

---

## Regionalism and the Next Round

L. ALAN WINTERS

### Introduction

In today's world trading system, regional integration arrangements (RIAs) are a major force. Nearly every country is in, or is contemplating entry into, an RIA. In fact, half of international trade takes place within actual or prospective RIAs. RIAs entail levying reduced (preferential) tariffs on trade between partners and frequently go beyond the multilateral rules in other dimensions as well. Some RIAs—most notably those of the European Union—extend well beyond trade issues into topics such as economic management, regulation, and the nature of institutions.

RIAs are part of the economic future, so it is necessary to investigate how their existence will influence future rounds of trade negotiations.<sup>1</sup> This chapter briefly considers three elements of this question. First, it

---

*L. Alan Winters is with the Development Research Group, The World Bank, Washington. The views expressed here are the author's alone. They do not necessarily represent those of the World Bank or any of its member governments. Thanks are due to C. Fred Bergsten, Bernard Hoekman, Will Martin, Maurice Schiff, and Jeffrey J. Schott for comments, and to Mary Ann Arouna and Audrey Kitson-Walters for logistical support.*

1. As an aside, let me briefly argue the case for rounds of negotiation rather than a continuing series of sectoral deals. Only with a round can enough issues be covered to allow all participating countries to register gains sufficient to offset their perceived losses and to mobilize a sufficient constituency to push for liberalization. Some participants may feel that they benefit from the sectoral approach because it can be focused on areas in which they are gainers, but in the long run the asymmetry will cause other parties to withdraw from the whole process.

discusses how the existence of RIAs might affect countries' interest in future liberalization. In broader discussions of RIAs this issue is sometimes dismissed on the grounds that Article XXIV of the General Agreement on Tariffs and Trade (GATT) and regular bindings prevent increases in protection. In the current context of this chapter it is critical: a round of negotiations offers an opportunity to liberalize trade policy, and the question is whether governments will grasp this. The second element is to determine how RIAs need to be taken into account formally; the third element is how they might affect the progress of multilateralism.

## **Regionalism Versus Multilateralism<sup>2</sup>**

This section considers whether RIAs are stepping stones toward a liberal multilateral trading regime or millstones around the neck of such progress. There is little consensus on this issue; indeed, given that each RIA is unique and there is little convincing evidence as to the effects of any of them, there is no reason to expect a single, simple answer. There are, however, a number of reasons to believe that these arrangements might affect attitudes toward trade liberalization.

### **Negotiating Power**

A newly formed trading bloc may wish, on occasion, to increase its tariffs on the rest of the world (e.g., Krugman 1991), though this is not generally a well-founded fear. For one thing, there are big differences between free trade areas (FTAs), which allow free trade between members, and customs unions (CUs), which, in addition, harmonize their tariffs against third countries. Members of FTAs may have good reasons for lowering their tariffs on nonmembers. First, doing so reduces the degree of distortion (trade diversion) in the choice between member and nonmember imports. Second, if increased imports from member countries squeeze local firms, then reducing the external tariff so that the same volume of imports comes in from nonmembers allows the government to collect revenue on the imports without further harming local producers.

Members of a CU also may want to avoid trade diversion, but in this case there is an offsetting force: members of a CU increase their market power by setting their external tariffs in tandem (politicians refer to this as increasing their bargaining power in trade negotiations). This power allows the bloc to offer fewer concessions in negotiation, as members can

---

2. This section draws on Winters (1998), which provides further citations for the various points.

resist external pressure more effectively. In practice, optimum tariff considerations—using market power to restrict imports and thus turn the terms of trade in one’s favor—do not figure prominently in practical policy decisions, as the use of voluntary export restraints (VERs) demonstrates. However, the use of VERs reflects the wish to transfer rents to foreign suppliers in order to buy their connivance in their own restriction. In a trade negotiation no compensation is paid for not liberalizing trade, and so such strategies are not necessary. Regardless, whatever the motive for not liberalizing, a more powerful bloc is likely to be more successful in resisting than a weaker one.<sup>3</sup>

Even if market power encourages members of a CU to maintain higher tariffs on the rest of the world, this does not necessarily represent a retreat from multilateralism. Nonmembers may respond by reducing protection levels and entering negotiations with the CU. This is discussed later in this chapter.

### **Internal Political Economy**

RIAs can undermine the political constituency for multilateral liberalization if governments are heavily influenced by producer lobbies. An RIA that merely diverts trade imposes no costs on domestic import-competing producers and hence avoids a major source of opposition. Taxpayers, who pay for such an RIA via lost revenue, and foreign exporters, whose exports are displaced, typically have little influence on trade policy decisions.

In trade-creating liberalizations, any reduction in tariffs will upset import-competing producers; the key to liberalization is usually to find a counter lobby. Consumers are typically too poorly organized to enforce their interest in liberalization and so the pro-liberalization pressure must come also from producers. Sometimes user industries are influential, but more commonly it is exporters who press for import liberalization because they see it as a means to winning reciprocal improved access to partners’ markets. An RIA internalizes the market access benefits more directly than a multilateral arrangement: exporters from A are confident that they will benefit from B’s concessions if the latter are restricted to A, whereas if B offers most favored nation (MFN) concessions, then A’s exporters will be less confident. Hence, although MFN rounds are likely to open more markets than regional negotiations, for any given market A’s exporters are likely to lobby harder for regional liberalization than for MFN liberalization. In addition, while a given exporter may feel that the increase in profits arising from any overseas liberalization is worth lobbying for, having once achieved a regional liberalization that exporter may find that

---

3. The only counter is that the rest of the world may be less willing to accept restrictive behavior by a large partner than by a small one.

the incremental profits from a subsequent move to global liberalization do not cover the costs of lobbying. In this case, past regionalism undercuts interest in current multilateral negotiations.

Opponents argue that regional liberalization is a stepping stone to MFN liberalization by helping to prepare countries for the more demanding trade environment. They argue that certain industries become more efficient in an RIA and are therefore better able to cope with subsequent full liberalization, while other industries begin to contract and lose their political ability to resist further opening.

A refinement of the lobbying arguments is to explore the effect that having fringes of small free trade area (FTA) partners has on the attitudes of large countries toward the tariffs on their mutual trade. This is an especially relevant issue, as the European Union and the United States gradually are extending their FTA activities. Levy (1996) suggests that in goods where the fringe has a highly elastic supply, the large country will have little interest in preserving its tariffs (because the mercantilist costs of liberalization fall mainly on the partners). For exports, the large country has two markets: its fringe and the rest of the world. If the fringe has a relatively elastic demand schedule, large-country exporters reap fewer of the price-increasing effects of the rest of the world's tariff reduction, which cuts their incentives to lobby for domestic liberalization as the key to foreign liberalization. It is obviously an empirical issue how all this would work out in practice, but trade agreements with small partners will affect multilateral negotiations.

## **Regionalism as Insurance**

A commonly cited motive for small countries seeking an RIA with a major market is to guarantee future access to that country. The RIA may lock in tariff reductions for the small country and may offer some defense against other trade restrictions either in the form of agreed "disarmament" (e.g., Canada and Chile eschewing antidumping duties on mutual trade) or through enhanced dispute settlement (e.g., the North American Free Trade Agreement [NAFTA]).<sup>4</sup> This is often referred to as the "insurance motive" for regionalism (Perroni and Whalley 1994) and this name highlights a potential problem for the multilateral system: moral hazard.<sup>5</sup> A country with insurance might be less concerned about multilateral disciplines than one without. Certainly that country need not rely on

---

4. It is still not proven that enhanced dispute settlement actually changes the incidence of these other restrictions on access, but, judging from the business community's comments, it seems to promote confidence that arbitrary barriers will be less common.

5. Some commentators see insurance as locking in your own as well as your partner's policies. This is a legitimate argument, but is not really one pertaining to a country's propensity for multilateral liberalization.

World Trade Organization (WTO) procedures and disciplines to open its RIA partners, and to the extent that these partners dominate its trading aspirations, it will be less concerned about opening other markets. Sapir (1995) notes that the Hungarian authorities appeared to pay more attention to EU disciplines than multilateral disciplines in determining their trade policy making in the early 1990s, although, to be fair, I should note that he saw this as inducing more rather than less liberalization.

An important aspect of the insurance motive is that the hazards are endogenous. Recent North-South RIAs generally have been interpreted as the South paying a high price in terms of granting preferential access in return for its assured access to the North. Insurance premiums are higher for riskier environments, so dominant partners (e.g., the European Union, United States, South Africa in SADC, Brazil in Mercosur) may have an incentive to keep the risks up while they are contemplating further regional agreements. This could mean maintaining their own tariffs (the negotiating tariff argument), but more likely it means resisting multilateral efforts to discipline instruments of “commercial defense.”

## **Domino Regionalism**

An RIA may impose costs—both mercantilist (lost exports) and welfare—on nonmembers even if it does not raise levels of protection. Nonmember suppliers become less competitive in member markets because they continue to pay tariffs while member producers do not. Moreover, where there are economies of scale, regional integration may help lower member country firms’ costs by increasing their home market. Nonmembers may respond to this situation by trying to join the RIA that threatens them or by forming a bloc of their own. While adopting these palliatives might relieve some of the damage, the excluded countries may benefit more from the elimination of RIAs altogether.

Scandinavia gives us two examples of domino regionalism. In the late 1950s, the European Free Trade Agreement (EFTA) was created in response to the negotiation of the European Economic Community (EEC), and in the late 1980s the decision by Finland, Norway, and Sweden to seek accession to the European Union may be traced to the European Union’s single-market initiative. As the European Union pursued deeper integration, the Scandinavian countries feared for their export markets. If just one of these three countries had joined the European Union, the cost to the other two remaining outside would have increased because the European Union would have become even larger and more competitive and access to the accedant’s market would have become less secure. Thus, all three countries sought membership (although Norway ultimately backed out). Among developing countries, similar forces probably contributed to Chile and Bolivia seeking association with Mercosur.

Many RIAs are unwilling to admit new members, some for fear of disturbing existing trade patterns. In simple free trade arrangements it may be possible to guarantee automatic entry to any country that agrees to follow the rules. All the RIAs extant, however, allow exceptions to free trade or contain plans to go beyond it; these require negotiation, which vitiates any promise of automatic entry.

## **Regionalism as a Stimulus to Multilateral Negotiations**

A third response to RIAs is to initiate multilateral trade negotiations to reduce trade barriers in general. Many commentators argue that the creation of the EEC led directly to the Dillon and Kennedy Rounds of GATT negotiations as the United States sought to mitigate the EEC's potential for diverting trade. Although perfectly conceivable, this is not a straightforward argument. First, it is unlikely that multilateral negotiations would have stopped completely had the EEC not been created, especially given the global reach of the United States during the 1960s. Thus, at most the EEC affected the timing, not the existence, of the rounds. Second, agriculture played an important role in the formation of the EEC, and the EEC was probably more successful in resisting that sector's liberalization in the multilateral trade negotiations than the individual members would have been. This has made future agricultural liberalization more, not less, difficult. Third, suppose that the hypothesis were true. The logic of the argument is essentially coercive: EEC members did something that their trading partners considered harmful and then offered to mitigate it in return for concessions. Coercion may be warranted and the outcome may have been beneficial, but this is a dangerous game. It depends critically on the willingness of the partners to fold (negotiate) rather than fight and to respond multilaterally rather than regionally.

Similar arguments have been made about regionalism prompting the Tokyo Round and about the Asian Pacific Economic Cooperation group hastening the completion of the Uruguay Round, and they are subject to the same kinds of criticisms.<sup>6</sup> The bottom line is that it is quite un-

---

6. While acknowledging the force of the statements by EU negotiators that APEC speeded the closure of the Uruguay Round (see Bergsten 1997), I maintain some reservations. First, negotiators use the tools of persuasion that are on hand—as APEC manifestly was in November 1993—but that does not prove that other tools would not also have worked. Second, and more substantively, the principal necessary condition for the European Union to complete the round was agricultural reform, which was initiated in 1990 and completed in 1992. The European Union claimed that the reform was made for internal reasons only, but common sense, as well as Hathaway and Ingco (1996), suggests otherwise. Thus, it seems to me possible to overstate the case for APEC saving the Uruguay Round.

clear whether ongoing negotiations on RIAs make a multilateral round more or less likely.

A problem with domino regionalism is that the prospect of future accession to an RIA can undercut current liberalization. For example, if Estonia were to accede to the WTO binding tariffs at their current applied rates (zero), then it is clear that Estonia would face a re-imposition of protection on accession to the European Union and that the European Union as a whole would need to offer compensation under Article XXIV. There is a suspicion that this lies behind Estonia's initial offer to bind at 25 percent.

## **The Formalities of Regionalism and Multilateral Negotiation**

### **Joint Negotiation**

Coalitions of countries are free to negotiate tariff concessions jointly under the GATT. All that is required is that each member of a coalition reciprocate for the concession sought from the counterpart (Dam 1970). However, CUs, which maintain common external barriers, must act jointly, behaving essentially as a single entity. This most obvious, formal effect of RIAs on multilateral negotiations seems straightforward and easy to allow for. Indeed, reducing the number of parties at the table would seem to speed up and simplify negotiations—a point made by several advocates of regional routes to multilateral liberalization. While perfectly feasible, this result is not inevitable. For example, a negotiation comprising one dominant partner and a competitive fringe of small countries might be quicker and simpler and proceed further than if the fringe coalesced into a significant counterforce.

Despite the logical uncertainty just noted, if the blocs are genuinely unified it is reasonable to expect negotiations to be easier with fewer partners. Unfortunately, this condition is not always met: any gains from having fewer players in the last stage of a negotiation are offset by the complexity of agreeing to joint positions in the first phase and of responding to requests and offers from partners.<sup>7</sup> Winham (1986) notes the complexities of formulating EEC positions in the Tokyo Round, and the difficulties of achieving a European position on agricultural and cultural protection in the Uruguay Round are well known.

---

7. The existence of regional secretariats generally helps the formulation of common positions. Andriamananjara and Schiff (1998) offer an analysis of regional cooperation among very small countries based wholly on the transactional efficiency of negotiating jointly.

Moreover, there is no theorem proving that two-stage negotiations are more liberal than one-stage negotiations. To be sure, Germany and the United Kingdom pressured France to agree to the agricultural deal in the Uruguay Round, but the pressure might have been more effective if it had been multilateral rather than regional. Certainly the liberalizers had to make potentially trade-restricting concessions on commercial defense instruments to clinch the deal.

In an ideal world the CUs that attend the next WTO round of trade negotiations (European Union, Southern African Customs Union [SACU], Mercosur) would establish comprehensive negotiating briefs that gave their delegations clear instructions and authority to negotiate. In practice, however, because negotiations are unpredictable and test the limits of tolerance, there is little hope of such an outcome. We shall just have to live with the additional step, just as we have to live with the complexity of internal balancing acts in the United States.

A further complication is that as the WTO extends its reach it is likely to encounter more subjects in which the central authorities of an RIA have no mandate to negotiate. For example, in the European Union, intellectual property is mainly a national, not a union, issue. Such a mix of responsibilities for negotiation seems unlikely to simplify matters, and it is not realistic to expect that such sensitive issues will be delegated to regional bodies just because trade negotiations are underway.

It is ultimately an empirical question whether countries combining into RIAs and then negotiating as a single bloc make negotiations more efficient. I believe that some caution is required in asserting the proposition. One thing is true: While much else changed as well, GATT rounds became much longer once the EEC was well established!

## **Article XXIV**

A second formal interaction between regionalism and multilateral trade negotiations must be mentioned briefly. The Understanding on the Interpretation of Article XXIV provided technical details for the implementation of several aspects of Article XXIV, but did not come to grips with the Article's fundamental problems: defining "substantially all trade," considering "other restrictive regulations on commerce" between members, or the fact that so few RIAs have received clear approval from the GATT. Unfortunately, the new Committee on Regional Trading Arrangements has yet to fill these gaps. Thus, there are many agenda items for further negotiations on regionalism in the next round.

However, the positions of the major players seem not to have changed since the early 1990s, and my expectation is that this issue will not be prominent in such a round. After a brief flirtation with tighter (or more tightly enforced) rules for RIAs, the European Union now seems to be backing rapidly away as it contemplates replacing the Lomé Convention's

trade provisions with a series of FTAs with developing countries. Similarly, with negotiations on the FTAA starting and the US view that APEC will ultimately have to threaten, if not actually adopt, discrimination, it is difficult to see the United States welcoming a tightening up of Article XXIV.

## **The Effects of Regionalism in Practice**

Finally, this section discusses how regionalism might affect multilateral negotiations in practice; specifically how, given countries' attitudes toward liberalization, regionalism affects the technology of negotiation.

### **Tough Briefs**

Many argue that one of the strengths of the regional approach to liberalization is that it makes it easier to handle the tough cases. That is, there are areas in which regional liberalization is more feasible than multilateral liberalization. During the 1930s, after virtually every country had imposed high tariffs on imports, several sets of bilateral arrangements sprang up that featured reciprocal preferences. If general liberalization was precluded by fears that export growth might not accompany import growth, these regional arrangements—which were politically feasible because they almost guaranteed export expansion in partner markets—allowed some trade relations to thaw. In the terms used earlier in this chapter, regionalism allowed greater and more direct internalization of the (mercantilist) benefits of negotiations.

Similarly, for activities that are currently highly restricted (e.g., agriculture, trade subject to antidumping measures, some services) and areas that are highly technical or sensitive (e.g., standards, competition policy, services regulation), regional liberalization may be feasible when global liberalization is not. The relevance of this argument depends on three factors: First, whether global liberalization has actually been ruled out or whether, if RIAs were not an option, a little more time and effort would yield global progress; second, whether, once the ball is rolling, RIAs might slow down multilateral progress for the reasons discussed above. To the extent that RIAs are justified in these terms, it is important to ensure that the subsequent switch from regionalism to multilateralism can be managed effectively.

Finally, there is the empirical issue of whether RIAs do actually cover tough cases. Hoekman and Leidy (1993) suggest that even RIAs among developed countries have not advanced much further with liberalization than the multilateral system. Thus, agriculture and textiles frequently remain restricted; transport, culture, and other “sensitive” services are excluded; government procurement is ignored (de facto, if not de jure);

and contingent protection continues. Hoekman and Leidy recognize that the European Union—especially in its Single Market Program—did advance broadly beyond the GATT, but note that it took 30 years to initiate and that it is, to date, unique. There are other exceptions, such as NAFTA ultimately liberalizing agriculture and CUSFTA tackling procurement. However, until now RIAs seem not to have led multilateral liberalization to the extent that is sometimes supposed.

## Blueprints and Coalitions

A related argument is that RIAs help develop blueprints of certain policies that can be used as the basis for subsequent multilateral negotiations. For example, current bilateral investment treaties may inform a multilateral negotiation (if there is one), and the European Union suggested the Common Agricultural Policy (CAP) as a model for agriculture in the Kennedy Round.

A slightly less benign version of this argument is that major powers might use RIAs to reinforce their initial positions in a future multilateral negotiation. For example, Preeg (1998) agonizes—unnecessarily, in my view—about a European block of 40+ votes in the WTO (EU members and associates); some developing countries and the European Union felt uneasy about the pressure to adopt globally an Information Technology Agreement that originated in APEC; and developing countries will probably view global proposals that emerge from an EU/US Transatlantic Market Place with similar suspicions.

If major players have greater politico-economic power within their own regions than in the larger world, it is easy to imagine the use of “reverse-salami” tactics whereby the majors gradually build up coalitions for their own policies before taking issues into a multilateral round. Ostry (1998) argues that the United States used approaches by potential RIA partners in the Americas and Asia to broaden the negotiating agenda for their relations with Europe. Europe arguably did the same with the European Economic Area and its Europe Agreements.

Putting aside the possibility that powerful coalitions may promote bad solutions, the danger of such tactics is four-fold. First, even if the major countries’ aspirations are desirable for themselves, by building up rival teams they might make the final negotiations more rather than less difficult. In these cases, while regionalism looks like stepping stones, it actually leaves the trading regime stranded in mid-stream. Second, even when there is no rival team (i.e., only one regional bloc is bringing forward proposals in a particular policy area), other countries might resent the pressure to adopt that policy enough to pull back. The current plight of the Multilateral Agreement on Investment is instructive in this regard, as are comments from developing country policymakers about the ultimate futility of “cherry-picking” particular sectors (again in APEC)

for liberalization instead of proceeding to a broad round of negotiations. Third, multilateral talks may be postponed by the time it takes to build regional coalitions. This is similar to the “overburdened negotiator” objection to regionalism—that while they are focused on regional initiatives, governments just do not have the capacity to prepare for and pursue multilateral talks. Finally, coalitions rooted in formal RIAs are here to stay, so that if multilateral processes fail, the blocs remain. This is quite different from a negotiating coalition, which dissolves to the status quo ante if it fails to gain its objectives.

## APEC

In practical terms, the most significant interaction between regionalism and the next multilateral round is the Asian Pacific Economic Cooperation (APEC). (I reveal here a wish—and perhaps a view—that the next round will emerge sooner rather than later.) APEC remains an enigma, with apparently deeply conflicting views among members about whether it should ever discriminate and even, incidentally, about what “free trade” means. To date APEC has done nothing discriminatory, but Bergsten (1997) argues an elegant case that it must be prepared to do so if it is to (a) succeed (US realpolitik) and (b) foster global liberalization (the argument that regionalism fosters multilateral talks). Bergsten discusses the dangers of this path—that others won’t play—but feels that they are not great: essentially, APEC will be so large that no single player serious about its global trade could resist negotiating a reciprocal deal. If APEC were unified and genuinely liberal, this might be true, but there is not much evidence of such dynamics. Certainly, it is a bold leap to generalize from the Information Technology Agreement—in which few countries had serious misgivings on the substantive issue—to a comprehensive APEC-orchestrated liberalization. If APEC is divided, and its liberalization tentative, the danger of weakening the global system is real: by adding suspicion and resentment to an invitation to negotiate exceptions, nonbinding rules, and even to discrimination, it could sap the will to negotiate a genuine and broad multilateral liberalization.

Not only has APEC raised the specter of adding more discrimination to the system, but also it has promoted (or perhaps revived) an explicitly sectoral approach to trade negotiations. In one sense the approach adopted at the Vancouver summit meeting in November 1997, in which nine sectors were selected for liberalization, is like the GATT’s old request and offer system, but with a restricted menu. It remains to be seen whether this restriction will aid progress by avoiding conflict and inducing a sense of realism in requests, or whether it will ultimately hinder progress by restricting trade-offs and isolating the hard cases with no sweeteners to sugar the pill. My own view is that it would be far better—and probably not much more difficult politically—to add

agriculture, other goods, services, and certain rules issues to the agenda and to extend the negotiation to the other half of the world. This would immediately create a new round. The obvious path to this outcome is for the membership of the WTO to press for a round, to insist that they will also bring sectors to the table, to be clear that Article XXIV is enforceable, and to announce ambitious timing targets for the multilateral process. APEC, too, should see that this is in its best interests and eschew talk of discrimination.

## Conclusions

Unfortunately, the subject of regionalism and the multilateral system does not yet lend itself to strong conclusions. There are arguments on both sides of the debate about whether regionalism encourages multilateralism. My own view is that the returns to regionalism as a route to multilateralism are probably not particularly great—perhaps quicker progress on a broader front—while the risks are great, since the whole system could be threatened by regional rivalries. Thus, given that the multilateral system has served the world so well over five decades, and given that, outside a few identifiable exceptions that are generally based on nontrade factors as much as trade ones, RIAs have not so far proved obviously beneficial, I should be very cautious about further advance down the regional route.

I do not believe economists can reverse the tide of regionalism, but it may ebb naturally as its complexities become evident. I do urge, however, that advocates of multilateralism be explicit and rigorous in its defense, despite the current enthusiasm for regionalism among many world leaders.

Given that regionalism is not about to go away, it is interesting to surmise how it will affect the next round of trade negotiations. While there might be a lot of bluster about regional alternatives, I believe that there is enough momentum to start a new global round within the next few years. I only hope that it will be pursued vigorously and genuinely. Because several regional arrangements are under negotiation at present with “dates certain” for their completion, we must ensure that the multilateral process does not get pushed to the sidelines. For this purpose, a tight schedule and a restricted agenda may be desirable. The restrictions, however, must not preclude a balance of interests—including having enough issues of importance to developing countries (e.g., tariff peaks, anti-dumping, movement of natural persons) to maintain their newfound enthusiasm for multilateralism and trade liberalization.

It is not clear how many blocs will wish to negotiate jointly in a future round, but probably not many. In the Uruguay Round only the European Union and SACU did, the latter effectively ceding all responsibility

to South Africa. Mercosur will need to join the group if it is serious about its common external tariff, but given all the exceptions to the latter and Mercosur's lack of internal political machinery, it is not at all clear how this will happen. In addition, SACU seems less united now than it did in the Uruguay Round. I conclude, therefore, that bloc-to-bloc negotiations will not be a major feature in the current round. One possibility that must be avoided is that partners in FTAs press each other not to liberalize MFN in order to preserve intrabloc margins of preferences.

As noted earlier, one way to help to head off discrimination in APEC is to roll the APEC process into a round by generalizing and extending it. Another regional issue that could usefully be discussed in a round is a broad-based MFN liberalization as an alternative to the FTAs that the European Union is contemplating to replace the Lomé Convention (see Winters 1997). I do not expect, however, much progress to be made debating Article XXIV and General Agreement on Trade in Services Article V.

The stakes are high. Regionalism can puncture the multilateral bicycle's tires, but it need not. Avoiding catastrophe requires that explicit precedence be accorded to the WTO approach and that RIAs be explicit in their objective and in their means for achieving nondiscriminatory liberalization. This will take political courage, not just technical fixes, not least on the part of the United States.

## References

- Andriamananjara, S., and M. Schiff. 1998. Regional Grouping Among "Micro States." Washington: Development Research Department, World Bank. Photocopy.
- Bergsten, C. Fred. 1997. Open Regionalism. *World Economy* 20: 545-65.
- Dam, K. W. 1970. *The GATT: Law and International Economic Organization*. Chicago: University of Chicago Press.
- Hathaway, Dale E., and Merlinda D. Ingco. 1996. Agriculture Liberalization and the Uruguay Round. In *The Uruguay Round and the Developing Countries*, ed. by W. Martin and L. Alan Winters. Cambridge: Cambridge University Press.
- Hoekman, Bernard M., and M. P. Leidy. 1993. Holes and Loopholes in Integration Agreements: History and Prospects. In *Regional Integration and the Global Trading System*, ed. by K. Anderson and R. Blackhurst. Hertfordshire: Harvester Wheatsheaf.
- Krugman, Paul R. 1991. Is Bilateral Bad? In *International Trade and Trade Policy*, ed. by E. Helpman and A. Razin. Cambridge, MA: MIT Press.
- Levy, Philip I. 1996. *Lobbying and International Cooperation in Tariff Setting*. New Haven, CT: Yale University. Photocopy.
- Ostry, S. 1998. Presentation to the First Academic Colloquium of the Americas, Costa Rica.
- Perroni, Carlo, and John Whalley. 1994. *The New Regionalism: Trade Liberalization or Insurgence?* NBER Working Paper No. 4626. Cambridge, MA: National Bureau of Economic Research.
- Preeg, Ernest H. 1998. *From Here to Free Trade*. Chicago: University of Chicago Press.
- Sapir, André. 1995. The Europe Agreements: Implications for Trade Laws and Institutions. In *Foundations of an Open Economy: Trade Laws and Institutions for Eastern Europe*, ed. by L. Alan Winters. London: CEPR.

- Winham, G. R. 1986. *International Trade and the Tokyo Round Negotiations*. Princeton, NJ: Princeton University Press.
- Winters, L. Alan. 1997. Green Paper on the Relations Between the EU and the ACP Countries: Comments on the Trade Options. Washington: Development Research Group, World Bank. Photocopy.
- Winters, L. Alan. 1998. Regionalism versus Multilateralism. In *Regional Integration*, ed. by R. Baldwin, D. Cole, A. Sapir, and A. Venables. Cambridge: Cambridge University Press.