Regional Trade Agreements: Promoting Conflict or Building Peace?

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Working Paper Series # 104
2006

A publication of the Sustainable Development Policy Institute (SDPI).

Sustainable Development Policy Institute is an independent, non-profit research institute on sustainable development.

WP - 103 - 002 - 060 - 2006 - 16

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Abbreviations

ASEAN	Association of South East Asian Nations
CU	Customs Union
DSB	Dispute Settlement Body
EP	Economic Protocol
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GATT	General Agreement on Trade and Tariffs
GDP	Gross Domestic Product
GLR	Great Lakes Region
MERCOSUR	South American Common Market
OAS	Organisation of American States
OECD	Organisation for Economic Cooperation and Development
PA	Palestinian Authority
RTA	Regional Trade Agreement
SADC	South African Development Community
SAFTA	South Asian Free Trade Agreement
SAPTA	South Asia Preferential Trading Arrangement
UK	United Kingdom
UN	United Nations
US	United States
USD	United States Dollars
WTO	World Trade Organisation

Regional Trade Agreements: Promoting Conflict or Building Peace? [1]

Shaheen Rafi Khan, Moeed Yusuf, Oli Brown and Faisal Haq Shaheen

Abstract

Economic globalisation has witnessed the rise of Regional Trade Agreements (RTAs) as a means of mitigating economic and political shocks along with their linkages with conflict. A review of economic literature reveals perspectives that largely support the positive correlation between peace building and economic integration. However, while internal and external factors have been seen to contribute to the growth of RTAs, they have not been devoid of the reality of contributing to instability within and between nations. In fact, while the experience of the European Union has generated a plethora of research that supports the hypothesis that increased trade reduces conflict; the opposite has been found to be true in a variety of dyads surveyed across Latin America, Africa and Asia. The study concludes with cautionary encouragement, in the spirit of SAARC's inception, that research continue across a wide range of both economic and non economic drivers to ensure that conflict and trade linkages encompass all aspects of sustainable development and contribute to increasing peace and security for all segments of society.

1. Introduction

Over the last fifteen years Regional Trade Agreements (RTAs) have become defining features of the modern economy and a powerful force for globalisation. By the beginning of 2005 more than 250 RTAs had been notified to the World Trade Organisation (WTO).[2]

The example of the European Union as an economically successful trade agreement and peaceful political arrangement has much to offer the world. Whilst the EU is the product of a unique political and economic landscape, other RTAs also have the potential to build peace and prosperity.

However, without a clear understanding of their potential hazards, RTAs also run the risk of escalating tensions and hindering development. RTAs can be divisive and exclusive, and their terms can embed regional tensions, power imbalances and even import variables that contribute to existing animosities. Especially when negotiated between countries of differing economic power, trade agreements can exert powerful leverage on the political stability of the economically weaker partner.

Poorly designed and implemented RTAs can lead to heightened tensions between countries and increase the risk of inter-state conflict. At the same time, the political and economic adjustment costs involved in pursuing regional trade integration can undermine local livelihoods and create winners and losers, spurring competition between groups and leading to intra-state conflict.[3]

As negotiations continue within the auspices of the WTO there is a growing realisation that intransigence amongst both developed and developing country trade negotiators may continue to stall progress towards lowered tariff barriers and increased market access. With a multilateral trade system

1 This paper is derived from research produced for a project funded by the International Development Research Centre (IDRC), Ottawa, Canada

2 Crawford and Fiorentino, '*The Changing Landscape of Regional Trade Agreements*', WTO, 2005, p.1

3 Violent conflict – is understood in this context as encompassing both violent conflict and destabilizing but non-violent disputes between and within states

that is repeatedly frustrated by the competing interests of the 148 members of the WTO, countries are increasingly seeking to advance their national interests outside the agreed multilateral framework of the General Agreement on Tariffs and Trade (GATT).

If talks within the WTO fail to produce substantive results then it is likely that renewed energy will be put towards regional trade integration as a more flexible way of liberalising trade and pursuing other geo-political goals. In short, Regional Trade Agreements are likely to become a more, not less, common features of the world economy.

The debate on RTAs has tended to revolve around the somewhat narrow topic of what the trend means for multilateral trade liberalisation; whether RTAs are a 'stumbling block' or a 'stepping stone' to multilateralism.
However, as the European Union shows, trade agreements can presage deep and profound economic, social and political changes. Aid donors and the international community have been particularly keen to promote regional integration in the developing world as a stepping-stone towards greater interdependence, trade liberalisation and stability. Yet while the process promises much in terms of greater interdependence and stronger relationships between countries it also presents grave dangers if non-economic factors are not addressed.

This paper attempts to outline the relationship between Regional Trade Agreements and violent conflict. It charts the development of RTAs around the world and questions the extent to which the trend is an endogenously or exogenously driven process. It then investigates some of the non-trade concerns that are being bundled into modern RTAs – particularly those that attempt to use trade agreements as a vehicle for good governance and interdependence as mechanisms to encourage peace. Finally, it attempts to assess the positive and negative impacts of RTAs on peace and security around the world.

PART A. RTAS, CONFLICT AND PEACE BUILDING

2. Rush to Regionalism: The rapid growth of RTAs - 1990s onward

The number of regional trade agreements has been steadily increasing over the last 15 years as has the share of preferential trade in world trade. By the beginning of 2005 around 250 Regional Trade Agreements had been notified to the WTO (see the list of selected RTAs below). Of these: 170 are currently in force, approximately 20 are awaiting ratification and a further 70 are under negotiation. All but one WTO member, Mongolia, are engaged in RTAs of one sort or another.[4]

Regionalism is accelerating. In the 13 months between January 2004 and February 2005, 43 RTAs were notified to the WTO. In the words of Jo-Ann Crawford and Roberto Fiorentino of the WTO, '*this [is] the most prolific RTA period in history*'.[5] For some WTO members preferential trade now represents over 90 percent of their total trade. While some agreements count as few as three member nations, the majority have ten or more signatories.

Crawford and Fiorentino's 2005 study argues that there are four main emerging trends in regional trade integration:[6]

1. Countries are increasingly making RTAs a central objective of their trade policy which may take priority over multilateral trade objectives,
2. RTAs are becoming more complex, in many cases establishing regulatory regimes that go beyond multilaterally agreed trade regulations,

4 Crawford and Fiorentino, '*The Changing Landscape of Regional Trade Agreements*', WTO, 2005, p.1
5 ibid
6 Crawford and Fiorentino, '*The Changing Landscape of Regional Trade Agreements*', WTO, 2005, p.1

3. The emergence of trade agreements between key developing countries may be evidence of strengthened 'south-south' trading patterns,
4. RTAs are generally expanding and consolidating. On the one hand there are a growing number of cross-regional RTAs, which account for a large proportion of the total increase in RTAs. On the other hand, regional trading blocks that span continents are in the making.

Table I: Acronyms for Selected Prominent RTAs

Abbreviation	Full Title	Member Countries
AFTA	ASEAN Free Trade	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
ASEAN	Association of South East Asian Nations	Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
BANGKOK AGREEMENT	Bangkok Agreement	Bangladesh, China, India, Republic of Korea, Laos, Sri Lanka
CAN	Andean Community	Bolivia, Colombia, Ecuador, Peru, Venezuela
CARICOM	Caribbean Community and Common Market	Antigua, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Trinidad and Tobago, St. Kitts and Nevis, St. Lucia, St. Vincent and The Grenadines, Surinam
CACM	Central American Common Market	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CEFTA	Central European Free Trade Agreement	Bulgaria, Croatia, Romania
CEMAC	Economic and Monetary Community of Central Africa	Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon
CER	Closer Trade Relations Trade Agreement	Australia, New Zealand
CIS	Commonwealth of Independent States	Azerbaijan, Armenia, Belarus, Georgia, Moldova, Kazakhstan, Russian Federation, Ukraine, Uzbekistan, Tajikistan, Kyrgyz Republic
COMESA	Common Market for Eastern and Southern Africa	Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe
EAC	East African Community	Kenya, Tanzania, Uganda
EAEC	Eurasian Economic Community	Belarus, Kazakhstan, Kyrgyz Republics, Russian Federation, Tajikistan
EC	European Community	Austria, Belgium, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, the Netherlands, United Kingdom
ECO	Economic Cooperation Organization	Afghanistan, Azerbaijan, Iran, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Uzbekistan
EEA	European Economic Area	EC Iceland, Liechtenstein, Norway
EFTA	European Free Trade Association	Iceland, Liechtenstein, Norway, Switzerland
GCC	Gulf Cooperation Council	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
GSTP	General System of Trade Preferences Among Developing Countries	Algeria, Argentina, Bangladesh, Benin, Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, Democratic Peoples, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Islamic Republic of Iran, Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania, Singapore, Sir Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, United Republic of Tanzania, Venezuela, Vietnam, Yugoslavia, Zimbabwe
LAIA	Latin American Integration Association	Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela
MERCOSUR	Southern Common Market	Argentina, Brazil, Paraguay, Uruguay
MSG	Melanesian Spear head Group	Fiji, Papua New Guinea, Solomon Islands, Vanuatu,

Abbreviation	Full Title	Member Countries
NAFTA	North American Free Trade Agreement	Canada, Mexico, United States
OCT	Overseas Countries and Territories	Greenland, New Caledonia, French Polynesia, French Southern and Antarctic Territories, Wallis and Fortuna Islands, Mayetta, Saint Pierre and Miquelon, Aruba, Netherlands, Antilles, Anguilla, Cayman Islands, Falkland Islands, South Georgia and South Sandwich Islands, Montserrat, Pitcairn, Saint Helena, Ascension Island, Tristan da Cantu, Turks and Calicos Islands British Antarctic Territory, British Indian Ocean Territory, British Virgin Islands
PATCRA	Agreement on Trade and Commercial Relations between the Government of Australia and the Government of Papua New Guinea	Australia and Papua New Guinea
PTN	Protocol Relation to Trade Negotiation among Developing Countries	Bangladesh, Brazil, Chile, Egypt, Israel, Mexico, Pakistan, Paraguay, Peru, Philippines, Republic of Korea, Romania, Tunisia, Turkey, Uruguay, Yugoslavia
SADC	Southern African Development Community	Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe
SAPTA	South Asian Preferential Trade Agreement	Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, Sri Lanka
SPARTECA	South Pacific Regional Trade and Economic Cooperation Agreement	Australia, New Zealand, Cook Islands, Fiji, Kiribati, Marshall Islands, Micronesia, Nauru, Papua New Guinea, Solomon Islands, Tonga, Tuvalu, Vanuatu, Western Samoa
TRIPARTITE	Tripartite Agreement	Egypt, India, Yugoslavia
UEMOA – WAEMU	West African Economic and Monetary Union	Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, Togo

Source: WTO Online Country Profiles, 2005.

Acronym Soup - a word on terminology;
There are a number of different types of trade agreement and a variety of ways to describe them. As these phrases are often interchangeable and confusing it is worth briefly noting what we understand by them in this paper.

- *A Free Trade Agreement* (FTA) is where each party to the agreement reduces tariffs and other non-tariff barriers to trade but maintains its own trade policy vis-à-vis third parties.
- *A Preferential Trade Agreement* (PTA) is the same thing but the term highlights the point that the lowered trade barriers between partners are preferential to those offered to third parties.
- *A Customs Union* (CU) is more politically ambitious requiring as it does a common external tariff and the harmonization of external trade policies.
- *Regional Trade Agreements* (RTAs) simply refer to any of the three above when concluded between a regional group.

3. Understanding the growth of RTAs

The socio-economic and political 'drivers' of Regional Trade Integration can be divided into 'internal factors' (drivers that originate from within a particular region) and 'external factors' (drivers that originate from outside a region or nation).

3.1 Internal Factors

***New markets and trade opportunities*:** Typically, by expanding access to foreign markets, Regional Trade Agreements promise cheaper imports and more valuable exports. They can also help promote foreign direct investment, improve economic growth, improve a countries' balance of payments position and open access to new skills and technology.

- MERCOSUR, the RTA concluded between the countries of southern Latin America, is credited, for example, with significantly increasing regional trade flows in the decade between 1990-2000.

Exports between MERCOSUR members rose from US$4.1 billion to $17.6 billion while imports grew from $4.2 billion to $17.9 billion. Between 1995-2000, exports of every MERCOSUR state to other members showed an upward trend.

Geo-strategic and political interests: While economic interests may be the principal engines driving the growth of RTAs, such agreements are also increasingly being guided by political, strategic and security concerns. The fact that the negotiation and commitments of RTAs tends to be less transparent than multilateral trade negotiations makes such an approach easier. There are several examples of south-south RTAs that reflect a combination of economic and security goals:

- The Association of Southeast Asian Nations (ASEAN) was initially created as a response to the perceived spread of communism in the region in the 1960s. Although ASEAN has since set itself the task of maintaining regional peace and stability, it has been careful to pursue a policy of non-interference in domestic conflicts – most controversially refusing to censure Myanmar over its human rights record.
- RTAs can help bolster a country's strategic position. Pakistan and Bangladesh, for example, have increased their trade ties with China to counterbalance India's perceived hegemony in South Asia.

Growing frustration with multilateral trade negotiations: There is mounting scepticism in the ability of negotiations under the framework the World Trade Organisation to deliver sufficient progress towards trade liberalisation.

- The perception is that negotiating trade agreements within smaller blocks is both more flexible and quicker than attempting to bring the 148 members of the WTO to consensus. In addition, regional trade agreements can be more specific to the needs of a particular region than the 'lowest common denominator' solution often offered at WTO negotiations.

Counterbalancing the negotiating power of other blocs: Regional blocs are useful in enabling nations to negotiate common interests both within and outside the WTO. Increasingly, many developing countries are realizing that their interests may be served best by integration with like-minded countries that have similar economies.

- In the case of Latin American economies, regional integration has been used to counter the negotiating power of the US while it sought to expand NAFTA to the Free Trade Area for the Americas (FTAA). The formation of blocs such as ASEAN, MERCOSUR and the Andean Community of Nations are examples of such bloc building efforts to insulate both against regional and global trading blocs.

Building on socio-cultural similarities: Sharing a common language and culture can encourage closer integration.

- While differing in terms of development and prone to intra-regional conflicts the Commonwealth of Independent States (CIS), which emerged from the collapse of the Soviet Union, was brought together, at least in part, by socio-cultural similarities.[7]

Reducing illegal trade and smuggling: Regional Trade Agreements can establish the institutions for shared information and action to reduce illegal trade in drugs and weapons. Moreover, setting common tariffs for trade between members helps to undermine the economic incentive for smuggling.

- MERCOSUR, made up of Argentina, Brazil, Paraguay and Uruguay, was created with the explicit intention of creating a common market and a common external tariff but also provided a platform for member states to discuss common security issues such as drug trafficking.

7 The CIS was created in 1991 and closer economic union was signed in 1993. At present the CIS consists of Azerbaijan, Armenia, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan, Turkmenistan, Uzbekistan and Ukraine. See http://www.cisstat.com/eng/cis.htm (accessed 21st September 2005)

3.2 External Factors

'Exporting' the model of regional integration: EU delegations are actively encouraged to help 'export' the EU's model of regional integration. This is backed up by EU funds to support regional organisations like the African Union and the Pacific Forum with the specific expectation of contributing to the prevention, management and resolution of violent conflicts.[8] The same is true of the US. According to Edward Mansfield of the University of Pennsylvania both the Clinton and Bush administrations have made spreading regional economic agreements a foreign policy priority.[9]

- In July 2005, for example, Louis Michel, the EU Commissioner for Development and Humanitarian Aid signed an agreement to provide €30 million to COMESA as part of the EU's five year €223 million Regional Integration Support Programme.[10] This follows a similar payment, of €45 million, to SADC in November 2002.[11]

Pursuing strategic bilateralism**:** In the case of India and Pakistan, the fear that this region could continue to be unstable has motivated regional players and global players such as ASEAN and the US to try to encourage a more stable (trading) relationship between the two countries.

4. RTAs and Peace Building - The Visionary Ideal

The links between international trade and security have been recognized for centuries. As the French philosopher Montesquieu said in 1748; peace is a, '*natural effect of commerce*'.[12] The Italian economist Pareto argued in 1889 that customs unions could help to achieve peace between countries.
At the most basic level, equitable trade promotes prosperity and reduces poverty. But beyond that, free trade has also been seen as a vehicle to promote internationalism and end war. '*For the disbanding of great armies and the promotion of peace'* wrote John Blight, one of the leaders of the Anti-Corn Law League in 1840s' Britain, '*I rely on the abolition of tariffs, on the brotherhood of the nations resulting from free trade in the products of industry*'.[13]

Recent empirical studies also seem to confirm the adage that countries that trade with each other (on equitable terms) are less likely to fight each other.[14] Trade can be a powerful driver of growth, reducing poverty and creating jobs. In theory at least, there are number of ways that regional trade integration can support peace;

1. Given the relatively small size of many economies in the developing world, and their dependency on a handful of primary commodities, regional trade integration offers poorer countries mutual development gains (which may outweigh the costs of conflict and isolationist development strategies) through pooled resources, expanded markets, increased regional trade and investment, and greater economic diversification.

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8 Council of the European Union, *'Council Common Position concerning conflict prevention, management and resolution in Africa'*, SN 1010/04, January 2004, p. 3

9 Mansfield, Edward, *'Preferential Peace: Why Preferential Trading Arrangements inhibit interstate conflict'* University of Pennsylvania, 1999, p. 14

10 Europa Press Release, 20th July 2005, (accessed 19th September 2005) The RISP runs between 2002 and 2007 http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/991&format=HTML&aged=0&language=EN&guiLanguage=en see also http://europa-eu-un.org/articles/sk/article_4943_sk.htm

11 Europa 'EU Humanitarian Aid Package to SADC', November 2002 (accessed 19th September 2005) http://europa-eu-un.org/articles/en/article_1759_en.htm

12 Cited in Humphreys, *Economics and Violent Conflict*, p. 8, n. 71 from Brack, D. '*Trade, Aid and Security: Introduction, background and conceptual framework'*, IISD-IUCN, 2004, p. 10

13 Cited in J. L, Sturgis, *John Bright and the Empire* (1969) from Brack, ibid.

14 Humphreys, *Economics and Violent Conflict*, p. 8 also Mansfield, 2003, p..222

2. Economic integration makes conflicts more costly for firms, sectors and entrepreneurs within individual states. Attacking a neighbouring economy becomes just as damaging as attacking one's own.
3. Through interdependence, nations can use trade to access one another's resources, instead of using violence to capture or destroy them.
4. Regional groupings such as MERCOSUR and SAARC can serve as aspirational clubs and can play a stabilising role for countries on their borders.
5. Regional Trade Agreements provide non-military ways to resolve disputes and promote understanding and dialogue between countries. Many agreements have instituted dispute settlement mechanisms to mediate economic conflicts that have also been used for managing political conflicts.

Several economic and trading arrangements have been established with the explicit purpose of preventing conflict between or within states. For instance;

- Concerns about the threat of the spread of fundamentalism motivated the governments of Egypt, Morocco and Tunisia to negotiate regional agreements with the EU.
- MERCOSUR was originally established to reduce tensions between Argentina and Brazil. It also helped to avert a possible coup in Paraguay following reaffirmation by the presidents of the MERCOSUR member countries that democracy was a necessary condition for membership.[15]
- The Stability Pact for South-Eastern Europe was created in 2000 to create a free trade area designed to promote economic recovery and integration in the war-devastated Balkan region.[16]
- In December 2004 Israel and Egypt signed a trade protocol with the US designed to accelerate the two countries' rapprochement. The deal creates five special zones where Egyptian goods will have free access to US markets, as long as 35% of the goods are the product of Israeli-Egyptian cooperation.[17]

5. RTAs and Good Governance

A notable trend in north-south Trade Agreements is the increasing inclusion of non-trade commitments as part of the agreement. Typically, these attempt to encourage various aspects of 'good governance' such as the transparency and accountability of government, as well as respect for the rule of law and an adherence to democracy.

The 2000 Cotonou agreement between the EU and countries of the African-Caribbean-Pacific region is a case in point. It lists three so-called 'essential elements': respect for human rights, democracy and the rule of law. If contravened, these conditions can lead to suspension of cooperation - including the cancellation of preferential access.[18]

Similar conditions are being currently attached to the trade agreements that are to succeed the Cotonou agreement. Known as Economic Partnership Agreements (EPAs), the EU is negotiating these trade agreements with blocs of African, Caribbean and Pacific countries.

Former EU Trade Commissioner Pascal Lamy argued that trade agreements should contain even more extensive conditionality. He suggested that the agreements should allow the EU to ban any imports that do not meet the EU's 'collective preferences'. The term is deliberately broad and vague but

15 http://www.state.gov/r/pa/ei/bgn/1841.htm
16 Council on Hemispheric Affairs, Press release '*Argentina-Brazil Relations: Urgent Challenges come to the forefront*' 12th July 2005, (accessed 20th September) http://www.coha.org
17 BBC, 'Egypt and Israel seal trade deal', http://news.bbc.co.uk/1/hi/business/4095011.stm
18 ECDPM. 2001. *Cotonou Infokit: Essential and Fundamental Elements* (20). Maastricht: ECDPM.

would likely enable trade sanctions in cases of human rights abuse, poor governance or rigged elections.

In short, rich countries are using trade agreements as an inducement for largely unrelated governance concerns. That this is possible at all is indicative of their negotiating power. South-South RTAs have not gone as far down this path, perhaps because negotiations tend to be less one-sided and are focused on extracting trade concessions rather than other commitments.

That said several south-south RTAs do include such provisions and the trend seems to be catching on. A table laying out the governance and security commitments in six current south-south RTAs are included as an annex to this paper on page 17. The majority of RTAs establish some degree of dispute resolution between signatories. ECOWAS and SADC go further; signatory countries agreed to co-operate on specific security concerns and establish ways of mitigating conflict between members. The agreements also contained weak provisions on respect for democracy, human rights and the rule of law. The links between good governance and peace are well established. If South-South RTAs can encourage 'good governance' this could add a new dimension to their role in building peace between and within countries.

6. RTAs and Conflict - The Occasional Reality

Regional trade integration is progressing fast, propelled by a growing number of regional trade agreements and the encouragement of many OECD countries. For example, in December 2004, the members of MERCOSUR and the Andean Pact signed an agreement for closer economic and political integration, to be called the South American Community of Nations, with an explicit nod to the trail blazing role of the EU.[19]

But can we expect other regions to follow the same path as the EU towards economic integration and enhanced regional stability and security? The answer to this question is probably no. There is no compelling reason why south-south RTAs should follow the same trajectory as the EU.

The first thing to note is that an RTA may not be much of a 'brake' on conflict. Even when war is costly and the option of a negotiated bargain exists, rivals states can nevertheless go to war, propelled by incentives to misrepresent or keep information private, commitment problems after a settlement, or indivisibility of issues (Fearon, 1995). Certainly, there are many examples of conflict between members of Regional Trade Agreements;

1. Border clashes between Armenia and Azerbaijan, members of the Commonwealth of Independent States (CIS);
2. The outbreak of war in the Great Lakes with foreign involvement in the Democratic Republic of Congo from Angola, Namibia, Rwanda, Uganda, and Zimbabwe, all members of the common market for eastern and southern Africa (COMESA),
3. The Iraqi invasion of Kuwait and violent border clashes between Egypt and Sudan, all members of the Council of Arab Economic Unity.

The EU's genesis was a unique set of circumstances; the devastation of the EU's productive capacity after WWII and the determination of its political leaders to banish any future prospect of war between established states. Other regions may not be willing, or able, to pursue certain aspects of integration, such as opening labour markets and allowing the free movement of people across borders.

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19 Euractiv *'First steps taken towards a south American EU'*, 8th December 2004 (http://www.euractiv.com/Article?tcmuri=tcm:29-133262-16&type=News)

Perhaps most importantly, and in contrast to many other regional agreements, the EU and its predecessors have provided a means of redistributing income from rich to poor countries. This has proved to be an effective compensation mechanism for the losers from trade liberalisation: facilitating economic integration, promoting partnership between countries and preventing the marginalisation of certain groups and countries. Following the fall of the Iron Curtain, the EU concluded bilateral trade agreements with the Eastern European countries that helped stabilize them and prepared them for eventual inclusion as new member states.

So, while many liberal economists claim that regional trade agreements build stability and encourage peace, there is also a convincing case for the reverse; that regional trade agreements may even increase the chances for instability and conflict both between and within countries.

6.1 Instability and Conflict Between Countries

There is no rule that says regional integration is an automatic force for mitigating tensions or conflict. Without careful negotiation and implementation, regional integration between countries of widely differing size, wealth and influence can cement inequalities, create tensions and trigger conflict. This is perhaps particularly likely if there is a lack of transparency and accountability in the negotiation of the agreement and its subsequent implementation.

Membership to an institution of trade doesn't necessarily create bonds of trust. Envy can result from trade imbalances and result in the creation of social networks of memberships, resulting in social unrest. Trade ties can actually provoke hostilities between states. Gains are rarely felt proportionally and large inequalities in the relative distribution of gains can shift the balance of interstate power (Hirschman, 1945). There may also be tensions between members of the RTA and non-members who may find that trade diversion within the RTA results in lost markets. In sense trade imbalances 'gives people something to fight about'.

Neither are trade institutions necessarily the best mechanism to mediate disputes – especially if they have wider social and political dimensions. In addition, trade institutions are not usually designed to deal with militarized disputes. In conflict prone areas, international institutions built around trade agreements can have adverse effects on conflicts among member states by mismanaging crisis situations and worsening conflict intensity (Gallarotti, 1991), or producing rivalry among states due to their relative social positions (Hafner-Burton and Montgomery, 2005).

During the 1980s and 1990s the EU encouraged rapid regional integration and structural adjustment policies on Francophone West Africa, urging the free movement of goods but not people and without providing for a redistributive wealth mechanism that would have helped surmount the adjustment costs of trade liberalization and integration. Some analysts argue that this uncompromising process, which drove up unemployment and undermined government social programmes, can explain much of the subsequent instability in Francophone West Africa.[20]

Finally, there is also a concern, though one without much empirical investigation that trade integration may help to facilitate the illegal trade in conflict resources such as blood diamonds and illegal timber. It may also increase access to weapons. After all trade agreements are about reducing barriers to trade: the increased trade that can result can be both legal and illegal.

6.2 Instability and Conflict within Countries

Regional Trade Agreements typically involve concessions to greater liberalisation. Trade liberalisation can result in painful adjustment to new tariff barriers, new regulation and the influx of

20 Interview by author in Brown, O. *EU Trade Policy and Conflict*, International Alert & IISD, 2005, p. 13

fierce new competition. Over the short-term trade liberalisation can lead to industrial contraction, unemployment and social unrest. If new market opportunities fail to materialise, this can set a trend of increased poverty and economic instability over the long term.

In addition, trade liberalisation creates winners and losers. The resulting increased wealth disparities can create tensions and lead to conflict. A reduced tax base as well as reduced receipts from duties on exports and imports can severely strain government revenues and undermine health and education spending. The costs of integration itself can be a further burden. In the case of the former East African Community the establishment and cost of suitable organisations to oversee trade integration proved to be contentious both within and between countries.[21]

In general, economic integration can be socially destabilizing and promote processes of change that erode established identities, undermine established ways of conducting national politics and reduce state capacities to provide for poor and marginalized segments of the population. Such socio cultural challenges of integration are one element in the Zapatista rebellion in Chiapas.

RTAs can help to reinforce both the perception and reality of trade dominance by an external power. Public perceptions of trade dominance can be a powerful force. Examples of such sentiment can be seen in the anti-globalization riots of Seattle and Genoa or in the way US headquartered franchises based in developing nations are treated during times of protest against US foreign policy. In extreme circumstances, such strong domestic opinion can undermine peaceful relations between countries.

Finally, RTAs can generate high expectations of increased economic growth, new job opportunities and reduced poverty. However, RTAs between countries that are reliant on the export of primary resources and that have relatively undiversified economies can fail to live up to their proponents' rhetoric.

Countries tend to exclude key goods from liberalization agreements. When those countries trade in a similar, and narrow, basket of goods the net economic impact of the RTA can be limited. For example, West Africa's reliance on cocoa and palm oil leaves little else to trade between countries. Consequently, mismanaged expectations coupled with the adjustment costs of joining an RTA can lead to the perception that governments have let their citizens down.

PART B. EMERGING TRADE LINKS BETWEEN COUNTRIES WITH HISTORIES OF CONFLICT

7. Introduction

Regional and bilateral trade as responses to economic globalisation have encouraged and drawn many emerging economies and developing nations into synergistic relationships. As discussed above these can promote peace but can also generate conflict. We begin this section by presenting conceptual and empirical arguments in support of both points of view. This is followed by some brief case studies which attempt to answer the questions raised in Part A, namely:

- Are the drivers of such trade integration exogenous or endogenous?
- Has trade integration led to increased trade?
- In turn, has such trade mitigated conflict?
- Does conflict mitigation need to be seen in a wider geo-strategic/political/cultural context than trade?

21 Wu, Jennifer Pedussel, *'Trade Agreements as Self-Protection'* Review of International Economics, 13 (3), 472-484, 2005, p. 476

- What have been the intra-country implications?

At the heart of our discussion is a version of the eternal ‘chicken or egg’ question; Does trade flow from peace or does peace emerge from increased trade?

8. Does Trade Promote Peace or Conflict? The Debate

The link between trade and conflict has generated a great deal of debate. Many scholars have modelled studies that build the case that capitalism and economic freedom have a causal relationship with conflict avoidance (Weede, 2004). They draw on examples from history that illustrate how bilateral trade reduces the risk of war between dyads of nations (Oneal and Russett, 1997, 1999 and Russett and Oneal, 2001).[22] Opponents of this view point to nations that are members of existing RTAs and still have engaged in violent conflict. This section will briefly outline the two opposing views.

Contemporary debate revolves around four variants of the broader hypothesis that trade promotes peace. It is useful to briefly mention them. The opportunity cost variant indicates that as conflict disrupts normal trading patterns, healthy economic relationships will deter states from using military force (Polachek, 1980). The efficiency variant posits that as commerce grows, incentives for plunder or conquest decrease as the latter becomes a relatively inefficient means for generating economic growth (Rosecrance, 1986). Supporting arguments state that incentives for loss prevention leads to some form of cooperative regional integration (Wu, 2005). The sociological variant focuses on how trade increases contact and communications, and leads to a broader cosmopolitan identity, which reduces military conflict (Deutch et al., 1957). According to the fourth variant, international commerce provides an important signalling mechanism that helps states negotiate compromise short of war (Morrow, 1999 and Gartzke, Li and Boehmer, 2001). In general, economic considerations trump war and raise the costs of disruption to daily economic life. Reasons for this include the high cost of trade disruption should conflict arise and perhaps even contribute to the creation of a ‘moral capital’ which pacifies civilians and statesmen (Ratnapala, 2003).

Another point of view, while conceding economic interdependence as a key element in conflict avoidance -- and perhaps even resolution, argues that the effects are largely short term and that trade is but one of several tools for conflict avoidance, peace building and stability (Voronkov, L., 1998). An economist’s extension of this argument is that FTAs and Customs Unions (CU) do not necessarily lead to welfare improvements within the nation state, as trade liberalisation with blocs leads to two opposing reallocation effects: trade creation (where demand shifts from local production to more efficient producers in a partner country) and trade diversion (where the shift is from more efficient producers outside the CU/FTA to less efficient producers in a partner country.

In conflict specific terms, critics point to the failure to elaborate a model of domestic politics that conclusively links commerce, societal interests in trade and peace, and the state with the creation of a pacific foreign policy (Barbieri and Levy, 1999). Others go further and claim that while preferential trade agreements provide strong institutional incentives to prevent international conflict among member states, the result is the anticipation of economic gains that outweigh the benefits of militarised aggression. However, they also argue that when taking the social network approach, PTAs do more than create expectations of economic gains; they in fact create hierarchical social networks between states, which can suppress or encourage conflict under different conditions (Hafner-Burton and Montgomery, 2005). In an intra-country context, concerning societies in developing nations, which have been built on social structures and the remnants of spiritually driven civilizations, the

22 A Dyad by definition is defined as two units that are treated as a pair. In the context of our discussions, dyad refers to two countries that are treated as a pair.

result is a transformation of hierarchies, from spiritual-religious to economic, which may contribute to increased social tensions and conflict within the state.

9. Case Studies

9.1 South Asia

9.1.1 Pakistan and India[23]

Pakistan and India have been engaged in a hostile relationship ever since their independence in 1947. Active conflicts between the two took place in 1948, 1965, and 1971. The relationship between Pakistan and India underwent a qualitative shift in 1998 however, when both declared their nuclear capabilities by conducting nuclear tests. The nuclear weapon status brought with it tremendous Western pressure on both sides to resolve outstanding issues between them, as worries amassed that future bilateral conflicts could escalate to the nuclear level.

Post-1998, Pakistan and India made a concerted effort to settle disputes by initiating a peace dialogue and concluding agreements to this effect. Initiatives to settle disputes peacefully were taken in 1999 and 2001. However, significant crises in 1999 and 2001-02 marred the progress of these initiatives and the two sides quickly returned to their zero-sum relationship, to the point that they maintained only minimal diplomatic ties. Simultaneously however, the external pressure to negotiate peacefully increased as well. The world feared that periodic crises could force the situation to catastrophic proportions. Furthermore, given that the two crises in 1999 and 2001-02 yielded nothing militarily for either side, and compounded by a realization that nuclear weapons had made conflict devastating; the two sides were prompted to revisit the path to peace. Currently Pakistan and India find themselves in the midst of a composite peace process, one that is arguably the most comprehensive ever in the two countries' fifty-seven year long existence.

Trade ties between the two countries also suffered tremendously due to the bilateral hostility. Historically, the balance of trade has remained consistently in India's favour. Pakistan's exports to India have remained between 0.4% and 2.5% of its total exports, while in India's case the proportion is less than 0.5%. This does not say much for trade between the two countries – total annual trade over the past 7 years has never exceeded USD 250 million. This is less than one percent of the combined value of total trade of the two countries averaged over the past four years. On the other hand, estimates of informal trade between India and Pakistan fall close to USD 0.5 billion. This demonstrates clearly the trade potential and production complementarities between the two countries.

During the past decade, Pakistan and India have undertaken two major initiatives to liberalize trade relations. The South Asian Preferential Trade Agreement (SAPTA), signed in April 1993, allows for reciprocal, bilateral tariff reductions on mutually agreed tradable items. SAPTA was a both a precursor and provided a spur to the South Asian Free Trade Agreement (SAFTA, signed on January 6th, 2004 takes effect on January 1st, 2006.). SAFTA calls for multilateral tariff reductions, eventually leading to free trade. SAFTA is likely to open up significant opportunities for intra-SAARC trade and enhance the historically lacklustre economic exchange between the South Asian countries. The greatest increase in trade volume is likely to be between Pakistan and India, where trade bans, tariff and other hidden barriers have restricted trade relations to a minimum and forced such trade into informal channels.

Trade is one of the key issues on the negotiation agenda within the ongoing peace process. Trade talks in the current peace initiative reflect a significant departure for Pakistan from its traditional stance on the issue. Historically, Pakistan had demanded that the conflict over Kashmir be settled to its satisfaction before all other non-military issues could be discussed. Many in India however argued in

23 Source: Khan et al, 2005

line with trade theory that economic facilitation ought to precede negotiation on issues such as Kashmir, as increased economic interdependence would, over time, develop a constituency for peace and deter the two sides from returning to the path of conflict. The Sino-Indian model of rapprochement was widely quoted as a case in point.

While trade barriers, both tariff and non-tariff still remain high; a few initial steps have been taken to facilitate trade as part of the peace initiative. Pakistan has expanded the list of importable items from India and has also opened the previously closed land route to allow imports in specific commodities. Already, the volume of trade between the two countries has shown considerable increase. Only in the third quarter of 2004, trade value increased by 256 percent over the corresponding period in the previous year. Analysts predict that the true potential for Pakistan-India trade is 7-10 times its current volume.

Although it is too early to evaluate empirically the impact of enhanced trade ties on the overall relationship between the two sides, a few tentative remarks can be made. One desirable effect due to enhanced trade is the closer ties that are developing between the two business communities. In Pakistan, the Chambers of Commerce and Industry are the principal proponents of opening up trade with India and have formed a distinct voice in influencing the government's India trade policy. The situation is much the same in India. In fact, business communities on both sides are collaborating to convince their respective governments to facilitate trade. There have been a number of official visits from trade communities on both sides, which seek to promote interaction and identify key areas for bilateral trade. Proponents of trade in Pakistan and India highlight the potential for joint ventures and technology transfer, which do more than simply increase trade flows. They end up increasing interaction between peoples from both sides tremendously, and over time this interdependence is hoped to build a constituency for peace on both sides.

One thing is clear in the Pakistan-India context: while trade ties are beginning to have desirable effects in enhancing interaction, there is no impact thus far on the state of the live conflicts. The India-Pakistan experience suggests that dynamics of outstanding issues such as Kashmir, Sir Creek, Wullar Barrage, and Siachen remain unchanged, despite the overall peace initiative. Both sides have maintained their positions on the issue (though both have shown cosmetic flexibility) and the hurdles in the resolution of the issues remain, with no visible respite due to enhanced trade relations. Analysts predict that while trade relations are likely to impact conflict resolution favourably in the long run, conflict dynamics will not be impacted by progress on non-military fronts (eg: trade) in the short run.

To add to the complication, there is no guarantee that the impetus for trade facilitation is permanent. There still remains great uncertainty in Pakistan on the impact from enhanced trade ties with India. The principal fear is the large disparity in potential gains from trade. Given India's technological advancement and greater economic competitiveness, many in Pakistan fear that India would flood Pakistan's market, causing industry contraction in Pakistan and taking away majority of the gains. It is this fear that has prevented Pakistan from granting India MFN status. Instead, it only maintains a positive list of over 800 importable items from India. Add to this the relatively higher tariffs in India, and an array of hidden barriers, which leave little wriggle room for Pakistani exports to India and would further tilt the balance of trade in India's favour.

Finally, enhanced trade ties in themselves can also lead to tensions. One negative effect of enhancing Pakistan-India trade ties could be on the Afghanistan front. India has requested Pakistan to provide its exports to Afghanistan access through the land route. At the same time, a recent study on informal trade has suggested that given the current institutional inefficiencies in Pakistan and India, liberalizing trade would provide even greater opportunities for smuggling (Khan et al, 2005). By this logic, the already high volume of narcotics smuggling from Afghanistan could increase further by gaining access to the Indian market, were Pakistan to allow land access to India goods. Judging by the existing and previous conflicts around narcotics smuggling in different parts of the world, such a scenario can be expected to cause fresh bilateral tensions between Pakistan and India.

9.2 Latin America

9.2.1 Ecuador and Peru

The border dispute between Peru and Ecuador is a case where conflict has been influenced by economic globalization and increased regional trade. Regional trade has increased and statistics from 2000/2001 indicate Peru's exports to Ecuador (122 million dollars), up by 27% and Ecuador's exports to Peru (323 million dollars), up by 12% over 2000 levels[24.] However, such increases in trade have been made possible by a reduction of limitations on arms trade that in turn contributed to an arms race that has escalated to armed confrontation in 1995. This conflict placed the existence of regional councils in question and raised questions whether they could be effective in politically and economically calming tensions between the two nations for a number of reasons (Fournier, 1999).

Firstly, many indicated that increased trade within the bloc and with other regions has increased the importation of sophisticated weaponry into the region, which has contributed to an escalating arms race and conflict. Second, territorial control continues to be an important source of national identity and legitimacy within the region. As the latter is linked with the idea of sovereignty; heritage and identity that is deeply rooted within the cultural psychology of both nations, there is little within a trade agreement that would be able offer in addressing patriotic sentiments. Hence, while increased commercial transactions may give the impression of interdependence, attachment to territory continues to be linked with political and social beliefs and appears to remain remotely related to developments in trade and commerce. Third, conflict has diverted resources from pressing social and economic concerns and has also scared away investors and trade partners, thereby undermining the process of regional economic integration. Finally, democratization of countries has generated risks and uncertainties in interstate relations and has required the need for confidence building measures through multilateralism (Avery and Cochrane, 1973).

Constraints notwithstanding and despite banking crises and natural calamities (El Nino), Peru and Ecuador have engaged actively in multilateral diplomacy in an effort to smoothen hemispheric relations and continue towards institutionalised cooperation. It remains to be seen however, as to whether or not socio-culturally rooted tensions between the two nations can be allayed through increased trade and the accompanying sense of regional identity.

9.2.2 Bolivia and Chile

Latin America's efforts to increase regional integration (as a counter balance to US efforts at hemispheric integration) have been hindered by the differing levels of economic, political and social development within its member nations. This is illustrated by relationship between the less developed, land-locked Bolivia and the more developed economy of Chile. Economically, Chilean imports make up 7.2% of Bolivia's annual imports[25], while Bolivia's exports to Chile are negligible, given Chile's high level of economic development. Bolivia's relations with Chile have been strained since Bolivia's loss of the coastal province of Atacama and in a dispute over the use of the waters of the Lauca River. Relations were resumed in 1975 but broken again in 1978 over the inability of the two countries to reach an agreement that might have granted Bolivia sovereign access to the sea (Alvial and Recule, 1999). The Council of the Organization of American States (OAS) has sought to calm tensions by bringing all parties to the table and resolving the disputed areas.

Bolivia has sought to obtain access to sea ports through The Lauca River (which Chile is diverting for agriculture) and/or through the repatriation of the province of Antofagasta (which Bolivia claims

24 Source: Andean Community General Secretariat, www.comunidadandina.org

25 Source WTO online country profiles - http://stat.wto.org/CountryProfile/

belonged to it prior to several of the regions conflicts). While the OAS has made efforts to facilitate mediation on the disputed areas, Bolivia has tended to walk away from the table when resolutions did not fully respect its territorial wishes. In such cases, appeal mechanisms have been used to some degree of success in recent times, to at least avert the escalation of conflict between the two nations. The Council of the Organization of American States has indicated as well in the past that increased economic development along the borders would assist in diplomatic resolution of the disagreement but also insists that it can play a mediating role (Tomasek, 1967).

Bolivian territorial claims throughout the 1980s and 1990s have also been presented at the UN and the OAS with the support of other regional partners. Regional neighbors have also been brought into the feud with reciprocating political support in other areas. For example, while Argentina supported Bolivia's territorial claims against Chile, Bolivia returned the favour voting for resolutions regarding the Malvinas/Falklands islands in the 1980s. This move could certainly be seen in security terms as a move towards regionalism and increased bilateralism between third party nations. Regional integration along such avenues might also contribute to peace, as the increased threats of economic globalization will influence Bolivia and Chile towards economic cooperation that insulates them from becoming dumping grounds for surplus manufacturing from the regions more dominant players (Creamer, 2003).

9.2.3 Argentina and Brazil[26]

Over the past twenty years, Argentine and Brazilian officials have worked to reduce the rivalry between them that stood in the way of political and economic cooperation. Lingering mutual distrust persists between the two countries evident in the concerted, if subtle, efforts to counteract each other in international for a (most recently Brazil's lobbying for a seat on the UNSC). Both countries have lobbied for the support of other regional actors, such as Bolivia, Paraguay and Uruguay to support agendas for regional dominance.

Rivalry has historically been expressed over land claims. In the late 1970s, a major land dispute surfaced in which Argentine authorities asserted that Brazil and Paraguay had violated Argentina's sovereignty through their cooperation in building the Itaipu Dam in which they failed to recognize Argentina's vested rights in the venture. Although this issue plagued Argentina-Brazil relations for nearly a century, the two states, in addition to Paraguay, reached an accord through the 1979 Tripartite Agreement, opening a new door for diplomatic efforts for the first time in several decades.

The opportunities for cooperation have been unexpected to say the least. While both nations were nuclear rivals in the 1950s, the recent change in political climate has provided opportunities for cooperation. In 1980, agreements were signed to encourage cooperation on nuclear matters. In the 1994 Tlatelolco treaty most of Latin America set clear terms for the exclusion of nuclear weapons from the region and prohibited manufacturing, production and acquisition in any form. Nuclear talks provided to the ideal solution to strengthening the rocky relationship between the two countries. While Argentina opposes Brazil's entry into the UN Security Council, commentators suggest that it's weak economic state may force it to concede support in return for trade concessions that would apply to MERCOSUR and provide much welcome protection to the endangered home industries of both nations.

Currently, Brazil accounts for 34% of Argentina's imports and absorbs 15% of Argentina's exports, making it a key trading partner for Argentina. Economic integration and cooperation has picked up pace since the end of the Cold War, and Brazil's distancing itself from the US and mobilization of efforts to enact MERCOSUR. Brazil and Argentina achieved successful economic integration with MERCOSUR. They also faced a new challenge together with Washington's promotion of hemispheric

26 Source: MacBeth, H., and Ramirez, S, 2005, Argentina Brazil Relations – Current Challenges Come to the Forefront, Council on Hemispheric Affairs.

free trade through the Free Trade Area of the Americas (FTAA), a pact that has inspired marked scepticism in both countries. Washington's failure to court Buenos Aires over the FTAA has illustrated the conscientious strengthening bilateral trade between the two countries. To this end, MERCOSUR has served as another major vehicle for improving relations between Brazil and Argentina.

Despite Argentina and Brazil's cooperative efforts on nuclear and trade issues, certain challenges have emerged in recent years that have restricted further progress toward conciliation. These are a consequence of: de-linking the real from the dollar which resulted in Brazilian products flooding markets in Argentina and a reverse flow of cheap labour. In 2004, Buenos Aires enforced new trade restraints on Brazilian goods, arguing that the asymmetrical trade in effect was hindering Argentina's industrial recovery. Brazil countered with threats of quota restrictions. Although both countries have negotiated to solve these trade discrepancies, a clear solution has yet to be found.

MERCOSUR was originally established to reduce tensions between Argentina and Brazil and as trade continues to grow between the neighbours, it is evident that it has certainly been successful in that respect. The success of relations between the nations via MERCOSUR will no doubt be tested by the impact that deeper integration and market economics have on the two countries and whether the benefits of economic regionalization can be distributed to all segments of the two nations populations.

9.3 Central America

9.3.1 Belize and Guatemala

Belize is a small country threatened by the territorial claims of a larger country (Guatemala) and has historically sought refuge in regional arrangements and big power protection. Belize's struggle illustrates how it leveraged its strategic importance to involve larger foreign actors, primarily the UK and the US with whom it enjoys trade relations, who have encouraged regional stability and protected its interests. In 2003, Guatemala provided for 4% of Belize's total imports, making it the nation's fifth largest partner, mainly trailing the EU and the US. Belizean exports to Guatemala are negligible given the latter's economic diversification within other Latin American economies[27] and the formers reliance on trade and relations with the EU and the US. Originally a British colony, Belize's relegation to a lower rung colony has contributed to its overall state of underdevelopment. Great Britain's more recent negotiations with Guatemala to phase in Guatemalan responsibility for Belize' external affairs has coincided with Belize' nationalist movements that seek to align with Central American interests and move away from British influence. Belize began to take charge of its own internationalization by seeking entry on its own into the Central American Market as well as becoming a member of the OAS and building regional ties with Spanish speaking neighbors to complement its relations with its English speaking ones (Young and Young, 1988).

In economic terms, Guatemala has sought to negotiate access to ports, joint highways, tourist resorts and 'people/economic contact points', in return for political concessions (Payne, 1990). The continued efforts of nationalists and proponents of Belize's independence movement, exemplifies that sovereignty related issues can not always be addressed in economic terms. In a way, it also shows that if regional problems cannot be addressed internally, then foreign actors are inevitably brought in, in the case of the continued UK and US economic influences and military involvement within the region.

More recent efforts at increasing trade have been made through the signing of a Partial Scope Agreement (PSA) between the nations that opens various sectors up to economic growth and cooperation. In an effort to increase the regional value of CARICOM relative to larger external trading partners, both nations have recognized the value of cooperation and the private sectors within

27 Source WTO Online country profiles - http://stat.wto.org/CountryProfile/

both nations. In particular, entrepreneurs from the Agri-business sectors of both nations have expressed interest in joint ventures to increase their respective goals of value addition in the regional economy. It remains to be seen however, whether such measures will be resilient to the nationalistic sentiments of Belizeans and future aggressive posturing by Guatemala's territorial claims.

9.4 Africa

9.4.1 Horn of Africa

In the horn of Africa, Ethiopia and Eritrea have had a history of hostilities. The Ethiopia-Eritrea war began in 1998. It has had a devastating impact on both economies. Conflict has led to cutting of air and road links, telephone lines and cross border trade. Both sides have also engaged in attempting economic blockade of the other country. At one point, Eritrea held back all goods in the port of Asseb destined for Ethiopia, to a value of tens of millions of dollars, and Ethiopia threatened to block other ships from docking at Eritrean ports. The port authorities in Asseb have lost about US $ 1 billion in port fees annually due to the conflict. Furthermore, hundreds of thousands of people in the border area, who used to cross regularly as migrants or small traders have lost their livelihood (Abbink, 1998).

In the case of some nations, where regional relations are tense on numerous fronts, analysts have argued that cooperation to manage scarce resources may be a means of peace building. In the case of Ethiopia and Eritrea, there exist significant opportunities for enhancing economic cooperation. Water scarcity is known to be a key resource issue within the region. Ethiopia can potentially transfer water to Eritrea, in exchange for access to a port on the Red Sea (Soffer, 1999). Ethiopia might also construct hydropower facilities on the Teccaze, Abbay and Akabo Baro rivers, enabling it to sell electricity to Eritrea (Waterbury, 2002). Increasing agricultural production will enhance rural income and Ethiopia may be able to assist Eritrea by jointly seeking international assistance, consulting services and donor support required to achieve food security and develop economies (Wichelns et al., 2003). The investments that would be required by institutions and actors in both nations would then undoubtedly contribute to stability and interdependence.

Thus far, the organization of African Unity (OAU) has tried in vain to ease tensions between Ethiopia and Eritrea. However, commentators still seem to be waiting on the trade pressure that other regions, through the WTO, can place on such nations to adopt more peaceful political postures; particularly with respect to the EU and their increased trade and the success that it has shown in parts of South Africa (Lewis et al., 2003).

9.4.2 Great Lakes Region[28]

The outbreak of war in Africa's Great Lakes Region (GLR) has encouraged cross-border involvement in the Democratic Republic of Congo (DRC) by members of the Common Market for Eastern and Southern Africa (COMESA). This illustrates that RTAs cannot trump conflict, particularly where geo-strategic interests are juxtaposed with weak levels of economic diversification and reliance between clusters of nations (Gunning, 2002).

Conflict has evolved due to a number of factors. While volatile neighbours such as Burundi, DRC and Rwanda are bordered by more stable states such as Kenya, Tanzania and Uganda, the triggers for conflict are many. The more stable economies aspire to be regional power brokers, due to their economic interests. Thus, while Uganda has intervened actively to shape the course of political events in Rwanda and the DRC, Kenya is affected due to its geographical proximity to the troubled area and its role as the leading economy in the region. More intrinsically, the states of the GLR differ widely in

28 *Francis A.S.T. Matambalya, 2002,* Trade and the Consolidation of Regional Economic Relations in the Great Lakes Region of Central and Eastern Africa Critical Reflections, Paper Presented at th*e Conference Center, Kampala, Uganda, 8 - 10th April, 2002*

terms of their political evolution (military vs. multi party democracy). Further, the economies of these countries are fractionalized along ethno-racial lines, non-complementary with each other and oriented to serve markets outside the region.

Many analysts conclude that prior to credible economic integration, peace must be established. This would entail political stability, development cooperation, equitable ownership of key economic resources and efforts to develop a Pan African trade approach. However, this is easier said than done. Although COMESA members subscribe to the WTO, which provides the overall framework for international trade, the absence of key economic, social and political requisites are likely to pose formidable challenges to regional integration.

9.5 East Asia

9.5.1 China and Taiwan

Tensions between China and Taiwan are one of the largest potential sources of instability in East Asia. While the two countries have been unable to establish formal political relationships, regional economic relationships are now on a growth path through the WTO. In response to the WTO and the growing regionalism within East Asia, and the strategic interests of China to retain its reach over provinces and economic zones, analysts suggest that a regional economic arrangement between China, Hong Kong and Taiwan may take shape in the years ahead, and may contribute to ensuring economic growth in the region (Crane, 1993).

At the same time, China's accession to the WTO and its policy of trade openness could increase Taiwan's dependence on the mainland as Taiwanese entrepreneurs continue to take advantage of cheaper mainland labor for their enterprise activities. China's trade with Taiwan increased by 38% percent over 2001, making Taiwan China's fourth-largest trading partner. As part of its WTO commitments, Taiwan relaxed restrictions on 1,225 consumer, agriculture, and industrial products from the mainland. China exports electronics and power generation equipment (47% of total exports to Taiwan), textiles, iron and steel, plastics, and chemicals to its neighbor[29]. The US presence will likely continue to counter balance Chinese influence in the region, as formerly demonstrated by the 1995 missile crisis. Taiwan has set into place several economic policies to maintain its sovereignty, specifically:

- Indirect trade policy through third parties in Hong Kong. Direct trade or direct links with regard to transportation, commerce and postal services could be possible if issues of national sovereignty are arranged in a mutually beneficial way (Kong, 2002);
- A patient FDI policy to guide impatient Taiwanese investment in the mainland, fearing a hollowing out of Taiwanese industry and a threat to security (Ling, W. et al, 2001). This involves ceilings on investment per project, restrictions on high tech FDI, limitation of FDI on infrastructure (power plants, railroads and airports).

Much can be drawn from the China Taiwan example, as many factors are still in flux and will determine the agenda of a Greater Chinese Trading Agreement, should common goals coalesce and make the idea of this trading zone a reality. Such a scenario illustrates among other things, how bilateralism can be linked with Regional Trade Agreements (Chow et al., 2001).

29 Source: PRC General Administration of Customs, China's Customs Statistics and the US China Business Council (www.uschina.org).

9.6 Middle East

9.6.1 Israel and Palestine[30]

Relations between Israel and Palestine have been aggravated and complicated by a number of economic, political and social factors within the Occupied Territories. The existing trade regime between Palestine and Israel, as stipulated by Israeli policies that interpret previous accords and protocols, has increased the Palestinian economy's dependence on Israel[31]. While the agreement stipulates the freedom of movement of agricultural and manufactured goods between the two sides and the normality of labor movement, it limits Palestinian trade with Egypt and Jordan, thereby stifling Palestinian economic growth. In turn, these policy factors have not been able to address the socio-political condition of the Palestinian people, which in many ways are intimately tied to anti Israeli sentiment and have fuelled violent conflict.

Economic growth and development patterns in the West Bank and Gaza Strip (the Palestinian Territories) have to a great extent been dictated by the larger Israeli economy. The direct Israeli control over the Palestinian economy, and enforcement of the customs and monetary union with Israel over almost 27 years of occupation has resulted in substantial changes in its economic and trade structures. Israel has become the sole trading partner and a large portion of the Palestinian labor force relies on jobs in the Israeli market. Prior to the peace accords, the movement of people and goods between Israel and the Palestinian Territories and within the now PNA-controlled areas was relatively unconstrained. In September 1993, Israel and the Palestine Liberation Organization (PLO) signed a Declaration of Principles (DoP) in Washington DC, recognizing each other and resolving to implement some specified steps gradually, as well as negotiate the end of their historical conflict. As specified in the DoP, in May 1994, a Palestinian limited self-government was established over parts of the West Bank and Gaza Strip.

Economists within the region conclude that during the occupation period (1967-94), Israeli policies were responsible for weakening the productive sectors of the economy through the creation of distortion and disequilibria, and engendering crippling dependency on the Israeli economy. The disproportionality—in what might be called the cost of dissociation—renders the Palestinian-Israeli relationship unstable. Increased uncertainty and political strife have aggravated the economic situation in the last three years, and resulted in sharp declines in Palestinian households' income, massive unemployment and increased poverty. The failure of the limited self-rule points to a fundamental contradiction of the peace process that started with the signing of the DoP in 1993. While the goal was to achieve a compromise through a two state solution, the gradual step by step approach made room for Israel to continue its policies of land confiscation, the building of new Jewish settlements, and the attainment of complete control over borders, all of which undermined the emergence of viable Palestinian state.

Some economists have argued that in spite of Palestinian grievances with Israeli policy, the trade regime envisaged was overly complex in its structure and unnecessarily confusing. Given the complexity of the region, simplicity would have been better. If future peace building efforts are to be successful, analysts suggest that the implementation of a customs union with a macro formula for revenue sharing should be considered (Kafani, N., 2001). Peace between Israel and Palestine could serve as a cornerstone for regional cooperation in the Middle East, as well as spur the growth of regional trade. Whether current or future solutions for encouraging peace are discussed, mutually

30 Source: Naqib, F., 2002, Economic Aspects of the Palestinian Israeli Conflict, The Collapse of the Oslo Accord, UNU/WIDER Project, University of Waterloo, Discussion Paper 2002/100

31 Trade between Israel and the Palestinian Authority remained largely unchanged in 1999 compared to 1998, amounted to $1.58 billion in exports from Israel to Palestine and $285 million in imports from Palestine to Israel.

agreed upon economic and political solutions need to be implemented in the spirit of their creation otherwise limited results will be achieved for short-term peace in the region.

9.6.2 Israel and Egypt[32]

In spite of a history of arms escalation, troop amassment and violent conflict, Israeli and Egyptian relations have thawed in recent times with the latter playing an increasingly key role in calming tensions between the former and its Arab neighbours, and in resolving the ongoing Israel Palestinian issue. While both nations account for less than 3% of each other's total imports and exports, the geo strategic interests of both nations, particularly with access to overseas markets, has increased the relevance of their economic relationship.

Economic instruments are also likely to ensure that Israeli-Egyptian relations continue to improve, this time with US involvement. The agreement, signed in December 2004 by Israel, Egypt, and the United States establishes Qualifying Industrial Zones (QIZs) in parts of Cairo, Port Said, and Alexandria. A proven success in Jordan, a QIZ permits goods with at least 35% of their value added inside the zone to be exported duty-free to the United States if they also contain a minimum of 11.7% Israeli-produced material. This agreement will buffer Egypt's $1 billion textile and apparel industry from the expiration of the Multi Fibre Agreement that will see it's textile and apparel industry having to compete with lower-cost producers from India and China. The QIZs will provide Egyptian textiles and clothes a much-needed competitive advantage in the United States once the quota system expires and Israel with economic diversification that may be tied to the PA. Egypt also views the QIZ agreement as a first step toward further economic integration a free trade agreement with the US.

So long as Egypt's economic interests compel added trade and cooperation with Israel, Egyptian-Israeli relations will benefit. While Israeli exports are predicted to double and employment within Egypt is predicted to increase significantly, the tripartite agreement ties the political economies of both nations to market growth and trade with the US. It is questionable perhaps, if relations with the US will show resilience against domestics issues such as arms smuggling and security.

9.6.3 Middle East: Iraq and Kuwait [33]

The Iraqi invasion of Kuwait and the animosity between the two nations is rooted as much within the historical claims over land as it is within the geo-strategic aspirations of the landlocked Iraq. Increased involvement by foreign powers and regional allies has complicated the situation between the two nations by tipping the balance of strategic power in favour of Kuwait.

Iraq's grievances are based on Kuwait's historical claims on its waterways that were formally recognized by the British during the early eighteenth century. The economic beneficiaries of the post Gulf war scenario have largely been the non-oil sectors in Kuwait, which have benefited from a surge in activity following the the resumption of trade with their northern neighbor. While formal trade statistics are difficult to obtain, optimism now pervades economic life with a number of Kuwaiti businesses already moving to do business and benefit from large scale reconstruction in Iraq. Foreign companies vying to do business in Iraq are also using Kuwait as a base or transit point, boosting demand for domestic goods and services. The increased sense of stability in Kuwait also served to improve the business environment domestically. Unofficial indicators suggest growth gained momentum on the back of higher consumer and government spending and Iraq-related business. The latter could be a bigger boon to business once the security issue in Iraq is resolved and reconstruction efforts progress. Success will of course depend on the bilateral benefits to the relatinship and whether or not Kuwait can be seen by Iraqi businesses as a partner to their growth or an 'highly paid benefactor'.

32 Source: Fishman, B., 2003, Analyzing the Thaw in Egypt-Israeli Relations, Policywatch#931, The Washington Institute for Near East Policy.

33 Source: Pfeiffer, K., 2002, Kuwait's Economic Quandary, Middle East Report, www.merip.org

Kuwait's proposed shift to regional -- as opposed to global -- integration and a more diversified economy would be healthy. Ultimately such regional development would have to involve Iraq, but Kuwait is on deck only to play the role of senior partner. Given Iraq's lack of independent access to the Gulf, Kuwait could serve as Iraq's lifeline to the outside via shipping, re-exporting, financial intermediation and tanker loading of oil shipped from Iraq to Kuwait by pipeline. As long as Kuwait remains high on the list of regional strategic partners of the US, its ambition to become a regional hub for Iran and an intravenous drip for Iraq can be reconciled with US aims of containing both Iraq and Iran, and maximizing the flow of oil from the region. It appears that Kuwait superiority within its relationship with Iraq will likley continue as long as it remains tied to the military might of the US. Furthermore, lucrative logistics and supply contracts from foreign military forces stationed in Kuwait invigorated domestic demand and business activity. A lack of fear from Saddam’s region has also added to the confidence and optimism about future business prospects, particularly with the resumption of trade and commercial relations with Iraq.

9.7 South Caucuses

9.7.1 Armenia and Azerbaijan

While both nations are members of the Commonwealth of Independent States (CIS), ethnic conflicts continue to keep the region in strife. Armenia, Azerbaijan, and Georgia are located south of the Caucasus Mountains that form part of Russia’s borders (see map). The South Caucasus states served historically as a north-south and east-west trade and transport “land bridge” linking Europe to the Middle East and Asia. After being conquered and re-absorbed by the Soviet Empire, they regained independence when the Soviet Union collapsed in 1991. The countries face budgetary burdens in the shape of an arms race and refugee resettlement and rehabilitation. This limits the scope of for exploiting energy resources or trade/transport networks. The ruling nationalities in each of the three states are culturally insular and harbor various grievances against each other, particularly Armenia and Azerbaijan, where discord has led to the displacement of ethnic Armenians from Azerbaijan and vice versa.

The economies of both nations declined in the early 1990s, affected by the dislocations caused by the breakup of the Soviet Union, conflicts, trade disruptions, and the lingering effects of the 1988 earthquake in Armenia. Although gross domestic product (GDP) began to rebound in the states in the mid-1990s, the economies remain fragile. In economic terms, there is little in the way of bilateral sectoral ties as both nations rely heavily on the US, EU, Russian federation and Israel for trade. Infrastructure assets have been used as pawns when tensions have increased. Transport and communications obstructions and stoppages have severely affected economic development in the South Caucasus and stymied the region’s emergence as an East-West and North-South corridor. Since 1989, Azerbaijan has obstructed railways and pipelines traversing its territory to Armenia, and for a time successfully blockaded NK. These obstructions have had a negative impact on the Armenian economy, since it is heavily dependent on energy and raw materials imports.

In terms of political development, democratic reform has been stunted in Armenia due to assassinations and allegations of corruption and serious “voting irregularities” during campaign and election processes. Azerbaijan has also struggled politically as protest greeted the succession of its monarchy to the long time ruler’s son, who became Prime Minister. Democratic reform, often a pre requisite to an easing of political tensions, might bring about a period of calm between the two nations.

10. Conclusions

The rise of the Regional Trade Agreement is an important feature of the global economy. RTAs are increasing both in number and in scope and a complex, overlapping web of trade agreements stretches across the world. There are now few countries that are not members of at least one RTA. RTAs vary widely and their impact on peace and security between and within signatory countries depends on a bewildering number of factors. The received wisdom is that regional trade integration can be a powerful force for peace. Building interdependence between countries, creating economic incentives for peace and developing non-military means for resolving disputes are all goals of the proponents of trade integration. Using trade as the cement, regional trade agreements help to bind countries' interests to a common future.

However, in the light of the case studies presented in the second part of this paper, this assumption requires close scrutiny. The many conflicts between member countries of RTAs imply that regional trade integration is not an automatic brake on conflict. Moreover, trade integration can actually create tensions and trigger conflict. Entering an RTA can bring painful adjustment costs, social dislocation and widening wealth inequalities for signatory countries. RTAs can be divisive and exclusive. Negotiations can embed power disparities and undermine interstate relations. Finally, trade diversion and exclusion can create tensions between members of RTAs and those countries outside of RTAs.

Nevertheless, isolation can also be politically dangerous. A study by the US State Failure task force found that the likelihood of state failure is affected by international influences, particularly openness to international trade and membership of international organizations. As the web of regional trade agreements grows, many countries are party to more than one agreement. However, those countries outside regional integration processes, or with no obvious regional 'club' to join, such as Taliban Afghanistan, Myanmar or Belarus, are arguably more likely to suffer state failure and further isolation.

The preceding analysis and discussion of each dyad and cluster of nations illustrates how peace building is influenced not only by negotiations around trade and commerce, but also by regional strategic, socio economic and global political considerations. The case studies illustrate the complexity of each situation and show that while increased trade and commerce may have a pacifying effect on conflict, there is no rule that says regional integration is automatically positive. Part A illustrates that without careful negotiation and implementation, regional integration between countries of widely differing size, wealth and influence can cement inequalities, create tensions and trigger conflict.

While Section B's country case studies are far from exhaustive in their analysis of each dyad's and each region's political and economic situation, which are constantly in a state of flux given the velocity of economic globalisation, each situation's uniqueness cannot be overemphasized. It is hoped that the second phase of this research study will expand upon the brief country profiles and examine the drivers and dynamics of each region and draw some common lessons that may be learned for final analysis. In anticipation of a more complete set of findings, a few key ingredients surface as integral to success in assessing the success of regional agreements as a whole[34]:

- Global players, particularly larger partners that have economic and strategic clout are key stakeholders and actors whose presence and regional activity can prompt other nations to enter into RTAs. However, larger players (Brazil, India) need to build the confidence of smaller

34 It must be noted in referencing the preceding case studies that many variables are interlinked and often contribute to the complexity of animosities between nations. Our categorization does not seek to oversimplify these realities, but rather illustrate the weaknesses of overemphasizing the importance of trade in peace building.

partners by taking the interests of vulnerable states into account and avoiding expansionist behaviors.

- Economic and Development realism is required to ensure that trade benefits all segments of each population (particularly in pursuit of foreign direct investment and export markets), for if only a specific state, sub region, sector or class are seen to benefit from liberalization, increased trade and regional integration, socio-economic instability will result.
- As in the cases from Latin America, internal variables, such as issues of identity need to be addressed (Bolivia and Chile) in advance of negotiations and socio political concerns that are brought on by external variables such as access to markets. Even with access to markets, trade in dangerous goods needs to be better monitored to reduce inflaming tensions (as was not the case between Ecuador and Peru).
- Issues of ethnic nationalism (as found in Africa) and patriotism (South Asia) require dialogue to avoid disagreements such as territoriality (Guatemala and Belize) and other sovereignty related issues.
- Equity in trade is key to advancing the agenda. One nation cannot be seen to be gaining unfairly from bilateral or regional trade at the expense of others (as has been the fear of SAARC members with the rise of India).
- Trade interdependence is but one step on the road to integration, and must be part of a larger peace building plan to overcome the geo strategic interests and historical animosities that may run counter to peace building (China and Taiwan; Ethiopia and Eritrea; Iraq and Kuwait; Israel and Egypt/Palestine).
- In economic terms, increased activity by foreign actors, states and enterprise oriented stakeholders will no doubt have an increasing impact on social hierarchies and the economic well being of various segments of society.

The political economy and history of regions needs to be taken into consideration if one is to coordinate the effect that increasing trade ties will have with other peace building efforts. On the external dimension, the strategic interests of global players such as the US, EU and China; as well as larger regional players such as Brazil, Egypt, India and ASEAN neighbours cannot be over emphasized as key drivers of regional integration, despite negative outcomes that may arise. As the country case studies have briefly outlined, peace building and conflict resolution have historically relied on trade as one of many tools. If increased regional integration and cooperation is to assist in encouraging regional stability, it will require the study and examination of trade in its broadest context, to include interactions between economic, social, political and cultural variables.

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