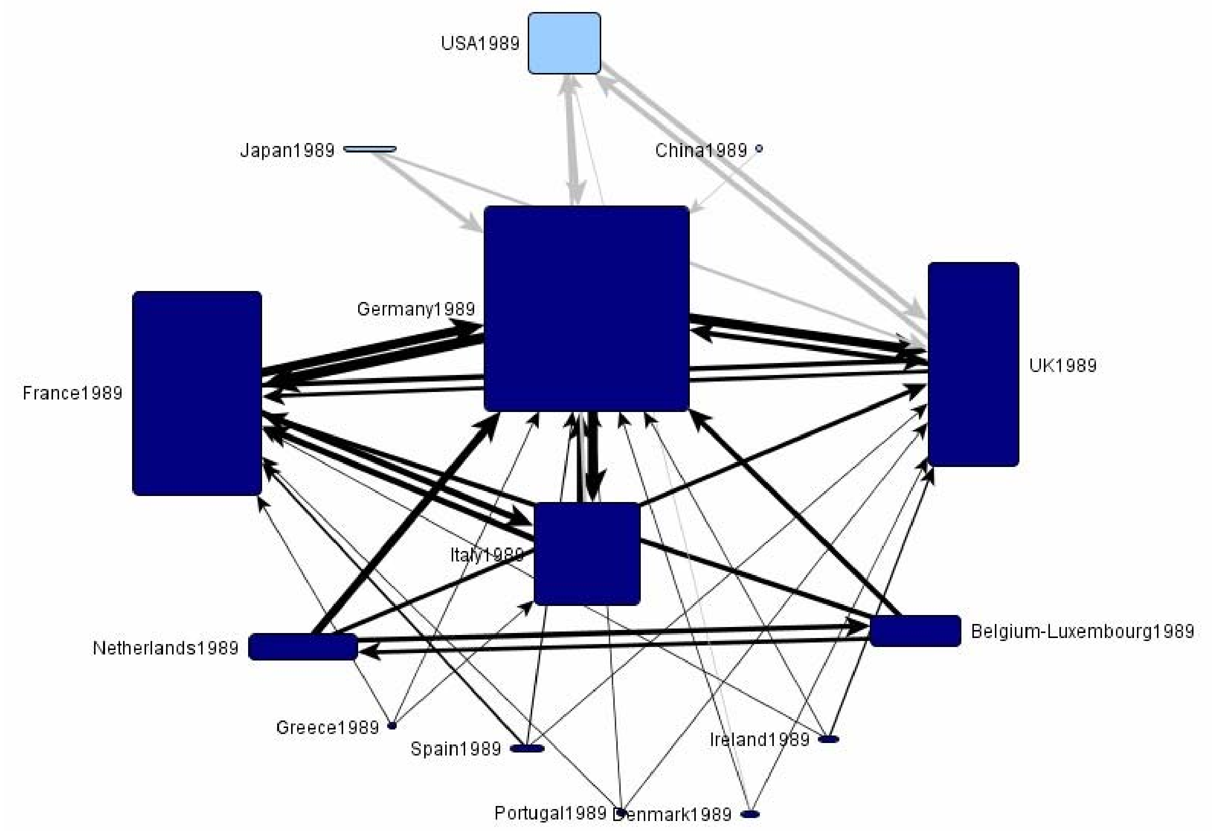


Figure 5: Trade Interdependence EC 1989

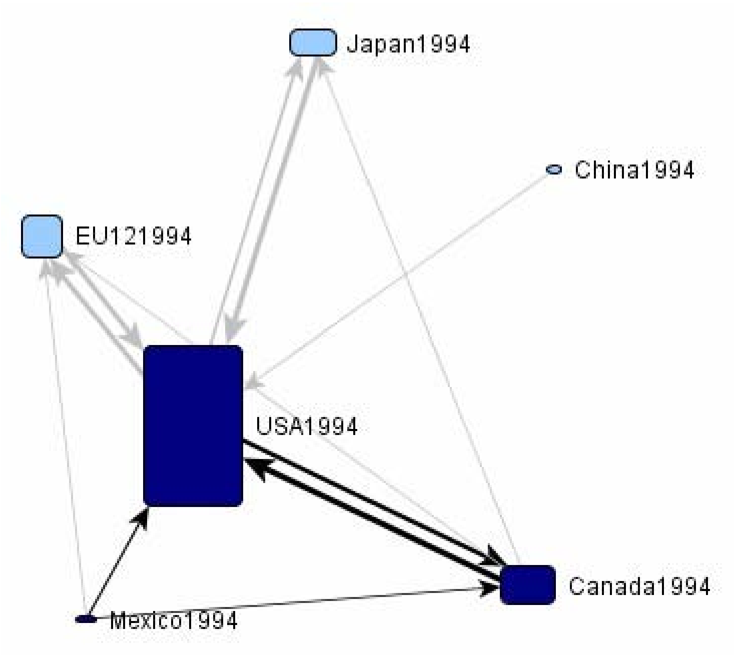


Figure 6: Trade interdependence NAFTA 1994

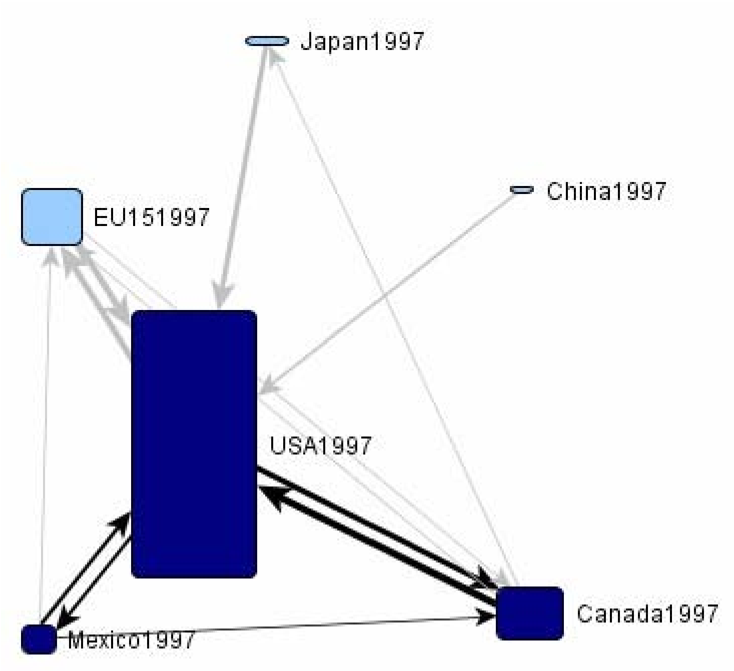


Figure 7: Trade interdependence NAFTA 1997

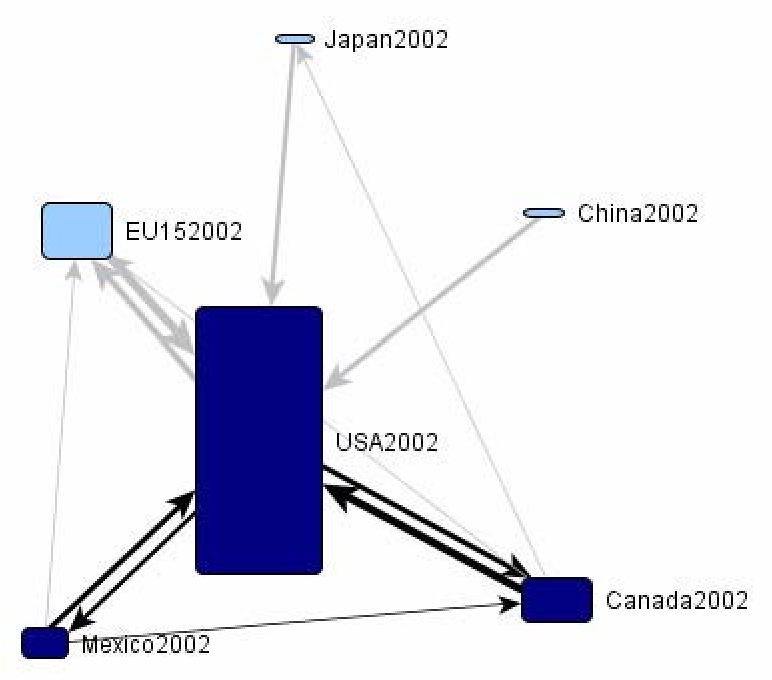


Figure 8: Trade interdependence NAFTA 2002

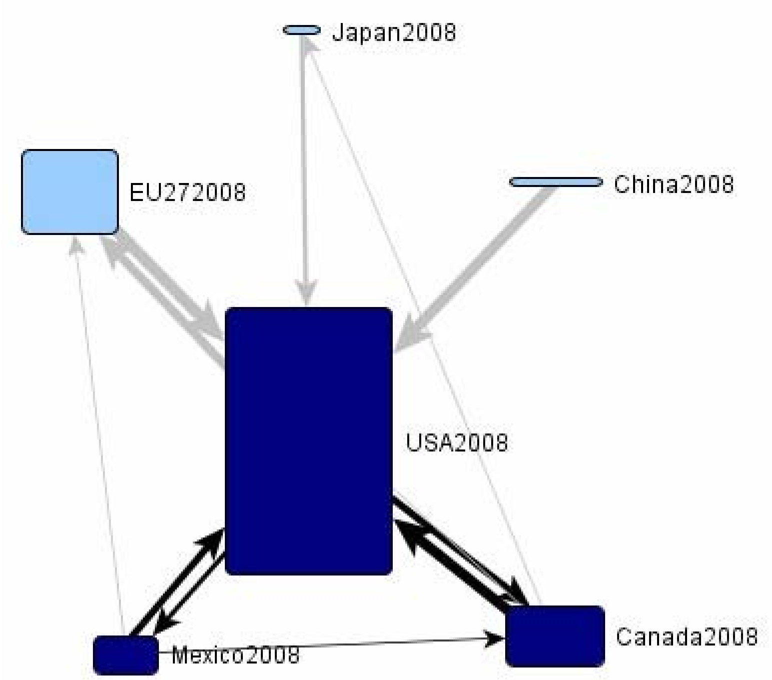


Figure 9: Trade interdependence NAFTA 2008

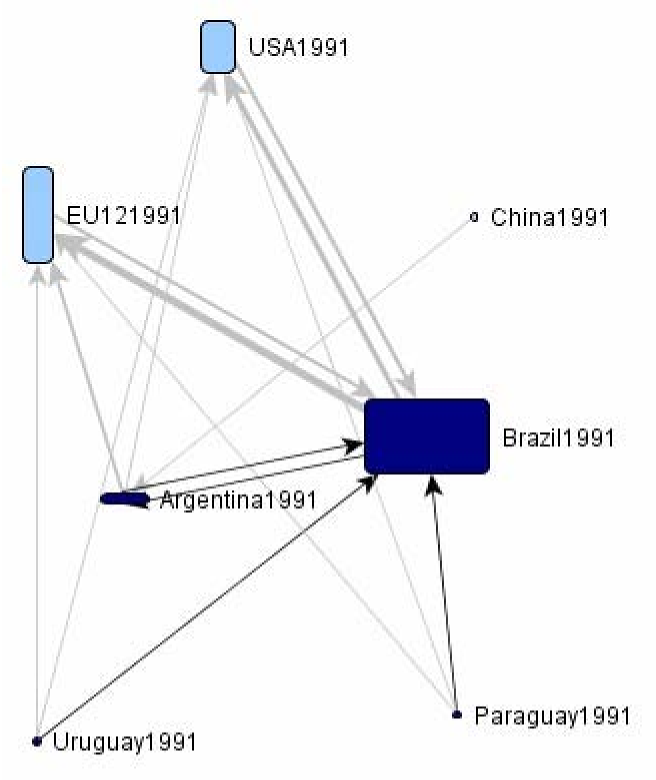


Figure 10: Trade interdependence MERCOSUR 1991

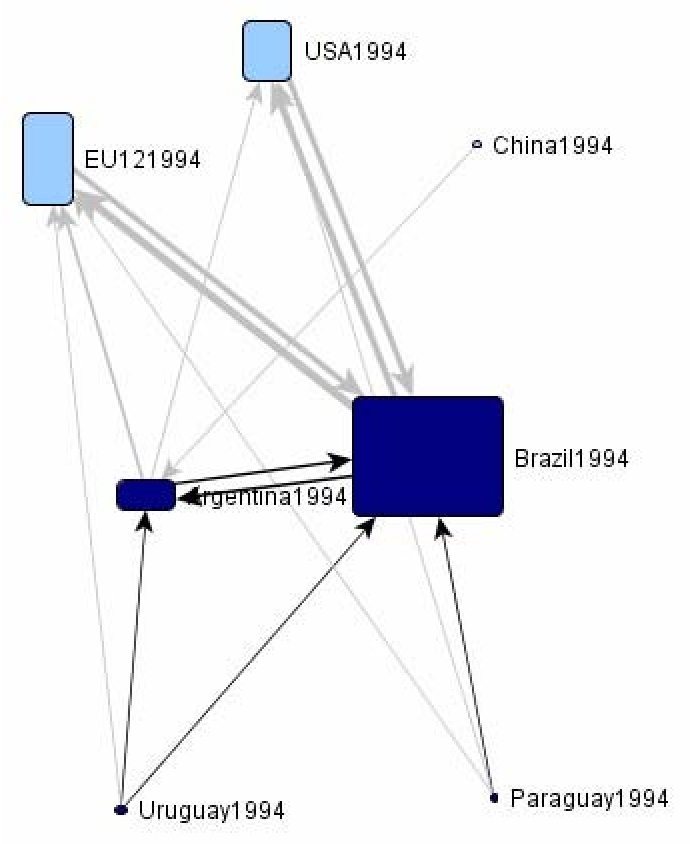


Figure 11: Trade interdependence MERCOSUR 1994

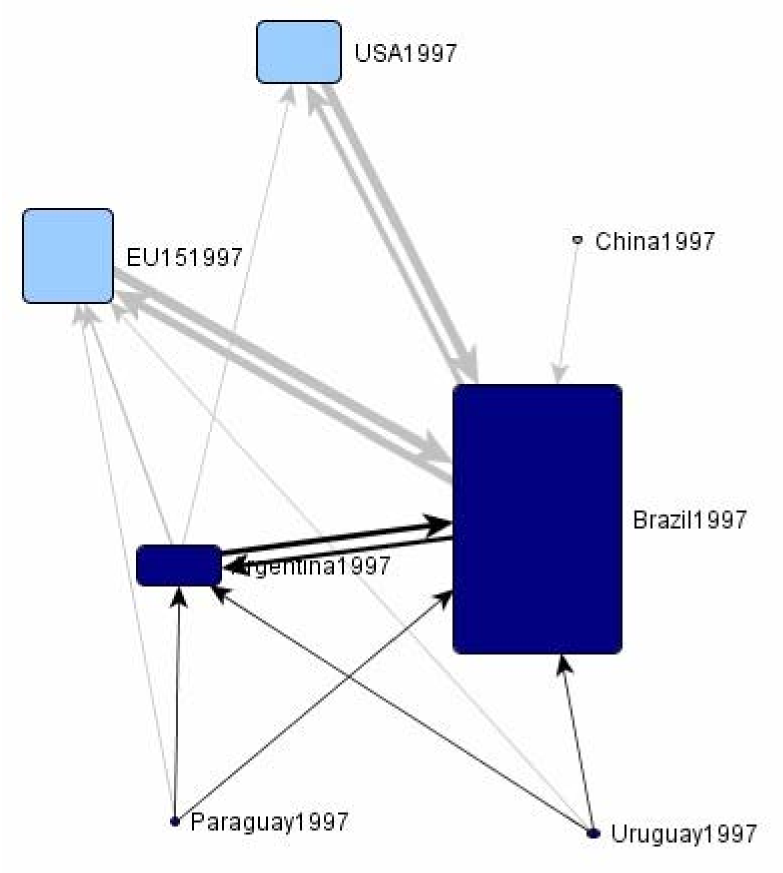


Figure 12: Trade interdependence MERCOSUR 1997

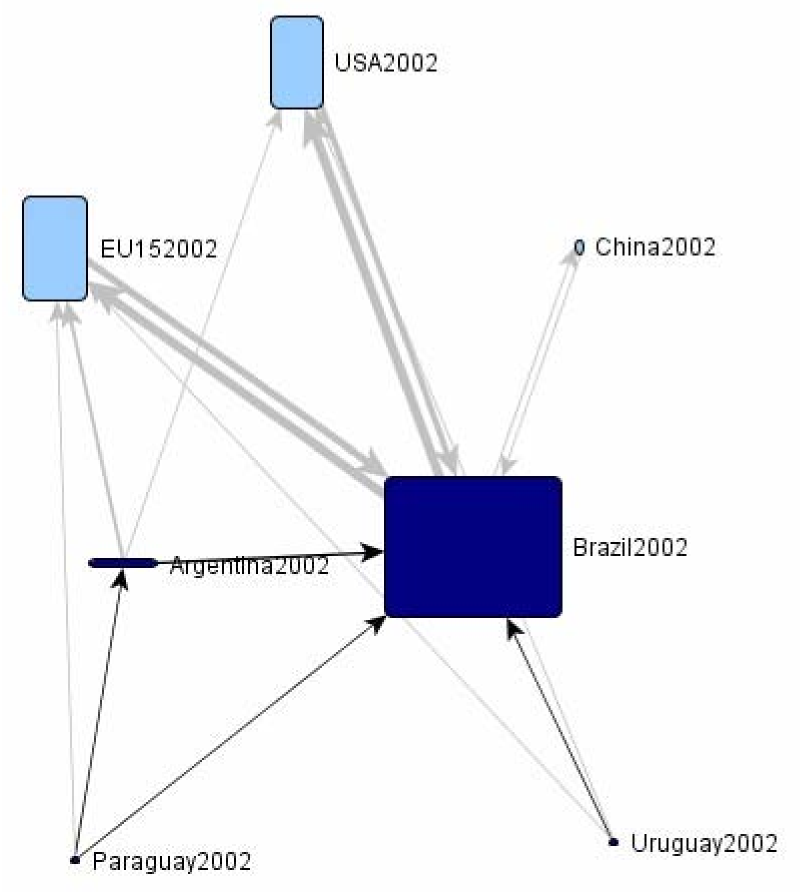


Figure 13: Trade interdependence MERCOSUR 2002

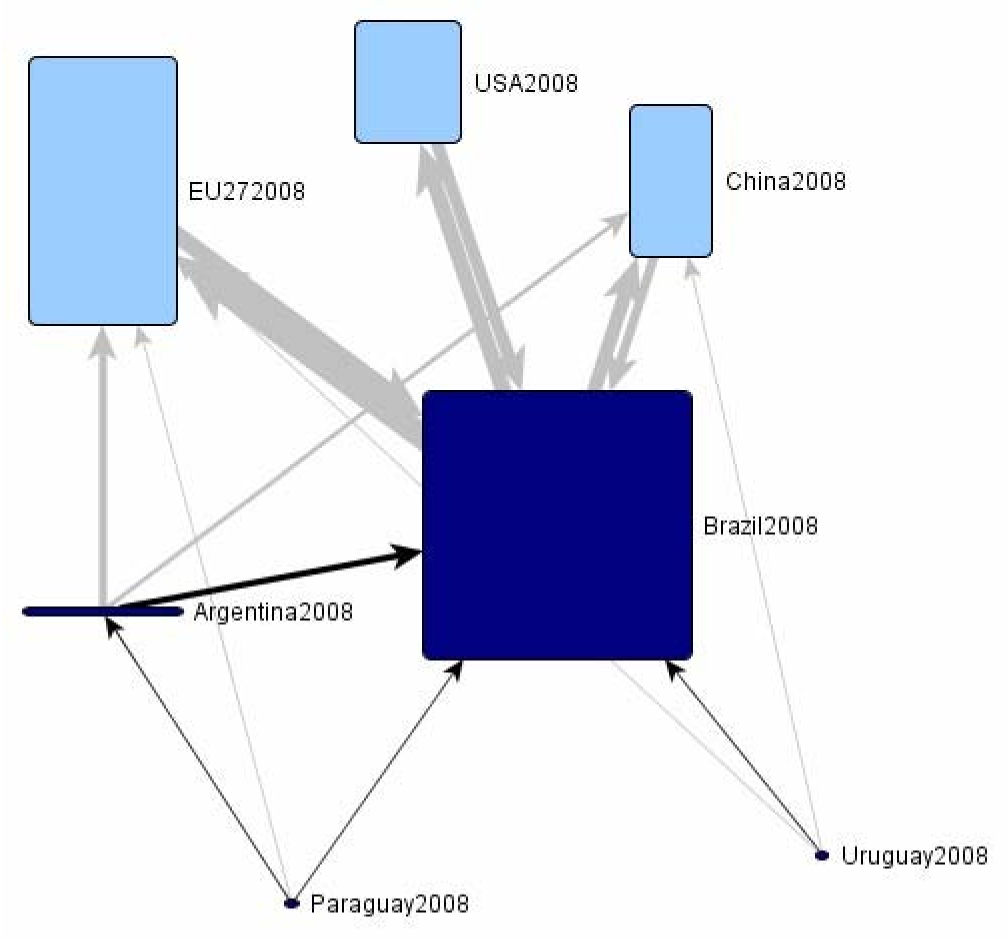


Figure 14: Trade interdependence MERCOSUR 2008

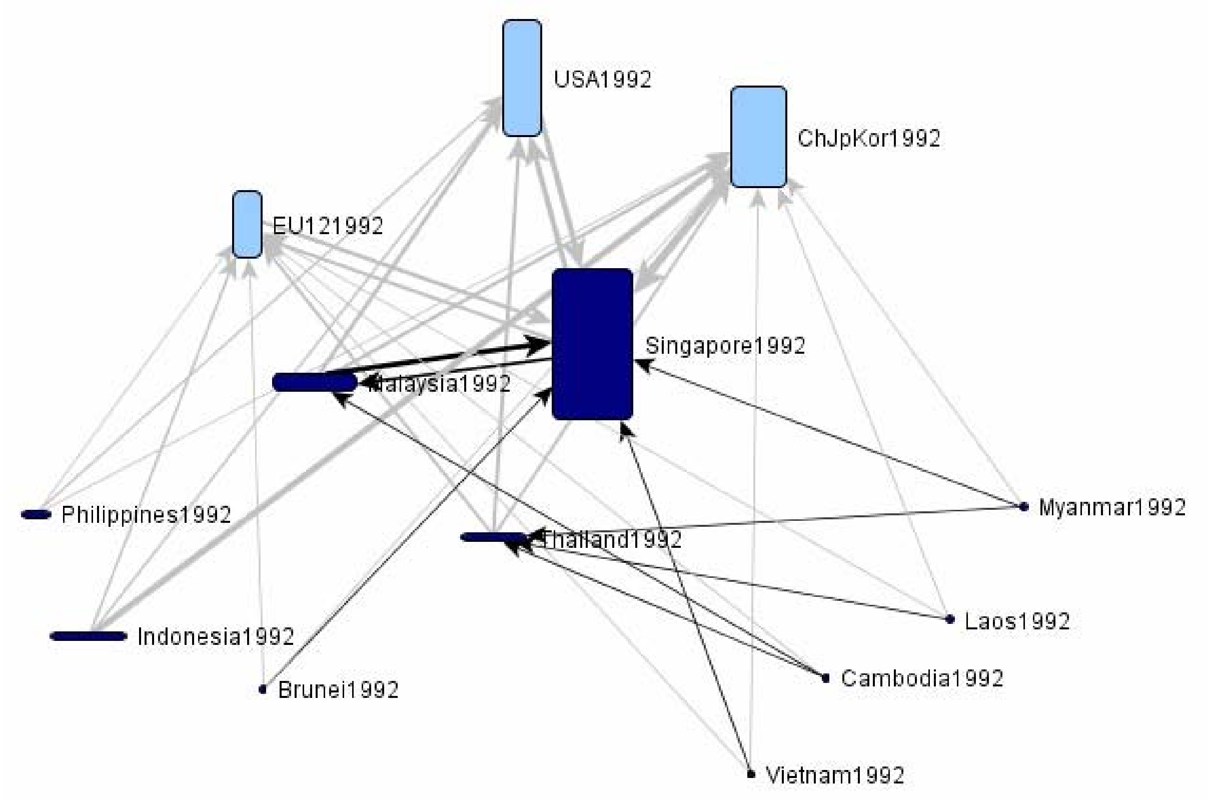


Figure 15: Trade interdependence ASEAN 1992

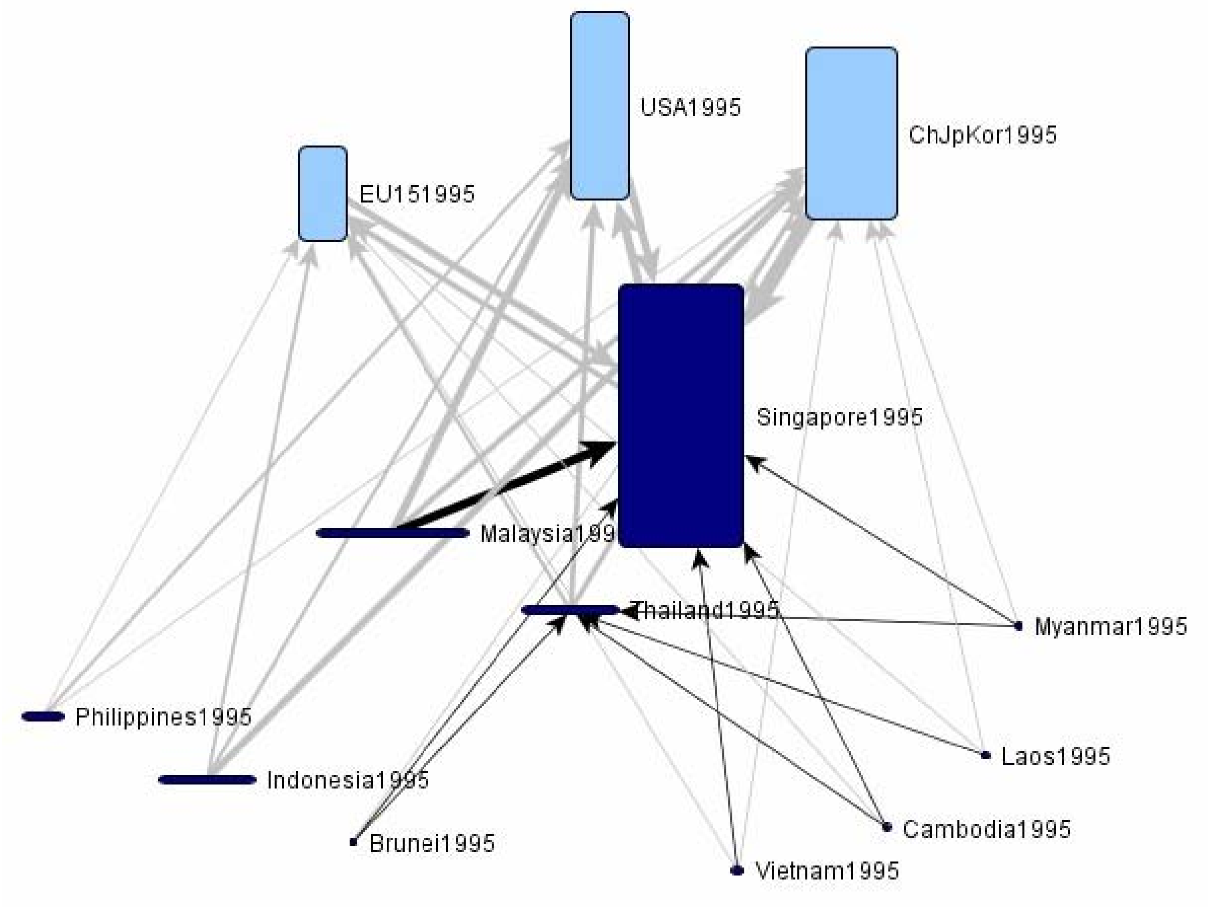


Figure 16: Trade interdependence ASEAN 1995

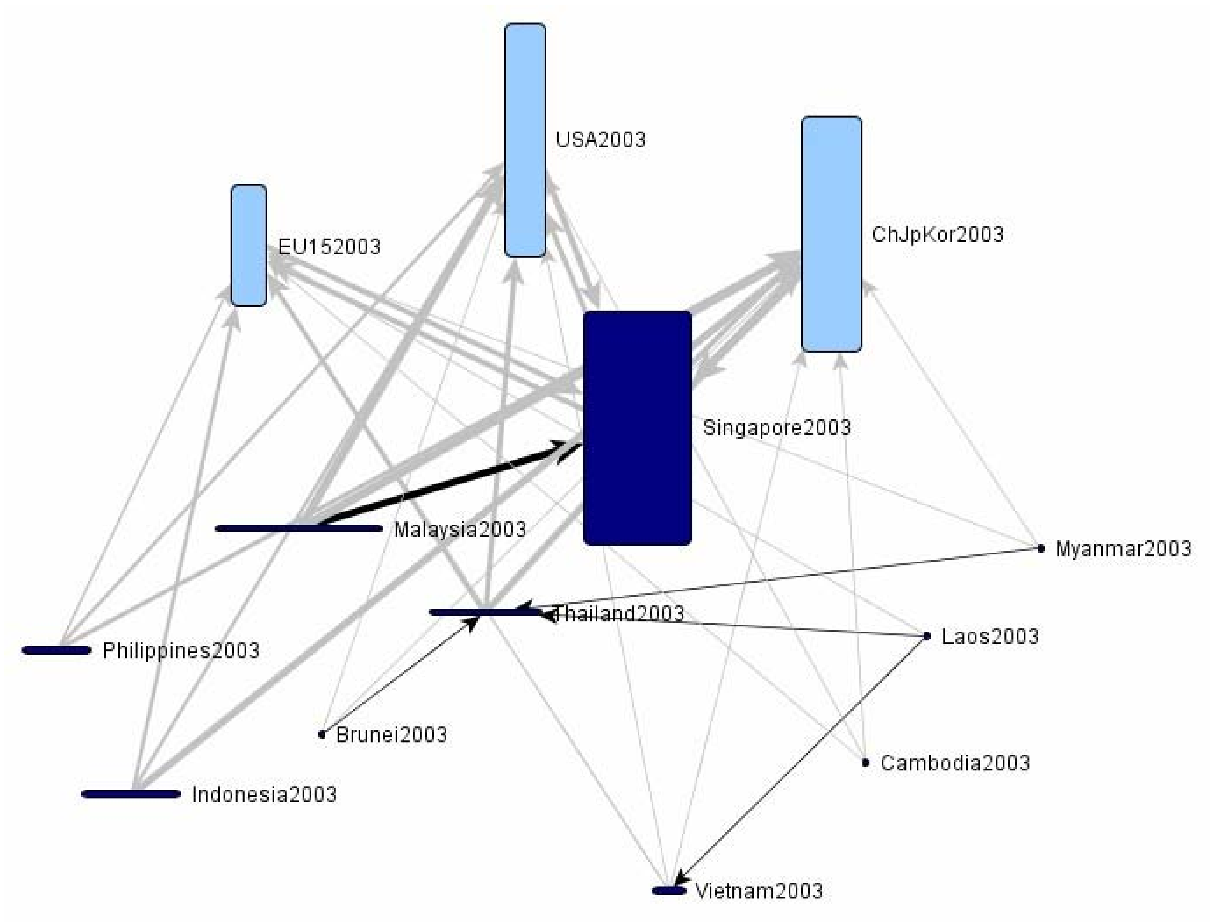


Figure 17: Trade interdependence ASEAN 2003

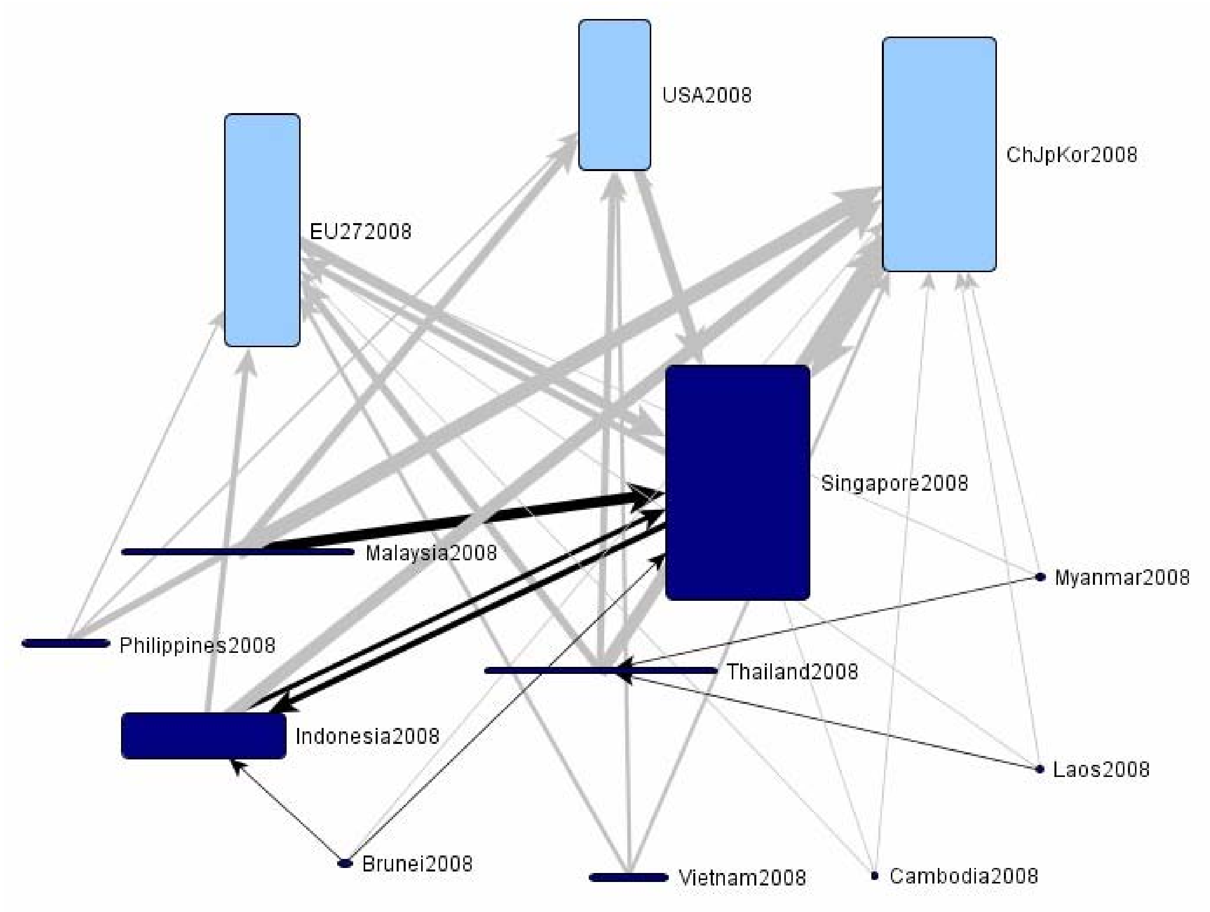


Figure 18: Trade interdependence ASEAN 2008

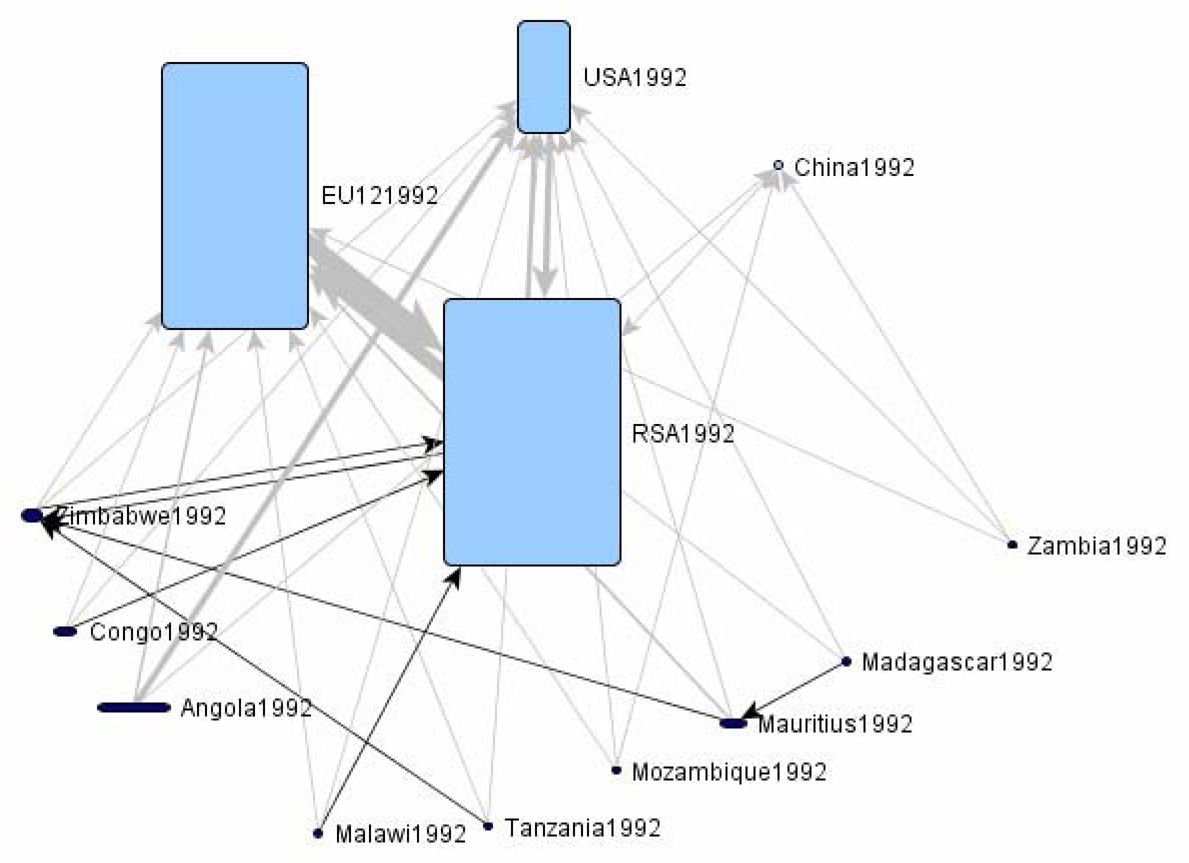


Figure 19: Trade interdependence SADC 1992

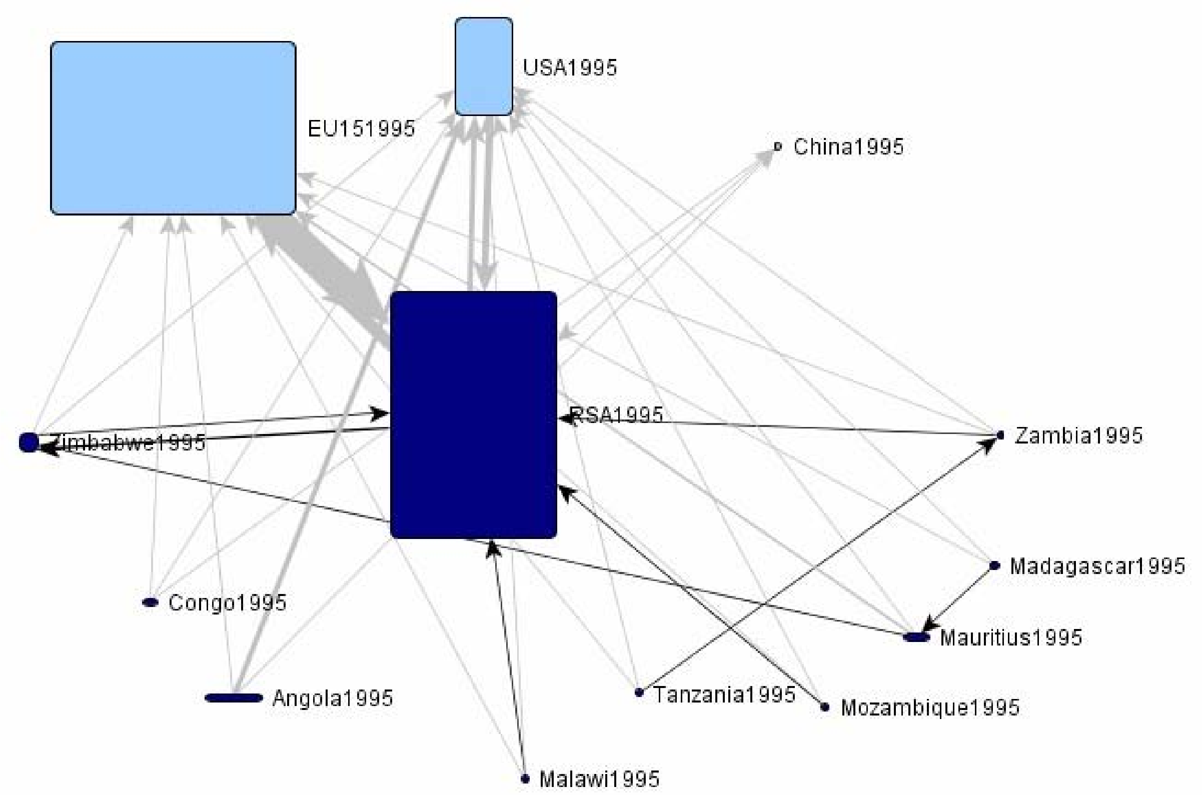


Figure 20: Trade interdependence SADC 1995

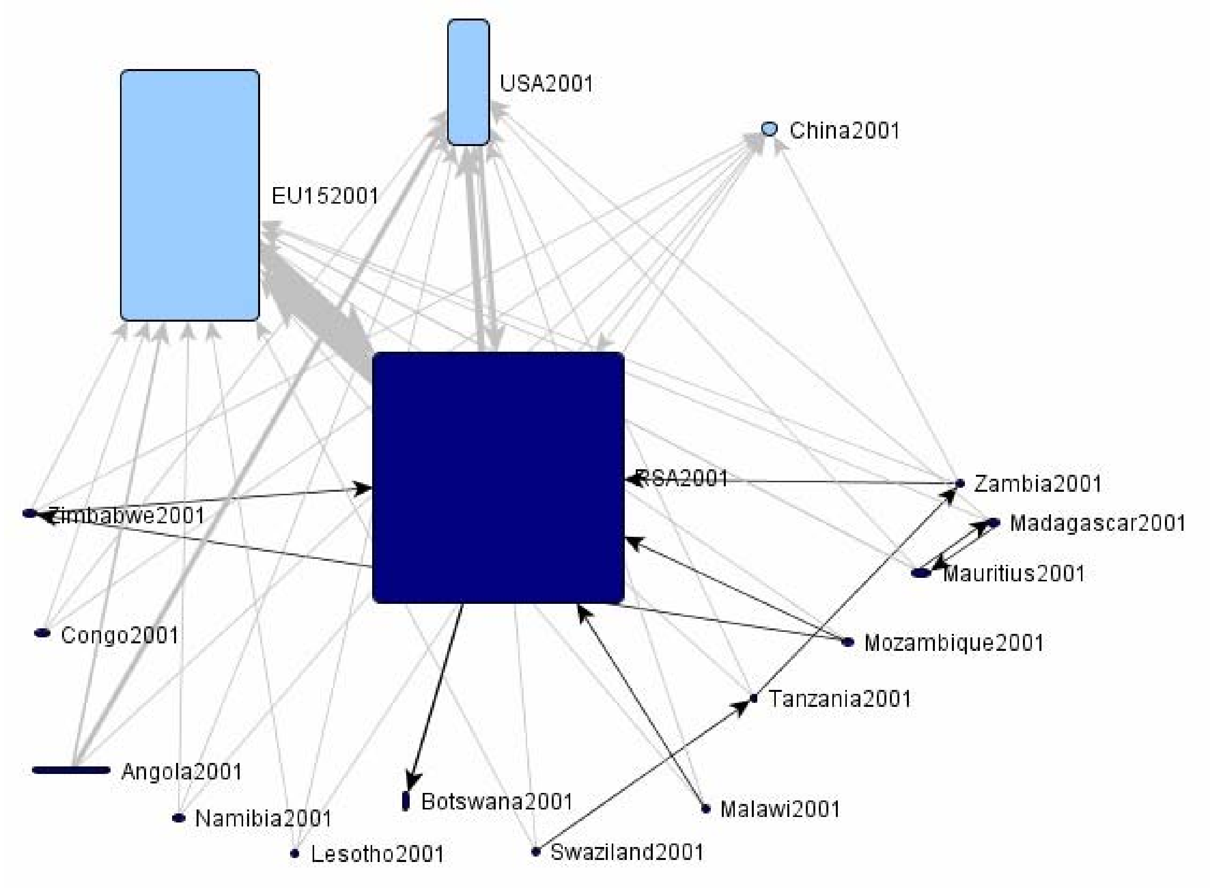


Figure 21: Trade interdependence SADC 2001

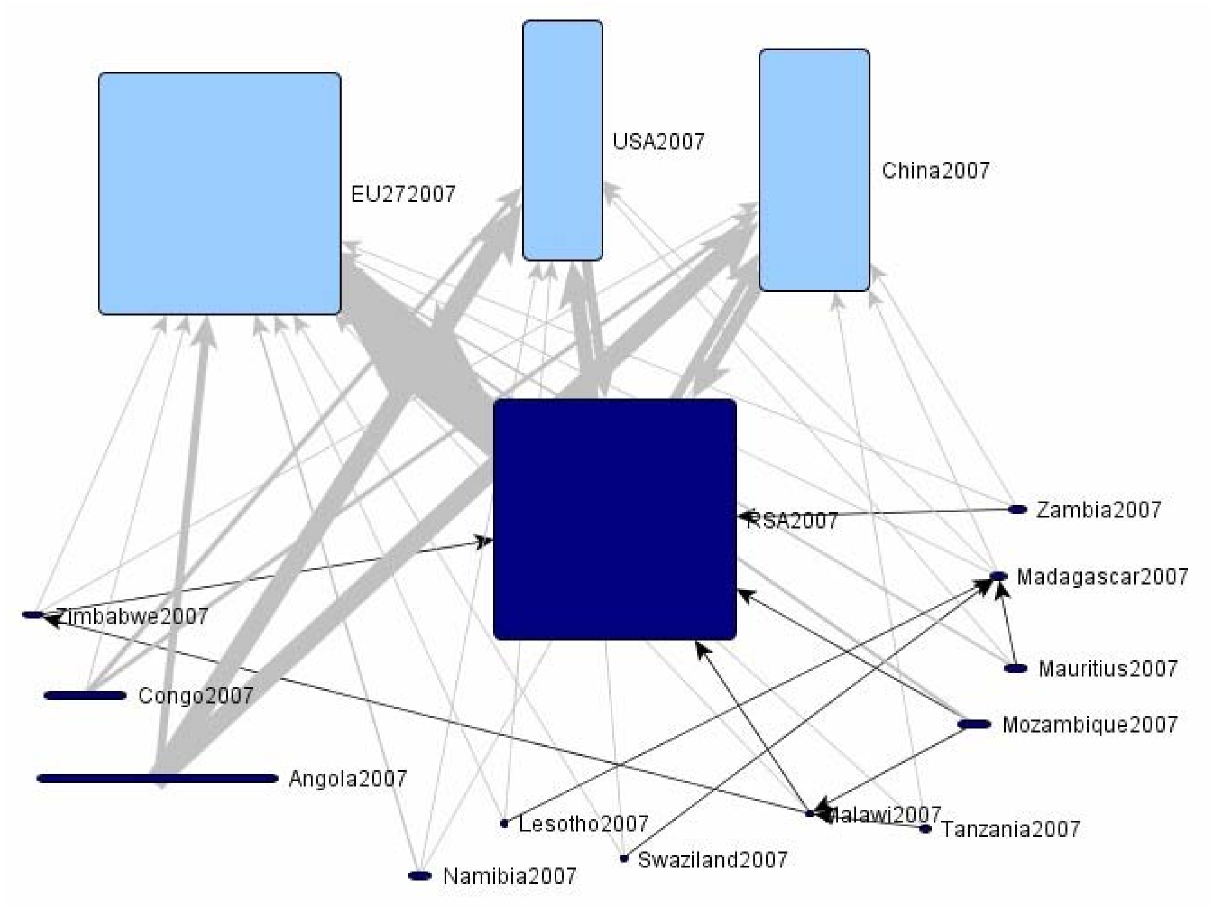


Figure 22: Trade interdependence SADC 2007

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