

Open Regionalism: Stepping Stone or Millstone toward an Improved Multilateral System?

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Introduction

Is regionalism a *building block* or a *stumbling block* to an improved, multilaterally open trading system? That issue is not a new one. It has resonated over the last forty years with sporadic increases in intensity at different points during that time. Recently, it developed particular pungency when the Uruguay Round looked as though it might fail. A large number of people in the multilateral system – most prominently the eminent international trade economist Jagdish Bhagwati, who is also an advisor to GATT – became extremely concerned about the competitive threat of regional initiatives to the successful conclusion of the Uruguay Round. However, after that Round was concluded and ratified, some of the concerns raised have died down. Correspondingly the more artificial, contrived arguments that were raised against regionalism as a spectre have also begun to moderate or recede. Today the argument has perhaps entered a slightly new and different arena. The question of regionalism vs. multilateralism has broadened from a narrow question of their respective effects on trade liberalisation *per se*, to embracing and encompassing a much broader, more diverse range of issues. Indeed trade has become only one part and perhaps not even the most important part of the new regional vs. multilateral debate.

The thoughts developed below will:

- reflect on the facile, implicit assumption invariably made that the terms “regionalism” or “regionalisation” are antithetical, second-best, inferior or sub-optimal option, if not pejorative, while the terms “multilateralism” or “global liberalisation” invariably convey a sense of something positive, first-best, superior or optimal;
- offer a heretical, provocative hypothesis that open regionalism may not only be *conducive* to more effective multilateralism in the future, but may actually be an essential *prerequisite* to a new multilateralism of a more workable kind;
- focus on the reality that the highly imperfect kind of multilateralism (the old multilateralism) that exists today is probably dysfunctional in accom-

modating satisfactorily the kaleidoscopic economic and political transformations that are occurring in the world; and that a new multilateralism will need to emerge before it can offer a superior option to the new regionalism;

- consider what is happening, and is likely to happen, to rapidly changing patterns of world trade and their associated economic interactions between 1995 and 2025;
- suggest why nations are resorting to a record number of arrangements at the *regional* level while giving the *multilateral* process some much-needed breathing room to revive and adjust;
- consider some of the conditions necessary for regionalism to reinforce and support, rather than to impede multilateralism; and examine why the new regionalism will support the emergence of a new multilateralism rather than inhibit it; and finally,
- offer some concluding observations.

The New Regionalism is Different from the Old Regionalism

One of the more striking things that a careful review of recent literature on regionalisation reveals is the staggering volume of its production from different sources. To cite but a few major recent initiatives: the United Nations University's World Institute for Development Economics Research (UNU/WIDER) is about to complete a major project; the Organisation of Economic Cooperation and Development (OECD) has completed at least five separate studies by five separate groups; the General Agreement on Tariff and Trade (GATT) has concluded a survey on a range of regional vs. multilateral issues; the Royal Institute of International Affairs (Chatham House) recently produced a major book on the subject; the World Bank and the IMF have ongoing policy research programmes on regional integration; and so do the UN's regional economic commissions and the regional development banks. And these projects do not even begin to include the ongoing work being done in academia all over the globe! The amount of literature that is emerging on this issue is thus both overwhelming and bewildering. Little of it is very good; most of it is quite confusing and conceptually unsound if rhetorically quite exciting.

What is also striking is that in discussing the new, open regionalism (and whether it is a threat or not to multilateralism), different sources appear to be talking about entirely different concepts. There is an absence of definitional focus on what the new regionalism actually is. For example, Professor Björn Hettne from the University of Gothenburg, (who is directing the UNU/WIDER project), defines the new regionalism as a multidimensional process of regional integration which includes economic, political, social and cultural

aspects¹. His stress is much more on the non-economic, on the political and security dimensions of regional integration. According to Hettne, regional integration is a package rather than a single policy, whether concerned with economics or foreign policy. The concept – as defined by Hettne, and it is difficult to disagree – goes well beyond notions of free trade areas and market integration, i.e. the linking of several national markets into one functional economic unit. Political ambitions of creating territorial identity, political convergence, collective security and regional coherence now seem to be the primary, neo-mercantilist goals of the new regionalism. Another difference with the old regionalism, according to Hettne, is that the new regionalism is spontaneous and from below (firm, market and consumer driven), whereas the old type was imposed from above (bureaucratically fiat driven) and was therefore more limited and more prone to failure of the kind that *grand designs* invariably suffer.

At the other end of the scale, The World Bank, in a recent study authored by Carlos Braga,² while overtly recognising the importance of non-economic considerations in driving the new regionalism, still chooses to treat the new regionalism as an economically enhanced free trade concept. The enhancements are essentially the following: liberalisation of trade in services, liberalisation in movements of capital and labour; harmonisation of regulatory regimes; and the emergence of North-South regional arrangements which are now becoming the rule rather than the exception. Braga recognises that there is a clear shift of inward looking emphasis in South-South arrangements from being closed and aimed at the wrong objectives (protectionist) to being open and aimed at the right ones (outward oriented and competitive). Finally, Braga points to one key feature of the new regionalism: i.e. that it underlines non-exclusivity, or more accurately, inclusivity, as opposed to a regionalism which once used to be defined in terms mainly of which barriers members of a regional group could erect to thwart non-members, and how high these barriers were to be.

Thus, the argument about regionalism vs. multilateralism in the mid-1990s (post-Uruguay) is quite different from that of the early 1990s (pre-Uruguay), depending of course on who is making it. The discussion is now more holistic than it was even a few years ago, when people simply analysed regionalisation from the view point of whether regional trade agreements were going to get in the way of concluding the Uruguay Round. It is becoming increasingly apparent that the non-trade aspects of regionalism – which have invariably

1 Hettne B. and Inotai, A., "The New Regionalism: Implications for Global Development and International Security", UNU/WIDER, Helsinki, 1994.

2 Braga, C., "The New Regionalism and Its Consequences", World Bank (IED), Washington DC, August 1994.

been underplayed by trade economists who have monopolised debate on regional integration since the invention of Vinerian analysis in the early 1950s³ – may even be more significant than the trade related aspects of the process.

A Heretical Hypothesis

The general explanation – offered by traditional trade economists – of why regionalism has boomed in recent times, is that the United States has converted itself from being a committed free-trading multilateralist power to becoming a regionalist power mainly to counteract the emergence of threatening competitive trade blocs in Europe and Asia.⁴ A second reason for the rise of regionalism concerns the demonstration effects of what has been happening in the European Union; whether positive or negative, relevant or irrelevant, European integration has had a powerful influence on the way most countries are thinking about regionalisation. A third factor is that after the developing country debt crisis of the 1980s a whole new market-related ethos of outward-orientation and liberalisation has affected economic policy in developing countries in a way it had never done before. That happened both because of internal conviction on the part of a new generation of market-oriented policymakers and because of external compulsions transmitted through the IMF's and World Bank's adjustment programmes. Fourth, there was also a growing notion, particularly after 1989, that the breakdown of the Cold War order brought to the fore simmering problems with hitherto untouched taboos about the sovereignty of the nation-state and its capacity to make the kind of independent economic and political decisions it once used to.

To these four more or less widely accepted reasons there is perhaps yet another explanation to be added, which, to those steeped in the traditions, values and beliefs of the multilateral system, may seem heretical. Though many committed multilateralists instinctively portray regionalism as being antithetical (if not dangerous) to multilateralism, they overlook the reality that there may be a perfectly natural and sensible reason why regionalism at the moment seems to be more user-friendly to the average small or medium sized nation-state (whether developing or developed). That reason lies in the reality that the multilateral system as presently constructed is functioning with an increasing degree of imperfection, uncertainty, inefficiency and

3 Viner, J., *The Customs Union Issue*, Carnegie Endowment, New York, 1950.

4 See, for example, Bhagwati, J. "Regionalism and Multilateralism: An Overview", In: de Melo, J. and Panagarija, A. *New Dimensions in Regional Integration*, CEPR, Cambridge University Press, Cambridge (UK), 1993.

ineffectiveness. Dominated as it is, and often distorted as it is, by faltering great powers, who can no longer exercise real leadership, and whose capacities are focused on obstructing rather than constructing, that system is no longer sufficiently well-structured, nor responsive, nor adaptable to the needs of a changing world order; one in which old verities have given way to new uncertainties.

The present multilateral system of global interaction and transactional governance thus looks weak and tired; its institutions are too rigid and unbending and its myths are as yet incapable of adapting to new global geopolitical realities. By and large, despite the successful ending of the Uruguay Round and the establishment of the World Trade Organisation (WTO), the feeling is that present-day multilateralism, and machinery which serves it, are grinding slowly to a halt. There is no longer a universal belief in the efficacy of, or even the need for, the United Nations. More than half of the world believes strongly that the Bretton Woods institutions detract from, rather than enhance, global welfare. Many believe that these institutions have become vested interests in their own right, more concerned about self-preservation than with the evolution of their mandates, roles and functions to adapt to new circumstances. It is therefore a plausible hypothesis that the new regionalism is being resorted to because the old multilateralism does not seem to work any longer; at least not for the benefit of most of its members. That is a hypothesis that needs to be put on the table and subjected to careful scrutiny. Open regionalism may not therefore just be *conducive* to more effective future multilateralism, it may actually even be a *prerequisite* for building a new multilateralism of the kind that more properly reflects the changes that have occurred in global balances of geopolitical and economic power.

This hypothesis, like any other, is of course an arguable one. It is not a hypothesis that has appeared so far in the wealth of recent literature on regionalisation vs. multilateralisation. The literature still tends to assume that regionalisation is *per se* bad and multilateralisation is *per se* good – an issue which will be revisited throughout this paper.

The Problem with Today's Multilateralism

Why does the old multilateralism no longer seem to work? First, because there are fundamental design flaws in its architecture and its construction. The old structure was built primarily by the United States to serve a visionary purpose which has since been substantially eroded in the US itself. The United States is no longer the force, globally and economically, it once was; it can no longer impose its will on the world either by persuasion or by force. Former subservient client states have become powerful economic competitors

even as they appear to remain political and military allies. Countries that are still developing have become major military threats. Yet the United States' willingness to cede power, and to share it with others in a more genuinely multilateral system, poses severe problems, as does the increasingly widening gap between positions taken by the US Administration and the US Congress on issues that affect the rest of the world. The conflict between those two poles of political power within the US is one which the rest of the world finds increasingly difficult to cope with or accommodate. And the US being the US does not really appear to care about that problem as much as it should. Even when the US chooses not to play a dominating role in the system, it leaves a void which cannot be easily filled simply because there has been no experience with any other nation, or group of nations, filling it in a way that would be seen as legitimate or acceptable. The reluctance of the US to cede power is mirrored in the equal reluctance of Europe and Japan to assume a proper share of global responsibility. We thus have a multilateralism in which the US still calls the shots, Europe and Japan pay the bills, and the rest of the world is largely unempowered and dispossessed.

Second, Europe, which is presently paying the largest share of the multilateral system's costs (especially for the non-security related part), has not shown much ability or inclination either to provide direction or to set the agenda for the multilateral system. On issues of cross-border trade, finance and labour market movements, Europe still acts as the most inward-looking, restrained and defensive part of the world. It is still more statist rather than market-driven; more so than most other regions. In Europe social concerns often outweigh market realities. Moreover, a confused set of signals is coming from Europe, arising out of three major issues which appear to preoccupy Europeans: (a) there is a resurgence of an almost petty form of nationalism in the still evolving European Union, which has suddenly raised fundamental questions about integration threatening to slow down the trajectory and pace of the next round of deepening and widening various integration processes within Europe; (b) the issue of subsidiarity remains unresolved with a lack of clarity about what kind of decisions should be made at what level; and (c) there is considerable discord between the confused voices of the individual nation-states of Europe vs. the collective regional European stance put forward by the European Commission, which often seems out of time with ground-level political realities. Put simply, Europe has a problem with the multilateral system because it speaks with both 15 voices and with one voice and those voices invariably do not say the same things on any set of issues whether economic, political or cultural.

Third, there is the Japanese problem. Up to three or four years ago Japan and the rest of the world were convinced that the Pacific century had dawned and that the centre of global gravity had shifted from the mid-Atlantic to the

mid-Pacific. One of the problems of the old multilateral system was reflected in the extreme difficulty which Japan experienced in being accepted as a fully-fledged member of a formerly exclusive US-European, largely Anglo-Saxon dominated club. Amazing as it now seems, it took twenty years for Japan's position as the world's second ranking economic power to be recognised within the rigid structure of the established multilateral system. Yet suddenly Japan, having shoved and bought its way into the second slot, has now become a very weak and unconfident part of the multilateral nexus. This is partly explained by the breakdown of its traditional domestic political system, which is moving from a phase of stability, predictability and "discipline" to a more Western-style phase of fractious, confrontational and histrionic democracy which, when laid bare, appears too sleazy, corrupt and opaque even by the standards of developing countries.

Fourth, the implosion of the second or "communist" world in 1989 has dramatically changed traditional views of multilateralism. Like it or not, the old multilateralism – especially in matters of military security, economics, trade and finance and the institutional structures set up to deal with those four major global issues – was shaped entirely by the contours of the Cold War. At the end of the Cold War, a world order established for nearly half a century has broken down. It is becoming increasingly clear that the characteristics of the multilateral system which the world has today are neither appropriate for, nor conducive to, the graceful and unproblematic emergence of a new world order more suited to accommodating and absorbing previously communist and developing countries into the framework of developed market economies. Instead the transition is proving very troublesome. Former second world countries have had to descend to third world standards of living before re-gearing themselves to become part of the first world to which they believe they rightfully belong.

Finally, and this may be a geopolitical phenomenon of some significance, all over the developing (third) world there are serious – more serious than in the past – questions now being asked about whether developing countries either need, or benefit significantly from, the kind of ineffectual, insipid multilateralism which exists today. A new sense of confidence and assertiveness has emerged in the Third World which seems to be rooted largely in three decades of untrammelled growth in East Asia and the realisation in Latin America in the 1990s that there is indeed "life after debt", the recent hiccup in Mexico notwithstanding.

Developing countries, especially in Asia and Latin America (but much less so in Africa), are now deploying the laws of *realpolitik* in defining their own national and regional interests and pursuing them quite differently and more aggressively than before. They are no longer willing to accept the kind of multilateralism in which their growing economic and littoral power is neither

adequately recognised nor reflected responsively enough in the present global multilateral framework. For them, the formation of their own regional blocs reflects a desire, and the will, to be taken much more seriously as economic partners by the developed world rather than as undeserving recipients of OECD largesse. Their patience is being stretched as they continue to be patronised and condescended to by OECD countries as second or third class world citizens with fewer rights and privileges than the first class ones. Having been kept out of meaningful decision-making in the more exclusive OECD-dominated clubs, it is not unnatural that they are now intent on setting up a few of their own in which they have a greater say in making the rules and suiting their own convenience.

Trends in Global Trade and Cross-Border Investments

To these five global geopolitical forces – which are causing shifts in the tectonic plates which underlie the international economic system – the following realities must be added to establish a clearer perspective on the future:

- Between 1945 and 1985 the most rapid growth in world trade in goods and other economic transactions (finance, services, technology transfer, the globalisation of production, the development of global marketing and global brands) occurred within the North. Between 1945-65 such growth was primarily Atlantic-focused. The centre of economic gravity lay somewhere between the US and Europe. Between 1965-85 it spread to a wider US-Japan, Europe-Japan, and intra-European growth dynamic with spillover effects for the rest of the world. The centre of economic gravity started shifting.
- In contrast, between 1985-2005 the largest growth in world trade and other economic transactions is already occurring and will continue to occur in transactions between North and South. The fastest growth is in Asia, especially between Japan and East Asia, within East Asia, and between East Asia and South Asia. Post 1994 there is increasing growth in transactions between Western and Eastern Europe; between Europe and the Middle East; and between Europe and Africa. In the Western Hemisphere the same surge is being seen between the US/Canada in North America and the other southerly countries in that hemisphere.
- If present trends continue, after 2005 and up to 2025, the largest growth in world trade will be mainly in South-South trade, especially within (and to an increasing extent even across) Asia, Africa, Latin America and the Caribbean, and the Middle East. Between 2005-25 the centre of global economic gravity will shift inexorably from Northern to Southern transactions as these account for the most rapidly growing sources of world

interaction. If present trends continue (especially in the growth of the populous economies of China, India and Indonesia) the developing world which accounted for 20% of real global production in 1950 and 40% in 1980 will account for over 60% of global production by 2015 and probably more than two-thirds by 2025.

The unresponsiveness of the present multilateral system in accommodating itself to the new role that developing countries are playing in the world economy provides a large part of the explanation for expanding experimentation with more fluid and imaginative arrangements which are regional in nature. Developing countries are doing it themselves rather than attempting to deal with a multilateral system which continues to be dominated by ageing economic powers and not responding in the way that it should to rapidly changing circumstances.

Dysfunctionality: The “Void”

Although new forces in the world economy have already been unleashed and a new set of dynamics is underway, the global machinery required to handle and channel them productively is not yet even in the incipient stages of design. It seems as if, without the world having articulated its thoughts too well, there is a broad recognition that something is necessary to fill the void being created by an increasingly dysfunctional multilateral framework. That “something” may well be more plurilateral, hybrid forms of regionalism. At the present time such hybrids appear to be a more reasonable, manageable and appealing alternative to many countries than what an ever-weakening and increasingly discredited multilateralism has to offer.

Why is that so? Is it just the case of the system instinctively moving one step backward now to move two or three steps forward later? Is it, simply, a matter of the recent conversion of the USA in overcoming its former philosophical aversion to regional trade blocs? Is it the equally strong but still implicit gnawing doubt that the concept of the economically sovereign nation-state itself may be under severe stress? And if so, can the present multilateral system – whose architecture was designed in 1945, whose constitution was shaped by the Cold War, and whose imperfect operations are based on increasingly deficient negotiations between unequal nation-states undergoing severe transformations – be viable for very much longer? Or is it simply that many countries have come to recognise the need to withdraw from global dreams into regional practicalities, not just as a matter of temporal convenience, but as a step that must be taken in order to rebuild the foundations of an entirely new and more functional framework and institutional structure for effective multilateralism?

There are, of course, no definitive answers to all these questions as yet. A

suspicion is growing that the answer may well have something to do with the sudden global upsurge of regional cooperative arrangements in virtually every corner of the world. There is an even stronger suspicion that this upsurge is probably not just ephemeral but that nations are turning to regionalism as a practically more realistic and more feasible approach even if it is theoretically sub-optimal. To get to a new form of multilateralism, (which is an inevitability even though not yet formulated as a grand design) the implicit choice being made by nation states is to do it via the new regionalism.

What Kind of Regionalism Would Be Supportive of Multilateralism?

If the new regionalism is not to be antithetical to the emergence of a new multilateral order what kind should it be? Without indulging in a boring repetition of details, all of the major studies mentioned earlier have come up with specifications of the kind of regionalisation that would be conducive to multilateralism. Such characteristics include, for example: (a) the requirement that regional arrangements reduce simultaneously their external tariffs pro rata to the elimination of internal trade barriers; (b) consistency with WTO rules; (c) straightforward rules of origin; (d) non-discriminatory treatment of foreign enterprises; and (e) effective dispute settlement mechanisms.

But apart from such characteristics being designed into regional arrangements, there are other reasons for believing that the new regionalism will support the emergence of a new multilateralism. First, there is some evidence that the new regional arrangements already have certain built-in features which will make the emergence of more sensible multilateralism more likely than unlikely: in particular their openness and a new tendency towards inclusivity. Second, the new regional integration arrangements will eventually lay the foundation of regional institutional structures which are multilaterally friendly rather than multilaterally resistant because they are being driven by: (i) market forces rather than fiat; (ii) the needs and imperatives of transnationals which seek inter-regional strategic alliances rather than a universal presence of their own; (iii) technological innovation and information; (iv) the convergent demands of global consumers of goods and services in an increasingly global market place; and (v) the technology-driven shifts in global but still localised production processes. Third, by strengthening *plurilateral* processes in a framework which gives even the weaker nation-states some say in decision-making, the new regionalism will lead to the kind of multilateralism in which regional blocs will have stronger bargaining power with the Big-3 (i.e. the US, Japan and Germany) and will deal with these countries (and each other) on a more equal footing, thus replacing a multilateral system which is dominated by three "reserve

currency” nations whose global significance is diminishing but which nevertheless continue to dictate the rules of the game to the other 195 nations of the world and which pass on to other countries the costs of delaying their own internal adjustments.

The new regionalism we are witnessing today is, in fact, both a product of structural globalisation (i.e. globalisation of production, marketing and consumption structures for goods, services and ideas) and is in turn feeding back to reinforce that same process of globalisation. Countries and regions which are presently better off than others will obviously resist the adjustments necessary to accommodate market-driven rather than fiat-dictated shifts in patterns of global production and income. But since their future growth and welfare will depend on the much more rapid growth of demand in less well-off countries and regions, those adjustments will have to be made eventually; regardless of how painful they are. Of course, the longer they are delayed, the more painful they will be.

Why Is There a Case for Being Optimistic?

The transitional path from a disintegrating old multilateralism towards a more durable, workable new multilateralism – in which the concept of global governance will be more than a cruel joke on humanity – is likely to be fraught with pitfalls and difficulties. It will involve going through regional experiments which will evolve and be refined over the next 20-25 years. Nonetheless, there is room for optimism that the new, more open regionalisation which is occurring world-wide will be benign to the cause of multilateralisation and to eventually effective global governance of international transactions.

One reason relates to the characteristics of the new regionalism. As noted above, it is being driven now by markets and not by policy, by fiat or by multilateral institutions (except perhaps in Europe) with vested interests. It is being driven by the forces of global corporatisation and global competition, by the globalisation of financial markets, capital flows, consumer demand, product/service brands; and by the global ease with which technology and innovation can now cross borders despite new requirements for the protection of international property rights. From that point of view, the very forces which are driving regionalism are compelling it to be globally-friendly and multilaterally-friendly. Providing that the right kind of new multilateral framework is created to maximise that friendliness, there is no reason why the new regionalism should prevent it from emerging and flourishing. The real difficulty with the transition may well be that the new regionalism will force a disruptive breakdown of the old multilateralism through a process in which regional blocs rather than individual nations play a more direct and decisive

economic role in multilateral decision-making. The new multilateralism will be built with regional blocs being the key consultants in global decision-making structures, with nation-states having a direct say at the regional rather than multilateral level, as they do now.

Another reason for optimism is that overarching – not necessarily overlapping – regional arrangements are already beginning to emerge at tremendous speed. The Asia Pacific Economic Cooperation (APEC) group is a classic example. It now embraces the North American Free Trade Area (NAFTA) even before that bloc has been fully formed, and possibly will also embrace the emerging Asian Free Trade Area (AFTA) which will incorporate an expanded ASEAN. It may even embrace the emerging Latin American Free Trade Area (LAFTA) which includes Mercosur, the Andean Pact, Caricom and Central America. Thus supra-regional umbrellas are being created even before the more confined regional arrangements that they shelter have been fully formed, to make sure that the principle of ever-expanding inclusivity is not compromised.

In February 1995, another regional initiative emerged which few had given much thought to three weeks earlier. When President Mandela of South Africa visited India in January 1995 the Indian Ocean Rim Initiative was merely a notional concept put on the table for discussion. To everyone's amazement it quickly became a reality with rapidly emerging shape and form and with Australia and Indonesia being interested in becoming partners within that structure. It was extraordinary that this concept turned from idea to reality in just three weeks. Now there is much talk about the regional reintegration of the Baltic states, both as an Interim mini Community and as part of the larger Nordic Community. These examples suggest that the search for inclusivity and the commitment to avoid making any individual regional bloc a static entity which is basically protective in nature has fundamentally changed. The focus is much more on forming a club among members prepared to take bolder strides toward regional integration, leaving the door open for others to come on board as and when their domestic political circumstances and constituencies allow.

The increasing acceptance of the notions of “variable geometry” and “multi-speed” approaches to regionalism – which lend more flexibility to regional arrangements – is another reason for optimism. Most regional arrangements now seem to be less ambitious and much less bureaucratically inclined than they were earlier when such arrangements were the preserve of technocrats anxious to impose reality on their populations.

There are now explicit provisions in various multilateral organisations, particularly WTO and the regional development banks, to encourage the new regionalism. There is a strong tendency for reaching outwards, even by the three major blocs: NAFTA, the European Union and what is emerging –

and is wrongly seen as a threatening trade bloc – in Asia, to establish flexible association agreements with non-members.

The new economic regional arrangements are now taking into account *security* considerations as well; perhaps nowhere more so than in Europe. Emerging regional arrangements in the Middle East will hopefully also result in regional arrangements which actually anchor hard-won peace and security. Fortunately all the trends seem to point in that direction; another reason for being optimistic.

There is a proclivity, even on the part of large federal countries with large (almost continental) internal markets – Brazil, India, China, Indonesia – to consider regional integration as a serious alternative to the autarchic approach they have pursued so far. They do not see it simply as a mechanism to anchor their reforms and secure their new-found openness. They appear to believe instead that the whole concept of what constitutes a market in a world which is globalising very rapidly has changed. Even these large countries, to whom the economy of scale argument has never been that important, are worried about being left behind if they do not become active and enthusiastic members of a new global market regime

There is at the same time no evidence that the new regionalism, although it is a process which is really only about five or six years old, is thwarting *inter*-regional interaction. While trade within regions has grown dramatically in the past five years (especially in Asia and Latin America) it has not grown at the expense of trade *between* regions; that is another sign that the new regionalism will foster rather than thwart a new multilateralism.

The Need for a New Analytical Framework

What the evolving process of a new regionalism suggests is the critical need for a new analytical framework to assess the costs and benefits of regional integration. That framework needs to be more holistic in nature and not confined simply to issues and concerns about trade in goods. It is becoming quickly transparent that the classical Vinerean trade-theoretic framework based on the analytic constricts of trade creation and diversion – through which the costs and benefits of integration are invariably assessed – is much too partial, confined, and perhaps even occasionally misleading, to be satisfactory in drawing conclusions about the costs/benefits and consequences of the new regionalism. The Vinerean analysis – especially of the comparative static sort – can yield misleading impressions of what regional integration might really mean for the members of a regional arrangement because it does not include an assessment of the dynamic economic effects of integration nor of the *non-economic* benefits of integration.

In embracing the new regionalism as a multilaterally-friendly phenom-

enon, there is a worrying aspect that cannot be ignored. The increasing prevalence of *macro*-regionalism (i.e. the regionalism comprising supra-national economic regionalism) is also triggering a simultaneous form of *micro*-regionalism (i.e. regionalism within the nation-state) which is ethnically based. Nowhere is this occurring faster than in Europe, where the future of the nation-state itself – on which the present old multilateralism is based – is now being put under strain. A relatively smooth process of macro-regionalism among nation states is being accompanied by disruptive, often violent internal fragmentation within nation states. Indeed, it is possible that the opportunities which the new macro-regionalism offers is actually encouraging the fragmentation of nation-states forged under geo-political pressures which no longer apply.

Conclusion

The general points made above on whether the new regionalism will encourage or discourage the emergence of a new multilateralism can be put into context with the following two observations.

The first comes from the preface of a study by Charles Oman, which was published by the OECD.⁵ He says that economists tend to see globalisation as a good thing and that, in looking at regionalisation, economists have therefore tended to focus on the question of whether regional groupings are likely to constitute building blocks or stumbling blocks for globalisation. Many other people, on the other hand, including national policymakers and their constituencies, especially now in the OECD, see globalisation as threatening. They see it as accelerating the pace of change to which they must structurally adapt, and over which they seem to have less and less control.

Another of Oman's observations is that, even more than in the past, the new globalisation tends to foster both *de facto* regional integration and *de jure* regional agreements among governments. "Regionalisation, in turn, tends to foster globalisation insofar, and only insofar, as it is allowed to stimulate the forces of competition within a region. The challenge for policymakers is to pursue regionalisation as a means to weaken the powers of entrenched national oligopolies and rent-seekers while responding to the growing need, engendered by globalisation, for deep international policy integration. And deep international policy integration is unlikely to occur without deep regional integration occurring first," Oman says.

5 Oman, C. "Globalisation and Regionalisation: The Challenge for Developing Countries", OECD Development Centre, Paris, 1994.

Add to that an observation by David Henderson,⁶ who used to be Director of the OECD Economic Secretariat. He argues that two questions can be asked about the future of the world trading and investment system. First, will it become more open and more liberal? Second, will the extent and influence of regional trade blocs increase?

Contrary to what is often suggested, these two questions are distinct, Henderson observes. According to him the future of the multilateral trade and investment system, and of international economic integration, will not depend on the extent to which regional integration agreements *per se* become more extensive or more deep-rooted, but rather on how far liberal rather than interventionist influences affect the evolution of external economic policies in the leading nation-states and trading entities, in particular the European Union and the United States. “Regional agreements will largely reflect this balance – i.e. the balance between liberalism and interventionism either at the national level or in the world as a whole – rather than determining it. That part of the current debate which portrays regionalism, on the one hand, and liberalism or multilateralism, on the other hand, as warring principles is misguided. A truer and more fundamental antithesis is the conflict between liberalism and interventionism, whether it be national, regional or global.”

6 Henderson, D. “Putting Trade Blocs into Perspective”, In: Cable, V. and Hudson, D. (eds.), *Trade Blocs? The Future of Regional Integration*, Royal Institute for International Affairs, London, 1994.