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Regional Trade Agreements and regionalisation: Motivations and limits of a global phenomenon¹

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Abstract

The World Trade Organisation reports that the negotiation and implementation of regional trade agreements (RTAs) has been booming in the past decade. This type of agreement is negotiated at the political level; however, it primarily shapes the bilateral business environment in which trade and investment are made. It thus appears crucial to understand in which context companies consider RTAs desirable. This is because contingencies theory claims that the more markets integrate in the context of RTAs, the more firms need to strive to adopt an optimal course of action so as to benefit from coordination and harmonisation effects, thanks to the reduction of environmental uncertainty. In this briefing paper, I therefore analyse the political and corporate advantages that result from RTAs, that is, the capacity of economies and, specifically, firms to yield benefit from business in RTAs. The European Union (EU) is widely recognised as the most advanced form of resulting market integration, and has been scrutinised thoroughly for an understanding of the impact it has on cross-border business strategy. Less attention has been given to EU-induced RTAs outside of Europe, which are analysed here.

The majority of contemporary RTAs take the form of free trade agreements (FTAs) and similar relatively basic forms of economic integration, that simply remove some or all tariffs between the signatory countries. These agreements are part of what economic globalisation discourse names ‘regionalisation’, in which regions are (re-)shaped at the politico-economic level for the purpose

¹ This paper is the basis of further research and publications by Dr G. Suder (sole-authored and/or in collaborations); the author thus retains all rights in regard to this paper including those of republication of the text and material.

of collaboration and interconnectivity. Simultaneously, politics aim for this regionalism to transfer powers to or throughout regions.

What we call a ‘region’ here is not necessarily a construct of geographical neighbourhood; members of RTAs may be far from each other in kilometres and miles yet close in political and economic interests or due to historic or geostrategic reasons. Through RTAs, countries become institutionally closer because they adopt specific common based capabilities that they wish to share and intensify. In particular, the major economic powers are weaving a net of trade agreements that is increasingly intertwined and multi-layered, that reaches across continents and beyond, and that is thus preparing the economic geography of tomorrow. This paper reviews multidisciplinary literature on RTAs, combining political science, political economy, economic geography and international relations perspectives. This combination of insights reveals that RTAs mainly serve business relations as a means to gain insider knowledge and advantage of several types. However, the interest for RTAs is relatively weak in business circles when institutional distance is low and gains are either not perceived or not sufficiently distributed, for instance in the case of the EU and Australia.²

Keywords: regional trade agreement (RTA), free trade agreement (FTA)³, insidership, knowledge, integration, European Union, Australia.

In his book *The Flat World* and follow-up writings, Friedman (2005) advocates (in a nutshell) that the world is global to the extent that it becomes ‘flat’: he argues that all

² I warmly thank ANU Centre for European Studies for granting the Fellowship from November 2011 to January 2012, and the generous support and input granted for this paper and the research that it led to. Thanks in particular to ANUCES, to the EU Delegation to Australia, to the participants to my public lecture at ANUCES, to the University of Queensland Business School, in particular Professors Pekerti and Liesch, to RMIT, in particular Professor Wilson at the EU Center, and to HEC Montreal, in particular Professor Turkina, for the organisation of the presentation of an earlier version of this research, and to the participants for the helpful debates, comments and feedback to the presentation.

³ In this paper, “FTA” stands for “Free Trade Agreement” and is used as generic term for Customs Union, Free Trade Area and other economic integration agreements.

competitors gain equal opportunities in a world market characterised by the lack of geographical or historical divisions. Friedman argues that what he terms ‘Globalization 3.0’ differs from any previous globalisation. According to him, Globalization 1.0 was dictated by countries and governments. Globalization 2.0 was led by the power of multinational companies. In his view, contemporary globalisation (globalization 3.0) is ruled by world flatteners (such as outsourcing) and convergence, both of which he links to the impact of information and communication technology. In his view, these would remove all remaining boundaries and make sure that everyone in the world is better off. In principle this presupposes that foreignness and distance are replaced by familiarity and proximity, thanks to more cooperation and more opportunity to share knowledge worldwide.

Friedman’s argument, though comprehensible given his particular perspective, is rather surprising if examined from a more comprehensive viewpoint. Harvard Business School Professor Pankaj Ghemawat, Nobel-prize winner Joseph Stiglitz, and many others came to see limits in Friedman’s argument mainly because of the ‘local’ reality of economics, politics and, even more, of social and foreign affairs, that in their view superpose the global dimension. That is, we might live in a globalised world but our priorities and foci of interest remain primarily local or regional. In other words, as Rodriguez-Pose and Crezenci (2008) among others, write that there are “mountains in a flat world”, because “proximity ... still matters”. This is the world in which multinational companies are global to some extent, but nonetheless highly dependent on their regional business (Rugman 2007). Their strategies are based on bilateral and unilateral factors, evaluated typically on the basis of Cultural, Administrative, Geographic and Economic (“CAGE”) distance (Ghemawat 2007).

At the same time, in this context, a vast range and number of regional trade agreements (RTAs) are negotiated and implemented. Given that these politically agreed arrangements have a major impact on investment and trade flows, one may legitimately wonder if geographically

dispersed RTAs (such as those in negotiation between the European Union and Australia) potentially create such specific “mountains” and if so, what drives their creation.

One of the most vocal critics of Friedman’s Flat World paradigm in the International Business discipline is undoubtedly Professor Alan Rugman (2007), a distinguished International Business scholar, who asserts that most multinational enterprises (MNEs) excel in their regions rather than globally. He, and other scholars studying corporate internationalisation, appreciate the regional dimensions of globalisation and argue (implicitly or explicitly) that regions are shaped by the quest for similar or complementary institutional contexts and access to resources. A current study that I am conducting with a research team at JETRO-IDE with two scholars from Australia and Finland respectively (Suder et al. 2011), fuels this discussion as it confirms that the regional dimension has come to override, even complement, both the local and the global paradigm. In this case, if we apply Friedman’s arguments to this reality, we can argue that regions, rather than the whole world, become ‘flat’ constructs.

When one examines international trade, the integration of markets on a regional level supports this perception of ‘flattening’, or rather interconnecting, regions from the viewpoints of both economics and political economy. Unsurprising for many, the European Union has taken the lead in the pursuit of RTAs in both neighbourhood policy and with geographically distant trading partners.

The nexus of corporate, economic and political motivations for RTAs

The combined study of current political and economic literature helps analyse contemporary dynamics of regionalisation, regionalism and RTA formation. A cross-examination of political science and international business literature is a useful means of capturing a significant number of quantitative and qualitative insights into the question of what drives RTA formation from a political and business perspective. The agreement of an RTA logically originates from a nexus of political and economic *motivations* that have two effects:

1. benefits from reciprocal international business and trade relations for home and host country, driven by *economic internationalisation* including private enterprise; that is, trade agreements lead to greater cross-border business and investment opportunity;
2. benefits from the political economy of the signatory countries, driven by *political internationalisation* agents including governments signing the agreement(s), for various motivations that include (yet reach beyond) economic considerations.

The *international business* literature has increasingly stressed that further research on the role of enlarged RTAs is crucial to understanding MNE globalisation and regionalisation strategies (Fratianni and Oh 2009; Dunning et al. 2007; Buckley et al. 2001). The link between regional integration, the intensity of trade flows and foreign direct investment (FDI) attracts increasingly more interest. From a *political science* angle, we can observe that during that same time, Barbé and Johansson-Nogués (2008) had started to examine the increasingly dynamic RTA phenomenon arguing that the EU spreads soft power through the agreement of such partnerships for external market development. This argument for soft power (Nye 1990) in political science refers essentially to a concept that stipulates that, when one shares values with another, one enhances “the ability to get what you want through attraction rather than through coercion”. Depending on its interpretation, this is an alternative or complementary to military and economic pressure. The benefit that political and economic stakeholders yield from integration is, as Nye (1990) states, that relations are “cultivated through relations with allies, economic assistance, and cultural exchanges” in what international business literature would be considered as a means of ‘closing the distance’, in psychic terms and ‘closing knowledge gaps’ about one another or about formerly unfamiliar environments (Petersen et al. 2008). This soft power approach was criticised by neo-realists and neo-rationalists claiming the only two theoretical purposes that can be considered motivators to stakeholders in international relations are incentives of economic nature and force. The analysis of RTA drivers, or motivations, lets us believe that the latter view is somewhat limited in its interpretation. This is because a variety of interests, mainly from agents

from the political and the corporate arena, together influence the relations established to introduce RTAs, of which a mutual soft power strategy of the partners results in a normative convergence. This may possibly – but not necessarily – result in an “attempt to shape global order through normative change rather than the use of force” (Manners and Whitman 2003). From the political science literature, we also learn that RTAs are grounded in a basis of institutional coherence. In addition, psychic and institutional proximity are important drivers of RTA negotiation and implementation. That is, when cultures and institutions are either similar, complementary, or capable of cooperating due to other affinities, they will do so increasingly over time, thus learning to coordinate political and economic actions successfully, and finally enhancing the opportunity and capability for RTA agreement. This understanding of augmenting institutional coordination that we find in the political science literature is mirrored in ‘institutional theory’ found in the international business literature. In this literature, institutional ‘proximity’ is considered to be directly interrelated with tacit knowledge (Gertler 2002; Hennart 2009) and culture (Hutzschenreuter and Voll 2008), and with explicit knowledge of, for example, legal systems (Coeurderoy and Murray 2008), rules, norms, standards and administrative obligations (Suder, 2011). It thus shapes learning among actors, which is experiential (learning by doing) and/or non-experiential (e.g., imitative) learning. Learning about formal and informal institutions improves the capacity of political and economic actors to exploit the knowledge they acquire and enables them to strengthen dynamic capabilities, to further expand their activities in the future upon this knowledge. These can be called integration-specific capabilities. Ideally, the knowledge of how to do business within an RTA, that is, how to best acquire, assimilate and exploit the knowledge relative to market integration contingencies (for example, rules, standards, norms, mutual recognitions, inter alia) and the resulting proximity, serves to create and accumulate valuable assets and potentially inimitable knowledge (Teece et al. 1997; Barney and Hesterley 2010). This knowledge is difficult for those outside the RTA, referred to in political circles as ‘third countries’, to access, imitate and exploit. It requires human and organisational

investment into learning and is the key for any organisation's quest for sustainable performance because it is a key resource: institutional knowledge is a strategic asset in the launch of foreign ventures, and it can be acquired, and is heterogeneous and dynamic and not perfectly mobile. As a consequence, political and economic actors who make this investment and obtain this integration-specific knowledge, benefit from regional integration.

By consequence also, the establishment of RTAs can contribute to an organisation's capacity to deploy resources, creating competitive advantage, to coordinate its activities more efficiently and to have an advantage over outsiders of the RTA. This is based on the elimination of trade barriers through preferential trade provisions, which is known to increase intra-regional cross-border trade (Baier and Bergstrand 2007) and investment (te Velde and Bezemer 2006; Bergstrand and Egger 2007).

Thus, the negotiation and establishment of RTAs is recognised as a significant event in political science and international business literature. Some authors stress that the role of international business actors in this political economic agreement should be a proactive one. For example, Cantwell et al. (2010) discuss a co-evolution of multinational enterprises (MNEs) and institutional environments, in which "firms...objective is no longer simply to adjust, but to affect change in ... institutions – be they formal or informal. For example, an MNE might engage in political activities to advance specific kinds of regulation or market structure that give it an advantage over its competitors". They "embrace the transmission of home-country institutional practices that are adopted by the MNE parent, and transferred within the MNE network. Co-evolution may also involve activities in which the MNE engages to affect institutional change at the supranational level" (p. 577). The firm is thus an active agent of institutional change of its business environment, including its regionalisation, if the organisation makes that investment.

In the same body of literature, we find the concept of the "liability of foreignness". This concept explains that organisations suffer from a disadvantage that an organisation will potentially bear from being foreign and unfamiliar with a business and/or institutional

environment: Johanson and Vahlne (2009) note, “a lack of institutional market knowledge – that is, lack of knowledge about language, laws, and rules – has to do with factors related to psychic distance, and to the liability of foreignness” (1416). This means that RTAs can be expected to reduce ‘foreignness’ and its potential disadvantage thanks to an increasing institutional proximity. This again explains the role of business as an active (though mainly indirect) agent in RTA building and negotiation.

The liability of foreignness concept helps us categorise

- firstly, types or categories of proximity that political members of RTAs strive to establish through the agreement(s), illustrated in Figure 1,
- secondly, types or categories of benefits that corporate actors can yield from such regionalisation of their business environment, summarised in Table 1 and later developed in Table 2 below.

Table 1: Motivating factors (non-exclusive) for FTAs with the EU

| FTA signed or prepared with EU | Fundamental Motivating factor |
|---------------------------------------|--|
| EU | Peace, stability, economic growth, welfare after wars. |
| EFTA | Economic growth, stability. |
| EU – India | Trade & Investment (T&I), emergence |
| EU – Australia | T&I, historic links. |
| EU- Canada | T&I, historic links. |
| EU- CLAs | Humanitarian; economic emergence. |
| EU – Mexico | Trade, historic links |
| Euro-Med | Peace, stability, historic links |
| EU-Mercosur pact | T&I, economic emergence |

| | |
|--------------------------------------|---|
| Cotonou, EAC , ESA, COMESA relations | Humanitarian; historic links |
| EU- APEC | (Largest grouping with privileged EU access) economic emergence |
| EU- AFTA/ASEAN | (FTA with members on bilateral basis e.g. Singapore) economic emergence |

Selected FTAs with Europe; T&I= Trade & Investment opportunity;

Source: Suder 2011-a

This taxonomy of RTA formation motivators, from an interlinked political and economic perspective, reveals the focus on economic growth, with trade and investment flows as key to such growth. The multi-disciplinarity of this analysis reveals also that these drivers may be essential, yet they are not exclusive and may not include sufficient components for RTA agreement.

Understanding regional integration among distant locations

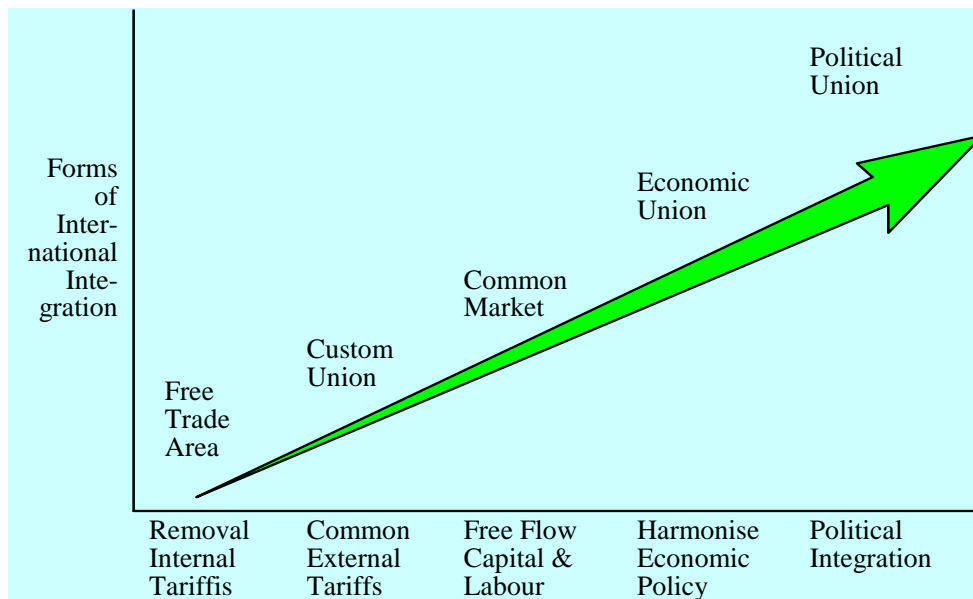
The phenomenon of regional integration has evolved from the integration of geographically close members into agreements between geographically distant countries, while keeping the term and concept of the 'RTA' even for geographically distant agreements. Example of such agreements are the emerging integration effort between the EU and Australia, between Australia and the UK (Van der Eng 2011), between the EU and Canada (historically close and the latter at the same time part of NAFTA), and South Korea (with its economic power well integrated into Asian networks), between the EU and India, the EU and the USA, and others⁴.

Viewed through the lens of international business theory, such RTAs counterbalance

⁴ For a comprehensive map of FTA formations worldwide, see for example <http://trade.ec.europa.eu/doclib/html/118238.htm>.

disadvantages of distance. They grant privileged mutual trade conditions and market access to economic stakeholders via the agency of political signatories without consideration of distance as a disadvantage. As mentioned earlier, the elimination of trade barriers increases intra-regional cross-border trade and investment. Even the most basic free trade areas or economic partnerships potentially lead to some level of mutual recognition, harmonisation and/or standardisation of certain or all trade procedures, if not economic policy, which procure integration-based region-specific knowledge to its actors. They benefit from such knowledge to varying degrees. Figure 1 below summarises the basic harmonisation effect of different types of RTAs as different forms of economic integration, indicating the main harmonisation characteristics of each form that may augment along the agreement selected.

Figure 1: Forms of economic integration



Source: Suder 2011-a

Each step of integration into an RTA thus grants members some type of “insidership”, in the sense advocated by Johanson & Vahlne (2009), and coordination with other members. This consequently enhances access to economic, and also enhanced historical, cultural and

institutional knowledge. This knowledge stimulates a perception of proximity beneficial to collaboration, which in the long term, results in reduced psychic distance. To return to Friedman, this is what he thought he observed on a global level, though through a different lens of interpretation. However, even if we scrutinise the impact of quasi-global agreements such as the WTO, we cannot observe any similar global effects of networking and insidership as those granted by regional integration through RTAs.

Clearly, economic collaboration is sought with a view to engaging political RTA agreements that normalise formal and informal institutional relations, and vice versa. This is a chicken and egg situation. That which comes first, the political or the economic internationalisation agency of RTAs, depends on the specific bilateral context. Institutional theory may again help to understand some of the phenomena, as advocated by DiMaggio and Powell (1983) and Orr and Scott (2008). Institutions are seen as regulators of economic activity that determine and set the rules of business environments; they create and maintain the basis for production, exchange, and distribution. RTAs such as the EU Single Market have shown their strength at consolidating industry sectors on regional levels that most likely would not otherwise have withstood international competition (e.g., in the European aircraft industry). This is also shown in guaranteeing diverse and sometimes new markets for members' industries, resulting in prolonged life cycles and innovation, such as for the French automotive sector in EU enlargement countries, for example Renault's Dacia.

At the same time, the Euro-crisis exposes the challenges resulting from integration and interdependencies, in particular, when incomplete. They also open yet unrecognised opportunities to business, including strategic alliances with new investors and the exploration of alternative locations. Again, mainly organisations that have invested in integration-specific capabilities yield the benefits.

Additional Value gains: The outward regionalisation perspective

The EU is built on a highly advanced (and illustrative) model of economic development, which includes economic, cultural and political integration. Niroomand and Nissan (2007) demonstrate this on the basis of a statistical analysis in which the convergence performance of the EU nations is assessed. This model generates a profound belief in the stimulation of a range of benefits at European multilateral institutional level and, again, is based on economic considerations accompanied by peace, and geopolitical and social considerations.

This has led to the external expansion of its RTA network, as occurred during the Euro-crisis. As Rollo (2011) argues, this phenomenon provides “the potential for a mutual recognition agreement to encourage deep integration in areas of high value-added manufactures; but that it might require a formal free trade agreement to give the institutional framework to allow mutual recognition to work”. The phenomenon thus intertwines, at a minimum, political and economic contingencies of one purpose. It is not exclusive to the EU.

Bilateral relations are only one segment of the vast RTA dynamics today. They are deeply rooted and shared in the recent negotiations and agreements between the EU and South Korea or Malaysia, and Australia with Singapore; Thailand and its Comprehensive Economic Partnership Agreement with Indonesia; or between the USA and Japan; the USA and South Korea; India and ASEAN; between the EU and the USA; and the Eurasian Customs Union between Russia, Belarus and Kazakhstan, to cite a few examples.

It is noted above that value-gains from economic integration are based not only on economic considerations, but several studies have questioned whether regional integration is a political, social and economic institutional strategy to deal with globalisation when related to growing interdependence, to the openness of economies and to peace. Barbé and Johansson-Nogués' (2008) analysis suggests that the EU uses a soft power policy in its external affairs, giving RTA activity the rank and significance of a politico-economic instrument of influence.

At the World Trade Organisation where RTAs are listed, we read that regionalism is

described in the Dictionary of Trade Policy Terms, as “actions by governments to liberalize or facilitate trade on a regional basis, sometimes through free-trade areas or customs unions”. In the WTO context, RTAs have both a more general and a more specific meaning. RTAs may be agreements concluded between countries not necessarily belonging to the same geographical region; and WTO provisions may indeed relate specifically to conditions of preferential trade liberalisation with RTAs⁵. In this context, the European case is widely discussed as a particular phenomenon in the field of integration, sometimes even termed: ‘unique’. This is so mainly because European integration is highly advanced (though far from complete) as we were recently reminded through the Euro-crisis) and it is distributive. Laffan (1997) states that this case is an illustration of ‘deep regionalism’ in scope that, by its international scale, exerts ‘soft power’ to gain, facilitate and maintain market access. Twelve years after Laffan’s study of political integration, Fratianni and Oh (2009) state, “Regional trade agreements (RTAs) are an integral part of the international trade system, and have been, since the European Economic Community was launched in 1958” (1106). The awareness that European integration is a driver behind a worldwide phenomenon thus arrived also in the literature of economics and international business: The EU is considered the world’s most highly unified form of economic integration of sovereign states (Rosamond 2005; Suder 2011 a & b).

The validity of the European model is a critical question debated by many authors of political science and international business literature today. Murray (2010, a & b) for example sheds light on the external perception and impact of the European integration model. Within this external view, scholars agree that European ideas and values are not universal (Flockhart 2006), but their diffusion is mainly relayed as positive (Börzel and Risse 2009; Suder et al. 2011). This has mainly developed since the end of the Cold War (Börzel and Risse 2009) with the inclusion of central and eastern European transition economies into the EU’s realms. The European

⁵ See: http://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm

integration model is thus perceived as a stimulus for a “propensity of the Community to reproduce itself...advocating its own form of regional integration” (Camroux 2008). Can this regionalism be valid as a *global paradigm of regional networking*, a realistic role model for the future of globalisation? The WTO cautions against enthusiasm for an ‘easy solution’ of this kind, by claiming that “the proliferation of RTAs, especially as their scope broadens to include policy areas not regulated multilaterally, increases the risks of inconsistencies in the rules and procedures among RTAs themselves, and between RTAs and the multilateral framework. This is likely to give rise to regulatory confusion, distortion of regional markets, and severe implementation problems, especially where there are overlapping RTAs” (<http://www.wto.org>). Also, one may wonder if RTAs are universally beneficial and desirable.

The Imperative of factor advantages

In its early stage, the foremost concern of the EU was to gather the nations and peoples of Europe: European states were to work with other countries and with international organisations to remove economic, political and cultural historic animosities, to develop economic regions and promote worldwide relations governed upon peace principles. The main objective was (and still is) to spread the values of freedom, democracy, human rights and peace, based on the dramatic experiences of World War II, and on a resulting strong belief in the benefits of cooperation on a multilateral level. The award of the 2012 Nobel Peace Prize to the European Union recognised the undisputable progress made in this endeavour. The evolution of European international relations and international trade has developed alongside this belief.

Within the EU, two forms of integration are identified. They are referred to as ‘deeper’ and ‘wider’ integration. The first relates to harmonisation and standardisation. The second conveys the enlargement of the Single Market on a geographical basis (Suder 2011b). These dimensions are not distinct but complementary in nature (Hussey and Kenyon 2011: 319) and generate different yet complementary advantages on an economic, politic, social and geopolitical level,

that is, integration-specific factor advantages.

International trade, primarily based on the international voluntary exchange of assets, is accepted by scholars of all disciplines as constituting the very basis of this economic integration, more than political or cultural cooperation (despite the latter two aspects' undisputed importance in 'deep' integration). Because all international transactions play a role in nations' wealth, much effort is dedicated to recording and analysing them, and to preventing or solving trade frictions. Within its competences, the EU is entitled to negotiate bilateral trade agreements with countries or regional groups of countries as one single entity, for its twenty-seven member states (European Union 2009). As a consequence of this power, according to Hussey and Kenyon (2011), two main strategies prevail in the spread of integration by the EU, on intra- and extra-level: "In seeking Deep and Comprehensive Free Trade Agreements (DCFTAs) with eastern European countries, the EU appears to be insisting that the latter accept the full harmonisation of their regulatory standards with those of the EU. Conversely, with other industrialised countries with which the EU appears more likely to share a greater commonality of regulatory goals, it has primarily relied on the mutual recognition of respective standards testing authorities in bilateral agreements with Australia, New Zealand, the United States, Canada, Israel, Japan and Switzerland in aiming to defuse trade tensions over regulatory divergences" (Hussey and Kenyon: 4). From a political economic point of view, such arrangements are stimulated by the elaboration of cost benefits stemming from inter-firm and intra-firm transactions organised within a network (Scott 1988) and the ease of acquisition, processing, and acting on information about opportunities in the host market. The firm and its international business propensity thus have a major role to play in the RTAs' evolution and functioning. This supports the belief in what is known as the 'transaction cost theory'. This theory stipulates that transaction costs are externally uncontrollable. The only exception to this stems from the use of non-market strategies such as political activity. RTAs thus reduce the uncertainty that is part of the analyses of transaction cost theory, and, as advocated by our resource-based view above, allows the firm to

allocate or reconfigure resources efficiently; that is, because institutional certainty is established (at least to some degree), organisations can focus increasingly on market (rather than non-market) considerations, and exploit their capabilities to yield better competitive advantage within the regionalisation of comparative advantages stemming from integration.

This is the basis from which regionalisation reaches beyond geographically defined zones. Rather, the phenomenon indicates the interdependence of economic constructs that create regions of insidership for organisations, and politico-economic constructs that can span the world map, and that may shape it accordingly. Given that these constructs are confined to specific locations, we can argue that globalisation has not evolved into a flat world where all competitors have equal opportunities but rather, into a network of potential regional insider advantages.

The EU – Australia FTA negotiations: Illustrating limits to the insider advantage argument of RTAs

Interestingly, there are limits to the arguments elaborated above. Australia and New Zealand appear to be at the periphery of the development of emerging formal integration patterns, similar to Canada regarding its NAFTA role, despite both regions' high level of knowledge resources and institutional proximity to other highly developed economies. Australia boasts strong historic links with the EU, in particular with the UK, and with the great majority of the Asia-Pacific region. However, in contrast to what we would expect from the above-developed arguments, RTA formation efforts are relatively ineffective between Australia and the EU at this time, leading us to believe that the added insidership advantage, that would additionally be obtainable through formalised agreements, is either not apparent or not considered equally distributed or not sufficiently significant. The latter has been echoed during MNE headquarter interviews conducted by the author and during presentations at the ANU Centre for European Studies 2012.

In certain circumstances, sector limitations to FTAs need to be explored to ensure mutual

benefits for a maximum number of insider countries, companies and communities. The FTA with India, for example, is still handicapped by the non-resolution of specific tariff and non-tariff barriers. For Australia, one main issue is the impact of an RTA with Europe at an agricultural level.

In the case of EU-India relations, however, the 2012-scheduled free trade agreement is expected to significantly stimulate opportunities for both sides, where exports and imports are balanced and FDI (Foreign Direct Investment) continues to be stronger in India (Qureshi and Wan 2008). Indian MNEs are increasingly seeking investments in the European market, following the Tata Group and other emerging international players, while the EU is looking into the emerging market of India for resource and for market-seeking reasons. Among those moves to open trade, the EU reported that on 12 October 2011, the Food Safety and Standards Authority of India (FSSAI) facilitated the trade of certain foods. This was seen as a sign of further progress at the political level and a crucial easing for European exporters. Furthermore, significant progress in negotiations was reported in autumn 2012. Ensuring that gains are mutually appreciable is a complex matter.

But what if additional gains cannot be perceived? Coming back to our example of Australia, the EU and Australia today hold mutual science and technology agreements; mutual recognition of conformity assessment (testing, inspection and certification of products traded between Europe and Australia in the exporting country rather than at destination); wine agreements (protection of intellectual properties in wine terms, prevention of false representation to consumers); agreements on the export of coal, and an agreement on the transfer of nuclear material, and more specific cooperation agreements. The cooperation also includes environmental and energy issues, and spans a vast array of potential political and economic motivators that we have observed also as RTA motivators: Nonetheless, the negotiations of 2010/2011 did not result in the conclusion of an FTA and still have not today.

Companies have pointed out that for historic reasons, market access conditions are perceived

as already highly mature and integrated and that additional formal RTA would gain little value (Suder 2012 interviews). Worse, they point out that formalisation will result in an increase of red-tape and adjustment, and thus, cost.

We can therefore argue that integration may only be perceived as desirable when insidership is yet to be reached, that is, economic stakeholders lose interest in RTA formation when institutional distance is insignificant in the quest for factor advantage. When political and economic actors possess sufficient insider knowledge to effectively and efficiently coordinate collaborations, no additional formalisation of normative convergence can be expected. Only when the perception that capabilities can be renewed or that additional valuable, inimitable advantage can be explored and exploited, will there be a co-evolution of economic and institutional environments towards a formalised RTA.

The spread of RTA: considerations for the future of economic geography

The greater the burden stemming from foreignness between two or more countries or regions, the more difficult, albeit the more worthwhile, it is for economic and political forces to obtain an RTA. When the foreignness is not extreme yet important enough to hinder insidership advantages as exposed in this briefing paper, that is, hinders sufficient levels of valuable inimitable knowledge about the institutional and business environment, then it is likely that an RTA will be efficiently negotiated and implemented. This may result in significant value-gains in regard to comparative and competitive advantage. The more specific knowledge that can be leveraged, the more integration advantage will actively be sought. At the other extreme, the less foreignness perceived by relevant stakeholders, and the fewer gains expected to be distributed additionally through formalisation, the less interest there will be in an RTA.

The increasing acknowledgment by political science and international business scholars of the scale and scope of regionalisation through integration recognises these dynamics. This briefing paper aims to stimulate further interdisciplinary focus in regard to the emergence of

‘flatter’ regions that increasingly build ‘mountains’ of insider knowledge and the limits to the phenomenon. This paper is thus an attempt to set the scene for a better understanding of regionalisation and for further research. Geographical proximity is not a determining factor for integration, nor are psychic or institutional distance factors inhibiting integration. For the sake of corporate and overall politico-economic regionalisation strategy, distance and proximity are redefined by the degree of perceived political and economic insidership advantages, rather than by the number of miles or kilometres.

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