

**Question No.5 Write short notes on of the following:**  
**c) Rationale of Regional Economic Groupings**



**Solution:** While the basic objective of all the groupings, irrespective of the form that each of them might have taken, appears to be the same, viz. improving the welfare of people within the region through creation of a larger production base and increased market size for producers and greater choice to both producers and consumers, a number of factors seem to have contributed to regional economic groupings gaining momentum in recent years.

**Political Objective:** The basic motive behind formation of the European Union was political, i.e., to avoid future conflicts among European nations after the two world wars. The West European countries, who had paid a very heavy price during the first and the second world wars had, after considerable deliberations, decided to seek political unity through economic route. With the support provided by USA under the Marshall Plan, they decided to form the United Community by surrendering their individual national sovereign-ties to a regional body on trade and economic matters. This gave birth to the European Common Market, to start with, and now the countries are moving towards political and economic union.

**Response to Slow Progress of Global Liberalization:** One of the factors that has contributed to formation of economic groups with emphasis on removal of mutual trade barriers can perhaps be traced to the dissatisfaction, at the relatively slow progress, at international level, of attempts at liberalization of international trade. The Uruguay Round of Trade Negotiations, which

commenced as far back as 1986 could, after all, be concluded during December 1993 only and still there are a number of issues such as labour standards on which agreement is yet to be reached. It is, therefore, no wonder if some countries had felt that, probably, it was better to begin the trade liberalisation agenda by knocking down barriers among limited number of like minded countries in the region, while at the same time continue working towards barrier removal at global level. Regional Initiatives: One of the reasons for emergence of regional groupings can be traced to a feeling, among countries belonging to a region, that it was far easier and made better economic sense to trade more with the countries in the region rather than with countries outside the region. The objective was to fully exploit the advantages offered by regional initiatives. This logic was behind the philosophy of South-South trade and the trade groupings becoming region oriented. The poor countries in particular, given the small size of their markets, looked at regional grouping as a better means to achieve their objective of import substituting industrialisation since it gave them the benefit of an enlarged market.

**Demonstration Effect:** Another reason for the countries belonging to a particular region flocking together, probably, was to improve their bargaining power when they noticed that developments towards formation of groupings were taking place in other regions. This was more in the form of demonstration effect or self defence mechanism mainly undertaken to avoid the likely problems of isolation from the general trend.

Whatever were the reasons that have prompted a number of countries to form regional groupings of some sort or the other; the groupings have proved one thing that it has been found easier for producers, rather than consumers, to get together.