

Forces Pushing to Trade Liberalization and Cooperation Agreements

Fuerzas que empujan hacia la liberalización comercial y los acuerdos de cooperación

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ABSTRACT

This literature review is aimed at investigating the different forces that lead countries to intend liberalizing their economies at the point to be increasingly more integrated and interdependent economically in the current context of globalization. Also, it is examined on the whole the reasons for which the countries sign cooperation agreements. The primary objective is to show that economic forces are not the only ones pushing the countries to participate more actively in the global world by liberalizing their economies and signing cooperation agreements. Instead, we found that apart from pure economic reasons -very well explained by theory-, there are geopolitical, socio-demographic and technological forces that increasingly push countries to integrate their economies and signing economic cooperation agreements. Also, we could not rule out there could be another forces to be identified in future studies.

Key words: Economic integration, cooperation agreements.

RESUMEN

El presente trabajo de revisión tiene como finalidad la de investigar las diferentes fuerzas que llevan a los países a intentar liberalizar su comercio al punto de encontrarse cada vez más integrados e interdependientes desde el punto de vista económico en el actual contexto de la globalización. Asimismo, examinamos en conjunto con lo anterior las razones por las cuales los países firman los acuerdos de cooperación. El objetivo primario es mostrar que las razones económicas no son las únicas que obligan a que los países tengan que participar más activamente en este mundo globalizado mediante la liberalización de su actividad comercial y la firma de acuerdos de cooperación. Más bien, se encontró que más allá de puras razones económicas -muy bien explicadas por la teoría-, existen fuerzas geopolíticas, sociodemográficas y tecnológicas que impulsan a los países hacia la integración económica y a la firma de los acuerdos de cooperación económica. Asimismo, no podemos descartar que existan otras fuerzas que puedan ser identificadas en futuros estudios.

Palabras clave: Integración económica, acuerdos de cooperación.

INTRODUCTION

The discussion about the convenience of making free trade among countries, certainly is not a new topic of discussion. In fact, in the XVIII century economists tried to demonstrate that free trade could improve life of people given that we have different capabilities, and even when we could try to produce everything we need to consume, it is highly probable that people is not able to produce all the items more efficiently than the other producers. In this sense, Adam Smith (1723-1790) proposed the Absolute Advantage Theory, in which he showed the advantages of free trade and specialization. This economist proposed that countries can specialize themselves in producing those goods they are more efficient than the others; this way, in specializing, countries could exchange among them their production surpluses of different goods, so they would improve their economic welfare. As the model assumes the existence of two goods and two producers, and shows clearly that each producer is better than the other only in the production of one of the items, it seems to be there is not any problem. However, what could happen if one producer is more efficient than the other in producing both products? Is still free trade recommended? To respond this question, David Ricardo (1772-1823) developed the Comparative Advantage Theory to demonstrate that even when a country could be better than the other in producing both goods, free trade is possible because they face different opportunity costs. Thus, when we think of specialization instead of considering single productivity we would have to consider the difference in opportunity costs, this way each country should specialize in producing the good that has the lowest opportunity cost in terms of the other product. Even when economic theories continued to be developed, this theoretical support is the starting point to defend and demonstrate that free trade is the best option to achieve the economic welfare. Nevertheless, it is usual that countries try to impose barriers to free trade in order to correct the imbalances in their balance of payments. The governments try to put barriers to foreign products and try to encourage domestic producers to sell their products abroad. When countries consider their national interests are at risk, they could stress those barriers and this situation could lead international trade participants to get involved in reprisals, sanctions, commercial wars, and even they could find a reason to enter the war. Thus, it is well known that trade barriers were one of the facts that produced frictions among the countries and contributed to create the scenario to World War II. In this respect, Hoekman and Kostecki (2013) argue that after World War I restrictive trade policies became the norm. These authors consider that it was the response to the United States which did not cooperate during the 1920s to re-establish a more open global economy following the disruption that had been caused by the war and war-time policies. The Congress of the United States adopted the Smoot-Hawley Tariff Act, after the 1929 stock market crash, raising average tariffs on imports. This erroneous decision made US partners to impose retaliatory trade restrictions and competitive devaluation of currencies were used in order to protect domestic

producers, so negative consequences of this policies, that impoverished neighbors, of the early 1930s were still affecting countries in 1945. This situation motivated the US willingness to attempt the type of international cooperation it had neglected before and actively tried to support multilateral liberalization efforts. However, the economic frictions had already been created to provoke the World War II, and the international economic system built after that war was conceived to remove those frictions (Hoekman and Kostecki 2013). Now, after the World War II, a new world order was established coming up institutions as International Monetary Fund (IMF), the International Bank for Reconstruction and Development (now is part of World Bank Group), and the trade negotiations of the General Agreement on Tariffs and Trade (GATT) that became the World Trade Organization (WTO) in 1995. This fact is also well known thanks to the literature on international business or international relations. Nevertheless, it appears to be authors are more concentrated in explaining economic reasons that lead countries to attempt to liberalize their commerce and cooperate more through agreements for development than trying to explain the existence of another forces that could push countries to cooperate, or at least they do not address the topic directly. In view of this situation, we have two important reasons that arouse our interest in identifying forces that push countries to liberalize their economies and signing cooperation agreements. In one hand, given that international trade of Peru has grown significantly in recent years, we have observed the growing interest as regards to international business studies at the point that some universities offer the international business area as a new professional carrier. Also, given that different publications appear to concentrate their efforts in explaining just the economic forces that motivate trade liberalization - that several times lead to cooperation agreements -, we are interested in contributing specifically to the literature of a relatively new course that is now being developed in our country's universities named Economic Integration and Cooperation Agreements (or similar name). It is because students could have a limitation when they would need to discern on forces that push countries to pursue a more free trade and signing cooperation agreements. On the other hand, we consider it would be necessary to have a broader perspective on the topic in order to improve the future professional's criteria when analyzing opportunities on trade agreements. Thus, the primary objective of this literature review is to highlight that economic forces are not the only ones push the countries to participate more actively in the economic integration that implies liberalizing their trade and signing cooperation agreements. In doing so, we have searched several publications to spotlight information and try to mention some empirical evidence that indicates that, apart from economic reasons, there could be another forces that push countries to trade liberalization and signing cooperation agreements. As a result, we found that apart from economic reasons -very well explained by theory-, there were geopolitical, socio-demographic and technological forces that

increasingly pushed countries to trade liberalization and signing economic cooperation agreements. In addition, we could not rule out

there could be another forces to be identified in future studies.

LITERATURE REVIEW

As argued earlier, economic forces appear to be the most obvious reasons for which countries are concerned in trade liberalization that leads several times to different degrees of economic integration and frequently engaging in cooperation agreements. Vergara (2012) explains this process this way. The author asserts that in current times an integration process starts with governments' conversations of neighbor countries, which seek to liberalize part of their market to benefit each other. Later, this integration could broaden the horizon in search of a wider market that leads first conversations very simple (at the beginning) to became more formal given that removing of tariffs are not the only thing to negotiate, but also the organization starts to be more complex. Conversations include complementarity of production, common tariffs for third nations, investments and capital movements, among others. The main objective of trade agreements is to remove factual and normative obstacles that are common in international trade. According to these observations, the main purposes of trade agreements are to eliminate trade barriers and generating dynamics for cooperation and coordination among countries (Vergara 2012). Thus, given that there is a certain but little difference between trade liberalization and economic integration (the first is a logical step to achieve the second) we will mention trade liberalization or economic integration interchangeable. In addition, in this review, we study trade liberalization in a general way; and we will refer to it sometimes in the regional or in the multilateral scenario promoted by the WTO. The first has several degrees and/or ways of economic integration as free trade zones, free trade agreements, customs unions, common markets, economic unions and theoretically political unions, which consequently imply different degrees of trade liberalization commitments. Now, with those clarifications made, it is time to develop the core issue. First, we have found that economic integration could let exporting countries to have preferential access to new markets generating attractive exchanges by market access because the size of market or it's high manufacturing composition that generates productive chains of more value-added products. Also, countries can gain competitiveness if they are able to import products (inputs or capital goods) at a lower price. In addition, technological transference, new investments, better services as well as cooperation among countries and improvement of better practices that let them to upraise competitiveness (Rodríguez and Tello 2010). In addition, Maesso (2011) argues that behind the decision of economic integration of any country there are several interests. In one hand, it expects to obtain considerable advantages to achieve a better welfare level. These are economic reasons for integration linked to positive effects generated by itself. On the other hand, extra economic reasons also occur given that integration processes imply not only economic issues, but also social, political

or strategic motivations. Traditionally, economic integration has been considered as an extension of free trade theory and the right step towards dismantling of protectionism. In such a sense, arguments in favor of commercial integration would be the same as of the wielded in defense of free trade (Maesso 2011). Also, Cooper and Massel referred by Maesso (2011) support, as an economic reason for integration, countries could reduce industrializing costs when accessing to scale economies outperforming the problem of narrow domestic markets. Now, as we are considering reasons for economic integration, it could be also necessary to consider the opinion of Rozas, Corredor and Guerra (2011) who mention the case of European Union countries that agreed on stop the raising of tariffs and other commercial restrictions among them (that usually provoke the so called "trade war"). This way, they attempt to accomplish the commitments acquired in the GATT. Thus, in one side, in the 1940s, Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxemburg, Netherlands, New Zealand, Norway, Pakistan, South Rhodesia, Syria, South Africa, United Kingdom and the United States initiated the GATT. On the other side, Germany, Belgium, France, Italy, Luxemburg and Netherlands; integrated in the European Union later. In both cases, countries started the policy coordination of what would be in the present the multilateral and regional trade systems. In sum, economic integration is the process by which economies of two or more countries are integrated, in order to benefit mutually through gradual elimination of trade barriers (Rodríguez 2015a). Such an integration is more formal and imply more responsibility when countries sign multilateral, regional or bilateral economic integration agreements given that this signed agreements are binding instruments. This agreements are created under two scenarios: the first one in multilateral promoted by WTO (called nondiscriminatory) and the second one could be bilateral o regional (called discriminatory) that generate the different degrees of integration aforementioned. Nevertheless, no matter their nature discriminatory or nondiscriminatory agreements, they make possible to eliminate gradually trade barriers, but the first one appear to contribute to a more rapid integration given that countries can solve better their main problems cooperating bilaterally or regionally. In addition Free Trade Agreements are being negotiated in a very dynamic way; for instance, in 2006 Peru signed its first FTA with the USA, and it entered into force in 2009. According to MINCETUR²; currently, Peru has twenty FTAs into force, four were already signed but are to enter into force including the TTP, and four FTAs are being negotiated at the time of producing the present article. Apart from these observations, the WTO (2008) asserts that among the facts leading to commercial openness, the economic policies adopted by different governments in the world are those that lead to it. In fact, after the World War II

²Official web page of Ministry of Foreign Trade and Tourism of Peru. Recovered on November 25th, 2015, from: http://www.acuerdoscomerciales.gob.pe/index.php?option=com_content&view=category&layout=blog&id=55&Itemid=78

more developed countries decided to liberalize trade in order to avoid that mistaken economic policies were going to repeat in the future. Thus, Krugman and Obstfeld (cited by Rodríguez (2015b)) assert that commercial wars could be avoided by lowering tariffs mutually, and exporters, could also push partners to eliminate some trade barriers. It is going to benefit consumers that could purchase cheaper imported goods. That is why governments, when are aware of benefits of commercial integration, use to adjust economic policies in pursuing reciprocal benefits. Second, according to Rodríguez (2015b) geopolitics could be a binding force that contributes to complementation among nations. Even they can organize spaces where collective safeness prevails. For instance, after the World War II, Western Europe's countries appealed to the principle of self-help promoting (as a first step) economic cooperation in order to increase economic interdependence among countries and reducing the probability of conflict. Trade is the modified factor of geopolitics given that it pursues integration by means of trade transactions. However, safeness of the block would not be the only reason to promote trade agreements. For instance the Trans-Pacific Partnership promoted by the USA, according to Ramírez (2011), could have geopolitical intentions given that the purpose would be to weaken China declared as the new power of the XXI Century. Also, Rodríguez (2015b) asserts that UNASUR could be an example of integration pursuing geopolitical objectives, because it was founded to maintain safeness in Latin America given that it perceived as a rich source of natural resources, so countries have to cooperate to preserve and manage them more strategically. In addition, we can consider the case of Euro Asiatic Economic Union founded by Russia, Belarus and Kazakhstan and entered into force in January 1st, 2015. The founders that are intending to create an improved version of European Union are taking advantage of some factors to guarantee their future development, as for example natural resources as gas and oil, the geographical closeness that make that allow reducing transport costs, and in a certain manner some racial and religious linkages a part from sharing a common language that facilitates trade transactions.

As shown, all of them are geopolitical factors that justify the decision of these countries to integrate themselves economically. The foundation of this union makes it an energetic super power given that it produced approximately 20,7% of natural gas in the world, and 14,6% of oil and condensed natural gas in 2012 being the greatest world producer in both areas³. Thus, the members of Euro Asiatic Economic Union can take advantage of this situation as a strong point at the time of establishing economic relations with other countries or blocks of countries given that each one have its own interests. As noted Nazario in 2010⁴, Euro Asian Union would be a kind of counterweight to the interests of the United States and the European Union; that is why the decision of putting into force this union was received with considerable misgiving by most of western countries. Third, according to the WTO (2008) economic integration opens the possibility to workers to travel abroad in order to get an employment. This contributes in reducing the scarcity of labor in recipient countries,

or improving the relations of interdependence among the societies in rapid aging process, and reducing –at the same time– unemployment rates or underemployment in workers' country of origin. Thus, remittances sent by workers or immigrants from countries they work can represent an important share of national income to the country of origin. According to this institution, benefits are tangible enough and important such as international surveys and the publics' attitude indicate that globalization is widely supported. The most participants in surveys avow that trade benefits consumers because it offers the possibility of choosing widely, paying lower prices, and trade creates opportunities to domestic companies to access new markets. In this perspective, economic integration helps people to obtain products and goods at lower prices, given that doors are open to new international markets while these continue to grow. Notwithstanding, the WTO (2008) recognizes that it is undeniable globalization brings some problems that trigger some restlessness because not all the economic sectors receive benefits from trade liberalization. On the other hand, the WTO (2013) asserts that, according to forecasts, world population will be 8.300 million people in 2030 and 9.300 million in 2050. The effect of this increasing will be perceived by countries that are at the beginning of their demographic transition, while it will be lesser in developed countries because their demographic transition is more advanced. Thus, global impact of commerce will be given by the demand, in particular the way in which aging will affect the level and composition of it. Furthermore, the World Bank forecasts that between 2000 and 2030 mid-sized class will increase from 500 to 1.200 million people developing new trade opportunities and, consequently generating a major expansion of commerce that undoubtedly signifies an incentive to promote a more active trade integration through trade agreements (Rodríguez 2015b). Also, according to WTO (2013) migrations play a key role given that migrant networks have a double effect on commerce promotion between the country of origin and the host country by the following two reasons. One first one is that migrations reduce information costs, language and institutions at the time they facilitate entrepreneurial relationships. The second reason is that migrants boost trade because they increase heftily demand of goods and services from their country of origin (WTO 2013). Fourth, according to WTO (2008) technological innovations have contributed in an important manner to openness and resulting economic integration given that were inventions that increased transport quickness and communications, and diminished their costs. For instance, it was introduced the usage of planes to transport passengers and goods, and the usage of containers in the international maritime transportation (Rodríguez 2015b). Even, there are antecedents before World Wars, that is to say, the economic, social and technological transformation occurred with the First and Second Industrial Revolutions (Rodríguez 2015b). According to WTO (2008), more recently, great investments in roadway infrastructure have allowed transporting in Western Europe and North America a great quantity of products carried by cargo trucks. Another spectacular change was the revolution in the sphere of information technologies: Internet

³Official web page of Central Intelligence Agency (CIA). Recovered on November 25th, 2015, from: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2253rank.html>

⁴Official web page of Centro de Estudios Internacionales para el Desarrollo. Recovered on September 5th, 2015, from: http://www.ceid.edu.ar/biblioteca/2010/ponencia_jorge_nazario_aguilera.pdf

communications. New products as microprocessors, personal computers and mobile phone had triggered a deep socio political and economic transformation (WTO 2008). In addition, it has been observed globalization studies do not pay enough attention in production methods that allowed creating new marketable products (as plastics) or contributed to increase food production (Green Revolution) or augmented production efficiency (JIT production). The substitution of coal by oil and gas in industrialized countries signified an important step towards globalization that afforded a new low cost plentiful energy source to push economic growth and integrated oil producer countries of Middle East to the world economy (WTO 2008). Also, differences in technology among countries is an important factor in levels of income and trade. According to WTO (2013), empirical investigations have evidenced that accrual of physical capital and human explain in part the difference in income level differences among different countries and different trade structures. As evident, facts confirm that in the framework of trade agreements, countries seek technological exchange as the case of the joint production planes between Peru and Korea in the framework of their economic cooperation; as well as the case of Brazil and Russia that have signed bilateral agreements that include, a part from economic issues as FDI, technological cooperation that will benefit both countries (Rodríguez 2015b). Finally, as suspected earlier in this review, authors as Maesso (2011) consider extra economic reasons to tight economic relations that suppose guarantee for avoiding future conflicts, greater economical

political influence in the area, and also a greater negotiating power in international forums. In addition, trade agreements address migration, intellectual property, open new opportunities for profits in the regional scenario, and therefore new reasons for integration (Maesso 2011). In addition, Rozas, Corredor and Guerra (2011) consider that economic integration results from the effort of people, as for example the case of European Union, to maintain peace and stopping trade barriers such in the case of GATT. On the other hand, Toviás (2000) has maintained there is a consensus that small country (neighbors of advanced developed economic powers as the EU and the US), find strengthens in their internal policy reform and it gives a feeling of safeness to the population because integration ensures access to a great market, which will never be at risk. In this sense, it is necessary to clarify that the argument of safety raised in the work of Toviás (2000) is referred to a support of regionalism because now countries trust more in the commitment that a free zone implies than in the most favored clause of WTO in the case that a global commercial war occur. In this case, this would imply to assume that free trade zone or customs union members would exempt each other from reprisals. Furthermore, Rodríguez (2015c) asserts that it could explain the reason for which the EU has been broadening its borders in the last years being currently 28 members among which a trade war could occur hardly. In addition, this author considers that they have overcome the first two degrees of integration and now they are in a superior phase of economic integration; thus, such a trade war could no happen in any way.

CONCLUSION

Several forces push countries to liberalize their economies and signing cooperation agreements: economical, geopolitical, socio demographic and technological. They can become evident if we observe carefully their interest for participating more actively in different ways of economic integration. Economic liberalization is a compulsory step for economic integration. The first consists in government policies to make freer the interchange of goods, services and capitals; for instance policies to attract foreign direct investment, reducing taxes, reducing tariffs and simplifying the requirements to legalize new companies. However, easing commercial activities unilaterally not always could find similar response from the other countries, thus countries embark on conversations to study the way in which they can cooperate mutually and taking advantage of international trade. As economic theory has demonstrated, free trade brings more benefits than living in autarchy, but as it is well known commerce not only lets interchange of goods or services. It puts people in contact, so that they can interchange capital, technology, labor, knowledge and culture. In addition, we consider that countries have their own interests as to guarantee their own survival. Governments have their own strategic objectives that usually are different. For instance, achieving or maintaining hegemony, improving the population wellbeing, just living with dignity or

having a great-united nation. In any case could be two options confrontation or cooperation. In a globalized world like the one we live, the second option has been the norm since the final of World War II so far. On the other hand, cultural differences, expanding companies to sell more added value or innovative products, getting raw materials to domestic industries, satisfying needs of a consumer society, and aspiration to high standards of living can be elements that orientate behavior of countries towards participating in a more integrated world. Thus, we consider that all those objectives are part of economical, geopolitical, socio demographic and technological forces that push countries to trade liberalization as the first step towards economic integration and the resulting participation in cooperation agreements. Perhaps, it could appear to be complicated -in a certain manner- to classify each objective into a determined force because they are interlinked, they could be related with more than one of the forces, or they are focused normally in the available literature as an economic issue that involves all the forces. In addition, the empirical evidence shows that developing countries could seek for integration to have access to bigger markets, and economic powers could seek for maintaining or expand their influence spheres. Also, we could not rule out there could be another forces to be identified in future studies.

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