



Trade in the Neighborhood

During the past two decades, the value of world merchandise trade more than tripled, and for many countries trading opportunities with their neighbors have increased substantially. As a result, world trade has become more regional. One factor has been the reduction in trade barriers stemming from regional free trade agreements; however, other factors likely contributed to this regionalization of trade.

The European Union is the most highly integrated regional trade area. As shown in the table below, in 1980, 57 percent of the total merchandise trade (exports plus imports) of the European Union stayed in the region. This share increased to 66 percent in 1990 but has declined somewhat since then (partly as a result of increased trade with the former Soviet bloc countries).

The apparent success of the European Union in increasing trade among its member countries is one reason for the recent popularity of regional free trade areas. In 1988, Canada and the United States formed a free trade area that became the North American free trade area (NAFTA) with the inclusion of Mexico in 1994. As the table indicates, trade among the NAFTA countries as a share of their total trade has risen steadily over the last two decades.

In 1991, Argentina, Brazil, Paraguay, and Uruguay formed the free trade area Mercosur, which was later joined by Bolivia and Chile. Around the same time, the Andean group incorporating Bolivia, Columbia, Ecuador, Peru, and Venezuela began a concerted effort to eliminate trade barriers among its member countries. In both areas, the share of regional trade rose sharply in the 1990s after showing little increase during the 1980s.

The association of Southeast Asian nations (ASEAN) (Brunei, Indonesia, Malaysia, Singapore, Thailand, and the Philippines) formed a free trade area in 1992.

There was no change in the share of regional trade for the ASEAN countries during the 1980s; however, following the creation of the free trade area, the share of regional trade rose—from 14 percent in 1990 to 18 percent in 1999.

Although these data appear to indicate the importance of free trade agreements in spurring regional trade, other factors also may be at work. For example, Canadian and U.S. trade with Mexico was rising prior to the implementation of NAFTA, although the pace of trade appears to have accelerated after NAFTA. In Latin America, the general reduction in barriers to trade, rather than specific regional agreements, may have aided the rise in its intraregional trade during the 1990s.

The change in the pattern of Korea's trade also indicates that factors other than free trade agreements are important for increasing regional trade. Korea is not a member of a regional free trade area, yet the share of its trade involving other emerging East Asian countries increased from 10 percent in 1990 to 23 percent in 1999. As with Latin America, this increase in intraregional trade may have been spurred by an overall reduction in the level of trade barriers, as well as rising income levels in the region.

—Patricia S. Pollard

Intraregional Trade as a Percent of a Region's World Trade			
	1980	1990	1999
European Union	57	66	61
NAFTA	33	37	47
MERCOSUR	13	14	22
Andean	4	5	10
ASEAN	14	14	18

Source: International Monetary Fund, *Direction of Trade Statistics*.

