THE NEW REGIONALISM

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Once again, regionalism is afoot. Twin late-1980s announcements, by the United States and Canada of negotiations for a free-trade area, and by the EU of an attempt to complete its internal market, ignited a conflagration of regional integration. Well over a hundred regional arrangements, involving most nations, now exist. *Deja vu:* the 1950s and 1960s had likewise witnessed many ‘old regionalism’ initiatives. Except for Western Europe, these in the end amounted to little, however, and efforts for preferential trade became quiescent, until the dramatic advent of the ‘new regionalism’.

1. Introduction

Trade theorists have responded to the new regionalism by investigating two questions. Will the formation of regional trading blocs raise or lower welfare? Will regionalism help or hinder multilateral trade liberalisation? Answers have been mixed.¹ These investigations have adopted a Vinerian perspective on regional integration as a combination of trade creation and trade diversion² (developed in response to the old regionalism) augmented, in many cases, with a significant use of game theory (reflecting developments in economic thought since the days of the old regionalism). Notable by its absence is investigation of the more fundamental question of *why* the new regionalism has emerged—it has simply been treated as exogenous.

Also absent has been appreciation of the fact that the international environment greeting the new regionalism differs from that experienced by the old regionalism in three dramatic, fundamental, and critical ways.

- The multilateral liberalisation of trade in manufactured goods among the industrial countries is much more complete now than it was then.

The GATT rounds of multilateral tariff reductions, still gathering steam in the days of the old regionalism, now constitute perhaps the most successful exercise of deliberate economic policy making in history. But the second distinguishing feature is even more important.

- Scores of economically less advanced countries have abandoned the basically-autarkic, anti-market, policies they followed during the days of the old regionalism and are now actively trying to join the multilateral trading system.

¹ See Bhagwati and Panagariya (1996), Krugman (1991), Bond and Syropoulos (1996) and Bagwell and Staiger (1996a, b, 1997).

During the 1950s and 1960s the communist bloc was still communist and import substitution ruled the Third World, with most less developed countries highly suspicious of both trade and foreign direct investment. All this changed just as the new regionalism appeared. The third distinction involves the changing role of direct investment.

- Direct investment is much more prominent now than in the days of the old regionalism, and it has been surging since the advent of the new regionalism.

Formerly, direct investment was largely a matter of U.S. manufacturing firms expanding horizontally into other developed countries (aside from the traditional vertical integration by extractive firms). Since then, direct investment by the developed countries has become increasingly two-way, is growing faster than trade, and is increasingly likely to flow into developing and reforming countries.

Because of this radical change in environment one can make a qualitative distinction between the old regionalism and the new. To appreciate what this might be, it is necessary to investigate the causes of the new regionalism and not merely use the traditional tools to try to deduce its consequences. The old regionalism was, to a large extent, motivated by a desire to substitute for insufficient multilateral liberalisation and/or to facilitate holding aloof from what multilateral liberalisation there was. The Vinerian paradigm of trade creation versus trade diversion provided a natural frame of reference from which to analyse such an environment. Thus the Vinerian perspective was appropriately central to theoretical models motivated by the old regionalism. I argue that the new regionalism, by contrast, is largely motivated by a desire to facilitate entrance into a now much more developed multilateral trading system. The Vinerian perspective, though not irrelevant, should be secondary in theoretical models appropriate to an analysis of the new regionalism.

This paper concerns appropriate models of the new regionalism, models in which regionalism might emerge as a consequence of past multilateral success and extensive current reform attempts. But first I must set out what I believe to be the important characteristics of the new regionalism.

2. Characteristics of the New Regionalism

The following six characteristics are neither exhaustive nor universal (current regional initiatives are quite diverse), but do apply in varying degree to most of the more important regional arrangements.

(a) The new regionalism typically involves one or more small countries linking up with a large country.

In NAFTA, Mexico and Canada are each small, economically, relative to the United States; the new members of the EU (Austria, Finland and Sweden) are tiny relative to the EU itself; the same is true of the central
European adherents to the Europe Agreements with the EU; Brazil will likely dominate Mercosur, etc.

(b) *Typically, the small countries have recently made, or are making, significant unilateral reforms.*

This is dramatically true of the Europe Agreements’ central European participants, who had abandoned communism, of the members of Mercosur, and of Mexico in NAFTA. But it also characterises, to a lesser degree, the small industrial country participants in regional initiatives. Canada had turned away from Trudeau-style economic nationalism before negotiating a free trade agreement with the United States, and the Scandinavian applicants to the EU (except Norway, which, significantly, declined to join) had made important reforms in some sectors (e.g. agriculture). Note that, in Mercosur, the large country, Brazil, is also a reformer.

(c) *Dramatic moves to free trade between members are not featured: The degree of liberalisation is typically modest. Thus the Vinerian paradigm is not a natural starting point.*

For example, NAFTA actually provides only modest liberalisation: United States tariffs were already low and NAFTA hedges sensitive sectors in all sorts of ways. Canada and Mexico have done somewhat more, but the most significant measures (largely Mexican) were unilateral and not part of NAFTA. The accession of new members to the EU is even more glaring: because of their membership in the EA, the trade relations of Austria, Finland and Sweden with the EU are virtually identical to what they would have been had they decided not to join! The Europe Agreements provide for little in the way of concrete liberalisation. Even with the admittedly more ambitious Mercosur the liberalisation involved is not large relative to the unilateral liberalisations of the members.

(d) *The liberalisation achieved is primarily by the small countries, not by the large country: The agreements are one-sided.*

The liberalisation in NAFTA is due much more to ‘concessions’ by Mexico and Canada than by the United States. In negotiations over enlargement, the EU has been flexible on financial responsibilities and periods of adjustment, but has always maintained a take-it-or-leave-it attitude regarding the nature and structure of the EU itself. The Europe Agreements involve virtually no ‘concessions’ by the EU: Indeed the EU instituted antidumping measures against some of its new partners even as the initial agreements were coming into effect! In a sense this asymmetry is a direct reflection of how the world has changed since the days of the old regionalism: one reason the small countries get only small tariff advantages is simply that the large countries have small tariffs to begin with. Mercosur is an exception: Brazil has made concessions at least as large as those of the smaller members. But recall that Brazil is also a reformer.

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Regional arrangements often involve ‘deep’ integration: the partners seldom confine themselves to reducing or eliminating trade barriers, but also harmonise or adjust diverse assortments of other economic policies.

The EU is a clear and dramatic example of this. The United States–Canada free-trade agreement and the subsequent NAFTA included a host of economic reform commitments by Canada and by Mexico. Sometimes partners in regional arrangements exempt each other from acts of administered protection (such as antidumping duties), but often they do not (e.g., NAFTA). Sometimes partners are in effect granted rights of appeal denied to nonpartners (NAFTA again). The three latest GATT rounds of multilateral negotiations tried, with significant success, to broaden the scope of multilateral arrangements. But a major attraction of the new regionalism is that negotiations with a small number of partners broadens the range of instruments over which negotiation is feasible.

Regional arrangements are regional geographically: The participants are neighbours.

Unlike the other five stylised facts, this characteristic was probably just as true of the old regionalism as it is of the new.

In summary, regional integration now usually involves reform-minded small countries ‘purchasing’, with moderate trade concessions, links with a large, neighbouring country that involve ‘deep’ integration but that confer relatively minor trade advantages.

3. Regionalisation

Next, I advance several hypotheses inspired by the stylised facts of the new regionalism and by the differences in environment alluded to above, and I introduce theory to consider the hypotheses further. For exposition, I split this into three parts, introducing one by one the three ways in which the international environment has changed between the days of the old regionalism and today. This section exploits the fact that multilateral liberalisation is much more extensive now.

3.1. Hypotheses

The first set of hypotheses relate to regionalisation (an increase in the amount of trade with geographic neighbours relative to total trade) and its relation to liberalisation.

Hypothesis 1: Liberalisation promotes regionalisation. The familiar gravity equation—predicting that the volume of trade between two countries is positively related to their GDPs and negatively related to the economic distance between them—has repeatedly been shown to describe actual trade patterns well.  

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3 The gravity equation can be thought of as a reduced form consistent with many trade models, so that its empirical success reveals little about the underlying causes of trade. See Deardorff (1995).

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Economic distance equals geographic distance (presumably proxying for transport costs and perhaps other things) plus trade barriers. A nondiscriminatory liberalisation, by making geographic distance more important relative to trade barriers, might be expected to cause a country's trade to become more regional. This is true both for multilateral liberalisation and for unilateral reform.

Hypothesis 2: The fewer the number of participants in trade negotiations, the easier it is to reach agreement. Fewer participants presumably mean fewer conflicts of interest and fewer areas of potential disagreement. Furthermore, a solution to a conflict between two participants is less likely to provoke a conflict with another participant the fewer the number of additional participants.

Hypothesis 3: The fewer the number of participants in trade negotiations, the larger the number of issues on which it is possible to reach agreement. That is, the deeper is the integration that can be negotiated.

3.2. Theory

I now discuss, in general terms, 4 theoretical considerations suggested by the above hypotheses. The discussion reflects the stylised facts (f), that regional arrangements are established by geographical neighbours, and (e), that they often involve 'deeper' integration. Consider the following model.

- Countries are identical, except that they are spatially separated. Assume, in particular, that countries are grouped into \( N \) continents of \( n \) countries each; the distance between any two countries in the same continent is less than the distance between any pair in different continents.
- The government of each country may negotiate a mutual reduction in trade barriers with other governments, but each government is constrained by negotiating costs. In subsequent periods there will be new rounds of negotiations, with the governments constrained by the same costs in negotiating further reductions in trade barriers.

At the outset of each negotiating round, each government decides whether to negotiate regionally (only with other countries in the same continent) or multilaterally (with all other countries); because of the symmetry, all governments make the same choice. The negotiating costs relate to the government’s political support, not modelled explicitly. Hypotheses 2 and 3 suggest representing these costs as follows:

\[
\hat{c} = l + \gamma \pi
\]

where \( \hat{c} \) denotes the cost, \( l \) the degree of liberalisation that is achieved, and \( \pi \) the number of negotiating partners to whom that liberalisation applies. Thus \( \pi \) equals \( n - 1 \) if negotiations are regional and \( nN - 1 \) if they are multilateral. \( \gamma \) is a parameter reflecting the relative importance of the two determinants of

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4 See Garriga and Sanguinetti (1995, 1997); also see Ethier (1997).

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I assume the total cost a government is willing to incur in a negotiating round is exogenously given.

- In its negotiations, each government strives to maximise, subject to the constraint on costs, an index of benefits. Benefits are greater the greater the reduction in trade barriers and the greater the number of partners to which those reductions apply. Represent the benefits by:

\[ b = l + \delta \pi \]  

- The parameter \( \delta \) is a decreasing function of the ratio of aggregate trade with negotiating partners to aggregate trade with nonpartners.

The government, for political reasons, wants to reduce the ‘tax’ on as much trade as possible, and existing trade matters more than trade that would exist if barriers were lower. Also, a higher partner-to-nonpartner trade ratio will likely imply a higher trade-creation-to-trade-diversion ratio. Let \( \delta_R \) denote the value \( \delta \) would have if a country were initially to embark on regional negotiations, previous negotiations, if any, having all been multilateral. Hypothesis 1 suggests that the ratio of partner to nonpartner trade is a decreasing function of \( t \), the existing trade barrier. So assume that \( \delta_R \) is an increasing function of \( t \), \( \delta_R(t) \).

What will countries do? Maximising \( b \) subject to the constraint that \( \epsilon \) equal an exogenous value requires that \( \pi \) be minimised—that is, that negotiations be regional—if and only if \( \gamma > \delta_R \). If initially \( \gamma > \delta_R(t) \), countries will embark on regional negotiations which will reduce \( \delta_R \) still more, so that multilateral negotiations cannot even start until regionalism has gone to the limit. The world looks Vinerian. If, on the other hand, \( \delta_R(t) > \gamma \) initially, negotiations will be multilateral. But the outcomes of these negotiations will drive \( \delta_R(t) \) down toward \( \gamma \). If the free-trade value, \( \delta_R(0) \), exceeds \( \gamma \), regionalism will never become appealing, and countries will continue on the multilateral path toward free trade. But if \( \delta_R(0) < \gamma \), sufficiently successful multilateral negotiations will eventually be replaced by regional negotiations.

The latter possibility is the especially interesting one. Here the success of multilateral liberalisation induces a switch to regionalism, and this switch sustains the pace of liberalisation above what multilateral negotiations could deliver.

### 4. Commitment to Reform

The previous section exploited just one of the three basic changes in the international environment between the time of the old regionalism and that of the new: multilateral trade liberalisation. Now I add a second: efforts for fundamental reform by the former communist countries and throughout the third world.

\[ \text{But see Bhagwati and Panagariya (1996) for a contrary view.} \]

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4.1. Hypotheses
Bringing the economy into the multilateral trading system is central to all contemporary reform programmes. Presumably the benefits that can be expected by being part of this system help determine how tempting reform is.

Hypothesis 4: The greater the degree of multilateral integration, the greater the benefits to be expected from being part of the multilateral system.

A major concern of most economic reformers is that their reforms not be undone in the future. That is, they want to bind future regimes to the reforms. This is desirable not only for its own sake, but also because a faith in the permanence of the reform effort is crucial to its success. One way—sometimes the only way—to bind future regimes to the reforms is to establish an external commitment.

Hypothesis 5: The more likely that backsliding from an external commitment will induce retaliation, the more likely such a commitment is to sustain reform. If future regimes can walk away without cost from an external commitment to reform, that commitment will not accomplish much.

Hypothesis 6: The more that specific reform measures are embodied in an external commitment, the likelier that commitment is to sustain reform. A vague commitment can be gutted in substance while fully adhered to in form.

4.2. Theory
Implications of the hypotheses are immediate. Successful multilateral liberalisation by the industrial countries makes participation in the international economy more rewarding, and thereby contributes to the decision to reform. Multilateral negotiations also offer reforming countries a potential external commitment binding future governments to the reform measures.

Multilateral negotiations are, however, of little practical use for this purpose. They provide no enforcement mechanism should a country backslide, and large industrial countries can hardly be expected to put the multilateral system at risk merely to punish a single deviant reformer. Even if they wanted to punish they are likely to have little formal justification for doing so, since multilateral agreements would not embody detailed reform measures by individual countries.

But regional arrangements can address both problems. The fact that the agreement is with a big country (often the dominant trading partner) adds a credible enforcement mechanism. Because such arrangements allow for deeper integration, they can contain obligations to undertake specific measures central to the reform effort. This is clearly illustrated by the free trade agreement between Canada and the United States and by the subsequent NAFTA.

Thus the stylised facts important here are (a), (b), and (e): reform-minded small countries linking up with a larger country in an arrangement featuring deeper integration.

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5. Competition for Foreign Direct Investment

The previous sections have exploited two of the three basic changes in the international environment between the time of the old regionalism and that of the new. Now I bring in the third: foreign direct investment.

5.1. Hypotheses

This section, like the previous, utilises the stylised facts that regionalism usually involves a big country linking up with one or more small ones making significant reforms. In addition, the stylised facts (c) and (d), that the degree of liberalisation is modest and asymmetrical, play a critical role. Thus all six stylised facts will have been brought in.

Hypothesis 7: Reforming countries see the ability to attract foreign direct investment as the key to successful entry into the multilateral trading system. Multinational firms are a prime means of technology transfer, and they can supply international contacts and modern commercial methods to countries which, because of their past policies, have precious little of either.7

Hypothesis 8: Competition among reforming countries to attract foreign direct investment is likely to be keen. Countries comprising a large part of the world are trying to reform at the same time, and most of them see direct investment as the key to success.

Hypothesis 9: A small national advantage offers the hope of attracting a large amount of foreign direct investment. There are three mutually reinforcing reasons to expect this. First, with similar countries competing, small advantages can prove decisive. Second, direct investment is lumpy: you have to put a factory in one place. Third, the basic advantages that reforming countries see in direct investment involve externalities, and these externalities render a site more attractive for additional direct investment.

5.2. Theory

Consider the following abstract framework. A large number of countries, hitherto aloof from the multilateral trading system, seek to undertake fundamental reform and become part of that system, at least in part because of the success of past multilateral liberalisation. These reforming countries do see direct investment as a key to successful reform (Hypothesis 7), and they will compete with each other to attract it (Hypothesis 8). Firms in the industrial countries are tempted to invest in the potential reformers, because of the latter’s comparative advantages, but the former have substantial latitude in deciding where to invest, since there are many reformers with fairly similar economic characteristics.

A reform effort will presumably be more successful the more foreign direct

6 For a full account see Ethier (1996).
7 Not ‘of other,’ though that is true too.

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investment the country can attract. To put this consideration into sharp relief, assume that a reform effort will succeed if and only if some direct investment is attracted. To focus on competition among reforming countries, assume that they are all alike so that, other things equal, industrial-country firms are indifferent about where to locate their foreign subsidiaries. But they will tend to locate together, because of the lumpy nature of direct investment and because of positive externalities between foreign subsidiaries.

The previous section’s discussion of the relation between regional integration and the ability of a reforming government to bind the country to the reforms is also relevant here. In practice, the credibility of the commitment of the government to its announced reform can be crucial in attracting direct investment and, in that way, ensuring the success of the reform. Even a regional arrangement with only modest big-country preferences for the small country establishes an external commitment to reform that (weakly) binds future governments, thereby making the future preservation of reform (slightly) more credible. What matters here is what the small reforming country gives, in terms of trade concessions, not what it gets, because it is the former which influences the likelihood of retaliation by the partner in the event of backsliding. The external commitment in turn makes the country more attractive for direct investment, relative to similar countries without such external commitments. Thus, Hypothesis 9 suggests, the ability of a regional arrangement to bind the government to reform can be important for the success of that reform even when it confers only modest direct benefits.

But the credibility of a country’s commitment to reform is but one consideration pertinent to a multinational firm’s decision of where to invest. To focus on other considerations, assume now that the commitment of each reforming country to the reform is not in doubt. Suppose, further, that the industrial countries are all alike, except that their final products are differentiated—the basis for trade between them. These products are produced in multiple stages, with the more labour-intensive stages presumably candidates for transfer to subsidiaries in the reforming countries.

Under these circumstances, successful reform by an individual country will be uncertain, but more probable the greater the aggregate amount of direct investment from the industrial countries relative to the number of countries attempting reform, that is, relative to the number of potential targets of that investment. So its prospects will be improved if a reforming country can somehow distinguish itself from its rivals.

Consider the role of regional arrangements in this regard. Define a regional agreement to be the following.

An agreement between one industrial country and one reforming country in which:

- The reforming country commits—
  - To the details of an attempted reform,
  - To give the goods of its partner preferential treatment;

- The developed country commits—
To make a small reduction in the duty applicable to goods imported from its partner country.

Note that this definition reflects the stylised facts that regional arrangements tend to involve one or more small reforming countries linking up with a large country in an arrangement characterised by asymmetrical concessions and deep integration.

Suppose for simplicity that each potential reformer regards the products of all industrial countries as perfect substitutes. Together with the assumptions already made, this will expunge from the analysis the possibility of negative welfare effects due to trade diversion. This oversimplification will emphasise that the changed world and the distinctive features of the new regionalism have made the old Vinerian concerns less important, and it will also highlight the new concerns.

Consider first the effects of such an arrangement on a potential reformer. The arrangement would establish an external commitment to reform, as discussed earlier. Also, the trade preference implies that all imports will come from the partner country, since the reforming country regards the goods of all industrial countries as perfect substitutes. But this trade diversion is of no consequence in this model, with the concern of the old regionalism assumed away to focus on the concerns of the new.

But the preference granted by the industrial-country partner, though only marginal, is much more significant. From the point of view of firms considering direct investment to provide intermediate-stage inputs for the industrial country partner’s products, all reforming countries are equivalent, except for this marginal preference. Thus it attracts all such investment. This ensures the reform will succeed because of the ‘investment diversion’ the regional arrangement implies.

This explains why reforming countries find regional arrangements attractive even though they typically receive only ‘minor’ concessions from their partners. The goal is to compete with other similar countries for direct investment, not to expand greatly exports to their partners or to attract from them direct investments that would otherwise not be made at all. Such ‘investment creation’ will be modest at best.

A regional arrangement will not be uniformly benign. Other countries desiring reform will suffer. Suppose one country that would undertake reform anyway enters into a regional arrangement. Then direct investment producing intermediate goods for that country’s partner will all be diverted there, and the country still remains a potential host for other direct investment. Less direct investment remains for other reforming countries, reducing their prospects for success and perhaps deterring some of them from even embarking upon reform. Regionalism produces ‘reform destruction’, causing fewer countries to attempt reform and lowering the proportion of those who

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8 But if the externalities between foreign subsidiaries—which induce them to locate together—are strong enough, more than ‘small’ concessions may be required by the industrial partner.

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succeed. On the other hand, the country with the regional arrangement may not itself have attempted reform in its absence: ‘reform creation’. Thus the number of countries attempting reform may either rise or fall, depending on the balance between reform creation and reform destruction.

Thus far I have considered the effects of an isolated regional arrangement. But in fact they are becoming ubiquitous. So consider next the general equilibrium that will emerge if all countries are allowed freely to negotiate regional arrangements of the kind I have hypothesized, including the possibility of a single country entering multiple relationships.9

If several reforming countries establish regional arrangements with a single industrial country, the value of the arrangements to the former will be eroded because direct investment may well tend to cluster mainly in some subset of them all. For this reason, the reforming countries will tend to spread themselves out in their choices of partners. If there are at least as many industrial countries as potential reformers, each of the latter can find a partner that will guarantee the success of its reform effort. This may or may not be true if there are fewer industrial countries, depending upon the amount of direct investment that will be forthcoming. Nevertheless, the ability to enter freely into regional arrangements will maximise the extent and the probability of successful reform, and, by doing so, also maximise the number of countries that are induced to attempt reform.

In this framework, the global interest calls for successful reform to be as widespread as possible. This will maximise the extent of the multilateral trading system, accentuating both the benefits that it generates and the number of nations which receive those benefits. But this global externality will be ignored by multinational firms, who will be likely to cluster their foreign investments together. A single regional arrangement may be either good or bad in its results. But a regional general equilibrium as just described will in effect internalise the global externality and produce an outcome unambiguously superior to what can be achieved without regionalism.

The model of this and the preceding sections described the small-country participants as concerned with fundamental economic reform. But, although the small industrial countries entering into regional arrangements (e.g., Austria, Canada, Finland, Sweden) are also typically undertaking reforms, these reforms are hardly fundamental in the sense of what is happening in the third world or with the former communist countries.

For small industrialised nations, the model needs to be altered, but the basic analysis applies. For the small countries joining the EU, for example, the problem is not so much to attract new direct investment as to remain attractive sites, in an increasingly integrated world, for activities currently conducted there. The small advantages they obtain from regional arrangements are not additional preferences, but future participation in EU decision making.10 Thus the basic story applies.

9 These are sometimes called ‘hub and spoke’ arrangements. See Wonnacott (1996).
10 For more on this, see Baldwin and Flam (1994).
6. Concluding Remarks

This paper has argued for a non-Vinerian analytical approach to regional integration, capable of explaining why the new regionalism has come about, and motivated by the stylised facts of the new regionalism and by the dramatic differences in international environment between the days of the old regionalism and today. The approach suggests the following relation of regionalism to multilateralism.

- The new regionalism is, in good part, a direct result of the success of multilateral liberalisation.
- Regionalism is the means by which new countries trying to enter the multilateral system (and small countries already in it) compete among themselves for the direct investment necessary for their successful participation in that system.
- Regionalism—by internalising an important externality—plays a key role in expanding and preserving the liberal trade order.

An individual regional arrangement may by itself do more harm than good. But widespread regionalism of the sort we are experiencing in effect internalises a critical global externality and produces an outcome superior to that obtainable by multilateralism alone.

My analytical framework has given a highly abstract picture of the world so that essentials stand out clearly. Additional detail of course adds ambiguity. Thus even someone who accepts with enthusiasm the basic arguments suggested above could well retain serious concerns about the new regionalism. I suggest four such grounds for concern.

- I have made assumptions that render trade diversion innocuous. In reality it remains a cause for concern, especially in some parts of the world.

Still, this just is not nearly as important now as it was thirty years ago. Under present conditions, a huge volume of trade diversion could well imply little effect on welfare.

- Even if regional arrangements have come into existence for the reasons indicated above, and even if they are in fact promoting successful reform, they still might ultimately lead to a break-up of the world economy into hostile blocs.

I see no signs that this is in fact about to happen, but things could change. The remaining two concerns, though, I regard as more significant than the first two.

- Protection-seeking, special-interest groups will always be with us, and the fact that regionalism is where the action is means that this is where the battles will be fought. Furthermore, the deeper integration characteristic of the new regionalism gives protectionists more avenues of attack.

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This is a powerful reason to maintain a healthy level of vigilance and suspicion toward new regional initiatives.

- In the above theory regionalism plays a transitory, though critical, role in the reform process, but the regional arrangements themselves are permanent, so 'what happens next' matters.

But make no mistake: The bottom line of this paper is that the new regionalism reflects the success of multilateralism—not its failure.

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