

## **Assessing the Early Effects of Emerging Trade Blocs: Research Agendas for North America and Europe**

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General agreement exists about at least two aspects of the formation and development of the trade blocs of North America and Europe. It is agreed, first, that the codified terms of the Canada-U.S. Free Trade Agreement (FTA) and the Single European Act (referred to here as Europe 1992) are formal manifestations of certain inexorable processes and, second, that enactment of the agreements has consequences beyond the intentions of the framers. Other than these basic postulates, one is unlikely to find considerable agreement among researchers. Differences in theoretical outlooks, access to and interpretation of data, and national perspectives all conspire to colour analyses and predictions.

This paper summarizes comments made during a panel discussion at the annual meeting of the Association of American Geographers in April 1990. Each panelist addressed a set of issues pertaining to a limited sector. Panelists argued about the correlation between, for

example, industrial rationalization and the roles of the relevant treaties. They then compared and contrasted how these relationships are embodied on either side of the Atlantic. Particular attention was paid to the possible influences that spatial scale may have on the various interrelationships. Used in this way, scale includes the differences that may be found between continental and subregional settings and the distinctions arising from the relative sizes of the participants. Broad speculations about anticipated trends were then outlined with the intent of provoking discussion on emerging research agendas. The result of this endeavor was an inventory of topics and hypotheses recommended for investigation during the coming years. This list, included in this paper, is neither comprehensive nor exclusive.

### Issues of Globalization

The latter half of this century has seen the steady erosion of the nation-state as the basis of economic power and the emergence of bilateral and multilateral trading agreements and supranational administrative bodies. The European Community (EC) has shifted from a concern with trade in only a limited number of commodities and with the integration of selected social standards toward a full economic and a partial political union. North America, meanwhile, has in a relatively short time completed a free trade agreement that has accelerated on a bilateral basis much of what has been under way at a multilateral level under the General Agreement on Tariffs and Trade (GATT). Little of this has occurred smoothly, as concerns about loss of sovereignty, regional inequalities, and a panoply of specific interests have been a countervailing force.

Proponents of such free trade regimes typically argue in terms of GNP (gross national product) growth. The relationship between the effects of Europe 1992 and economic growth has been estimated at 4-5 percent, and the effect of the FTA is estimated at between 0.2 and 1 percent for North America (Brown and Stern 1989). This implies that the incremental effect of the new regimes on the underlying ongoing processes is likely to be much more pronounced in Europe than in North America.

Most multinational integrative processes have both negative and positive characteristics. Negative integration implies a process intended to remove obstacles to trade, and positive integration implies an intent to promulgate coordinated policies. A useful point of departure would be the development of a framework that can be used to outline and compare the negative and positive attributes in both regimes.

Any discussion of trade regimes must take into account the relative strengths of their members. Bilateral and multilateral agreements, almost by definition, require some abandonment of sovereignty. The degree and nature of this abandonment invite inquiry into both the need for it and the effects of its outcome within economic, political, and social spheres.

Most trade regimes have a dominant member, and standards and procedures tend to drift toward its interests. In North America, there is little question that the United States is the dominant partner. Europe has its dominant members as well: Germany, France, Great Britain, and Italy. It must be remembered, however, that the European Community has developed over a longer period of time than the FTA, and this has contributed to the establishment of certain niches within some of the smaller European states—for example, the growth of Luxembourg as a financial service centre.

Virtually the entire debate in Canada surrounding enactment of the FTA was focused on the question of the dominance of the United States. These concerns beg several broad questions: What is the delineation between reality and perception with regard to the dominance issues? What are the levels of tolerance for these concerns within the political framework of Canada? Should research be directed toward finding niches for Canada analogous to European examples?

### Topical Considerations

#### Manufacturing

Rationalization within manufacturing both locationally and functionally is an avowed objective of both the FTA and the EC. Rationalization and concentration occur in both input and consumption through a lowering of barriers and harmonization of standards. In the case of North America, most goods already move duty-free, although the remainder incur high tariffs. It appears that research questioning possible limits and countervailing influences on the rationalization process is limited. If we assume that rationalization is ongoing, does its formalization through the agreements actually accelerate the process, limit it, or channel it in some other manner?

Trade regimes provide a forum for reviving interest in questions about core-periphery relationships. Diffusion paradigms hold that capital flows from the core to peripheral regions, while proponents of uneven development hold that the core depends on the peripheries to supply it with resources and labour. Past studies have often focused on core regions within existing states. Within the trade blocs, questions

can be raised about the relationship of the core members and the peripheral nations such as Canada in the FTA, and Ireland, Portugal, and Greece in the EC. Industries that have a strong national base but little protection against transborder entrants may not survive (Begg 1989). The Canadian beer and wine industries expressed concerns along these lines during the FTA debates.

Equally important is the effect of the FTA and the Single European Act on the peripheral regions of the peripheral nations. These trade regimes loom as monoliths when superimposed on regional development strategies. For example, there are outstanding questions about the effect of the FTA on Canadian programmes and entitlements geared toward the Atlantic provinces—not a trivial concern as this region has the highest ratio of unemployment to income in North America and a very high percentage of the work force employed in the public sector (Statistics Canada 1990; U.S. Department of Commerce 1990).

### Service Trade

The deregulation of the service trades is an ongoing theme of both regimes. The service trades comprise a wide range of activities, including those associated directly with capital transfers such as banking. Both regimes have extensive provisions regarding service contracting across borders. Professional personnel will have reciprocal access, and government procurement will no longer be wholly confined to nationally based suppliers. This is one area in which benefits may accrue to smaller nations; the size of their potential market is greatly enlarged.

Research on the relative merits of lowered barriers to trade in services is hampered by technical obstacles. Today, much trade bypasses customs and will likely do so in the future, making baseline estimates difficult. To evaluate these outcomes, researchers should first focus on creating workable models given the data and reporting limitations inherent in any empirical investigation. The lowering of service trade barriers has, in practice, already been evolving in Europe in anticipation of the additional changes to occur in 1992. This implies that there may be a model of the European experience that is readily transferable to the North American setting.

An FTA provision that will unambiguously favour the United States will be the easing of repatriation of U.S. capital investment in Canada. Provisions with such one-sided prospects present useful bases for testing whether a trade agreement has a fatal flaw—an effect that cannot be adequately mitigated and that will lead ultimately to the legal or political breakdown of the regime.

Canadian foreign direct investment in the United States historically has been strongly concentrated in selected metropolitan cores (Harrington 1989). Neither the trade regimes nor existing national policies in either North American country specifically address regional targets for foreign capital. An emerging question is whether under lowered barriers the transborder flow will follow an inertial path toward the same areas as before or will disperse more evenly. Local government agencies and locally based investors have initiated a number of cross-border investment projects at select areas near the border. An investigation of trade at such micro levels will help reveal the role of information networks and other local catalysts. For example, Washington State's land-use regulations are somewhat more lenient than those of neighbouring British Columbia, and this has induced some of the Hong Kong-origin capital flowing into Vancouver to filter southward. One research area might be an investigation of the need to establish regional policy as a subset within the framework of the overall trade regimes.

### Transportation

Transportation services were explicitly left out of the final FTA documents in response to the lobbying efforts of the strong U.S. maritime lobby. Similarly, in Europe attempts to formulate a common transport policy have been fraught with controversy and incomplete measures. One implication of the reticence to summarily lower barriers in this sector may have been a clearer delineation of the battle lines between the potential winners and losers. Many nationally based carriers fear competition from foreign entities on routes that previously had been reserved through cabotage restrictions (Button 1985).

A separate area of research is the provision of capital for transportation infrastructure. Domestic transportation networks of most modes are generally oriented toward internal markets and production centres at the expense of periphery markets. For example, the roadway and railway network of France is centered on Paris, leaving comparatively less capacity available between, for example, points in southern France and the northern Italian industrial area. Under the regime of lowered barriers, the development of transborder goods flows and the development of purely domestic ones should be given equal emphasis. The question then arises as to how much of an impediment the existing transportation networks become and whether resources to reconcile this are available.

The transportation sector also provides one of many potential laboratories for studying the effect of free trade regimes on the differential distribution of technological resources. Harmonization of

both economic regulation and operating standards in transportation has grown concomitantly with the development of the Electronic Data Interchange (EDI), an information transmission technique aimed at streamlining the paperwork associated with goods movement. If these systems are not uniformly available, old tariff borders may merely be replaced by newly created information borders.

### Social Programmes and Political Culture

The relationship between trade blocs and social matters is perhaps the most pervasive but least quantifiable concern identified. This concern is perhaps most prevalent in the North American case where the presence of the United States permeates the Canadian consciousness—with or without the FTA. The rise of a unified Germany may have a similar though less ingrained effect in the EC. One of the manifestations of this concern is circumspection regarding negotiations over entitlements. Americans traditionally have regarded welfare as an attempt to encourage efficiency; in contrast, Canadians view welfare as necessary to meet a social ideal. Although this concern has featured highly in much of the popular debate, thus far there has been little systemic investigation of the repercussions of these views on the eventual implementation of the trade regimes.

Real or perceived changes in a member's sovereign control depend partly on the administrative structures established by the regimes. The EC has established a fairly comprehensive confederation, overseen by a highly developed political and bureaucratic structure. The more restricted North American regime is supervised by only a binational dispute resolution panel. Research into the effects of this panel in North America has focused on the legal implications, but further inquiry is needed into the effect the administrative structure may have on the underlying political culture, particularly within the smaller and more vulnerable partner, Canada.

### General Themes

The research agendas introduced here are mostly applicable to trade regimes in their infancy. As the EC and FTA mature into more established structures, it is likely that a research agenda will also evolve. A corollary question, then, is concerned with the mechanism driving the trade regime evolution and whether there are identifiable stages. Much of the literature on trade regimes discusses a structural continuum between customs unions and full confederation. A time-

sensitive analysis will help determine the relevance of such classification schema to the FTA and EC cases.

The questions regarding core-periphery relations have particular relevance to the potential expansion of both regimes. Negotiations are currently under way on including Mexico within the FTA umbrella and on expanding the EC toward the former Soviet bloc. The EC has long had very close ties with the European Free Trade Association, or "outer six". Thus, it is likely that some or all of these may be included, *de jure*, in the EC within the near future. Finally, it is possible that both regimes will eventually include Third World states—such as the Mediterranean and Maghreb nations within an enlarged EC and the Caribbean states within an expanded FTA. The possibility of this North-South linkage intensifies the need for examining issues of uneven development.

An incidental issue raised by most of the researchers was data availability. Before the harmonization of standards in goods and services, trade data were frequently assembled differently on either side of a political border. The EC is in the process of improving and standardizing its collection techniques, but no such effort is under way in North America. Researchers themselves must therefore help establish guidelines for techniques that will ensure a firm foundation for studies comparing and contrasting members of trade regimes and comparing and contrasting the blocs themselves.

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