REGIONALIZATION AND GLOBALIZATION IN THE MODERN WORLD ECONOMY

Perspectives on the Third World and transitional economies

Edited by
Alex E. Fernández Jilberto
and André Mommen

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PREFACE

The world at present is facing critical challenges and uncertainties. Forces of global capital remain largely unaccountable to governments. In this book we will try to expose the facts behind the process of globalization and regionalization and study the specificity of the current processes of regionalization in the Pacific Area, the Americas, Africa and Europe. We stress that the process of globalization fosters regionalization and creates a competitive drive within regions that weakens nationally established monopolies and protected industries. Moreover, we argue that the process of globalization and regionalization is a challenge to all nations, especially to those of the Third World and the countries of the former socialist bloc, because it raises the spectre of exclusion from the developed industralized world divided up into free trade blocs. Regional arrangements may spread and become stumbling blocks to a more integrated international economy. Therefore, pessimists predict that the world trading system will fragment and that the multilateral trading system functioning under the aegis of the World Trade Organization (WTO) will disintegrate when Europe, North America and Pacific Asia become 'fortresses' and create a tripolar world system.

Discussion of the 'new world order' prompted by the Gulf War of 1990 and the collapse of socialism in Eastern Europe has reinforced that process of globalism and regionalism. The dynamics of globalization and regionalization, responding to the organization of capital flows, the play of monetary and financial forces and market opportunities, will be the subject of debate in this book.

Globalization and regionalization are also tied in with the failure of state-led socialism and Third World strategies linked to import-substituting industrialization and protectionism. Socialism within one country or bloc became ideologically discredited when it was perceived as an unattractive economic order. This pattern of globalization sharply challenges the North–South normative project that had been affirmed at an earlier stage of world history. Then, the East and South-East Asian states managed to achieve high rates of economic growth even in the face of global recession and 'oil shocks'. That pattern revealed that location in the South was not by itself an explanation for persistent underdevelopment. The movement for a new international economic order was discredited and abandoned. The collapse of the Soviet bloc was seen as confirming claims about the overall economic superiority of capitalism, a view widely endorsed by now throughout the South.

The problem is what to make of the growing need for deeper international economic integration and the apparent decline of national economic policy autonomy. Globalization is usually explained as the result of technological change and productivity growth which brought about a dramatic change in the competitive strength of countries as well as firms and in the creation of a tripolar world system. A new aspect is that North–South relations have changed as diversity and levels of income have widened and globally competitive firms have consolidated their sourcing and production networks all over the world. At present, many governments in the South see globalization as a threat. In the first place, acute indebtedness combined with increased market pressures to serve that debt have obliged all developing countries to make structural adjustments at the expense of the agrarian and urban masses. Meanwhile, they have to pursue these policies in order to become attractive to foreign investors. In this book we will study these devastating effects in combination with pressures exercised by the international financial institutions and the international market forces which are pushing towards economic liberalization and internationalization. Furthermore, we will stress the role of the emerging markets and economies and the formation of powerful trading blocs. All developing countries fear that 'Fortress Europe' and the North American Free Trade Area (NAFTA) will increase regional protection and trade and investment diversion and that protectionist interest groups will slow down the process of multilateral trade liberalization. 'Fortress Europe' threatens the Newly Industrializing Countries (NICs), whose exports compete with those of the European Union (EU) and whose imports of machinery and technology from Japan and the USA limit their ability to take advantage of the potential gains from whatever growth results from the creation of the Single Market.

This book, more than is normally the case with academic enterprises, is the result of a collaborative effort that started many years ago. From the outset we discussed the role of neo-liberal reforms in developing and socialist countries. Liberalization and democratization drives were analysed and discussed in connection with a globalizing economy. Our starting-point for this book was the role of the international economy in driving the transformation of domestic structures in developing countries and in transforming the socialist economies. We asked the authors to consider ways in which globalizing and regionalizing tendencies were shaping a new world order and how states were responding to external threats and opportunities – to competition, economic flows, foreign direct investment (FDI) and political and military pressures. None of the authors have taken our proposals as an unquestionable good. Although some of them are working at the University of Amsterdam they do not form a school of thought or interest. Some of them are very critical of the ongoing process of globalization and regionalization while others adhere to the neo-classical point of view that liberalization and openness are promising mechanisms for a new development strategy. The authors were entirely free to reject or criticize our point of view that the world economy is increasingly regionalizing and that globalism is only a tendency. The following chapters attempt to canvass the evidence for regionalism by analysing changes at country-specific and regional levels of the economy and economic policy.

In contrast to established research groups, which reunite old colleagues, many of us met for the first time on this project. We also have been keenly aware of moving over territory with unsettled frontiers. The debate between 'globalizers' and 'regionalizers' is still going on. Therefore it would be hazardous to synthesize both theoretical approaches. This book seeks to assess the factors determining the regionalization drive. It is not offering an 'alarmist' view on the defensive reactions which lie behind the regionalization drive. The formation of the EU's Single Market or other regional trade blocs are certainly defensive reactions to increased competition. Forms of 'closed' regionalization can lead to trade wars. Trade wars may become a source of international armed conflicts and be a prelude to a new world war. New forms of imperialism may appear and give birth to increased tensions between the centre and the periphery. Lenin, who wrote his essay on imperialism during the First World War, transformed his theory on imperialism into a theory on war. At any rate, our period is increasingly reminiscent of life before the First World War, because commodities traverse the globe with remarkable freedom and speed. Today's global system also looks like a somewhat flexible remix of the nineteenth-century liberal world with enough flexibility in a crisis to manage a bale out. Gone is the idea of competing imperial powers for rare natural resources and markets in a colonial world. Indeed, in our world the system-threatening aspects of *laissez-faire* policies seem domesticated. In our book we will argue that this view is simplistic. Despite all the books on the end of history or the death of the state, we think that states and state institutions are still alive and playing a first-class role in setting the international economic agenda. The World Bank and the International Monetary Fund (IMF) have managed to keep the Third World debt from provoking a global implosion and have forced Third World governments to reform their economies.

For a book of this sort, we had to depend on the scholarly expertise of country specialists. These colleagues have been struggling with 'global issues' at the level of national economies. They have contributed in their own way from different theoretical standpoints to our collective effort to understand the constraints and opportunities that establish the conditions within which states reform their economies when pursuing their global interests. Of course, there are always difficulties when editing papers by authors on different continents and of different scientific backgrounds, from draft form to publication. The contributors to this book, however, have made our task as easy as possible.

Alex E. Fernández Jilberto and André Mommen

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GLOBALIZATION VERSUS REGIONALIZATION

Alex E. Fernández Jilberto and André Mommen

Since 1945 the globalization of the world economy has made considerable progress. In the critical areas of trade, production and finance, the world has become more interconnected and integrated than ever before. The globalization of financial markets with their volatile effects on national economic management has destabilized and weakened the autonomy of all nation–states. The global market represents a concentration of power capable of influencing national government economic policy and, by extension, other policies as well (Sassen 1996: 39). Market forces and multinational corporations are creating tensions and shaping new patterns of interdependence. Growing corporate interests in foreign investments and exports urge the reduction of traditional trade barriers, while additional pressure arises from regional arrangements. This induces a process of deeper integration and liberalization of foreign trade. Integration refers to the fundamentally political process of policy coordination and adjustment designed to facilitate closer economic interdependence and to manage the externalities that arise from it (Haggard 1995: 2; Keohane 1984: *passim*).

Nation–states adapt to these global pressures or try to resist by joining regional trading blocs within an integrating world economy. Hence, globalization refers to the multiplicity of linkages and interconnections between states and societies which make up the present world. It represents two distinct phenomena: scope (or stretching) and intensity (or deepening). It implies an intensification in the levels of interaction, interconnectedness and interdependence between states and societies. It embraces a set of processes covering most of the globe (McGrew and Lewis 1992: 22) and refers to a profound reorganization of the economy and society in what has hitherto been called North and South, East and West. This division has gone and a 'Triad' configuration has appeared with the emerging industrial economies of Asia as a new gravitational pole of a globalizing economy (Schwartz 1994: 240–258).

A BORDERLESS WORLD?

The concept of 'globalization' has an outspoken liberal connotation. Globalization means the production and distribution of products and/or services of a homogeneous type and quality on a world-wide basis. When referring to globalization liberals are speaking of the disappearance of trade barriers and state regulation. A *borderless world* is the description many neo-liberal authors give of the future of the globalizing economy (Axford 1995: 94–122). This description focuses on the growth in transnational micro-economic links between the Triad of Europe, the Pacific Rim and North America (Ruggie 1993). It considers the process of globalization as a post-industrial wave (Drucker 1993) and it depicts the growing integration of the world economy from a strongly liberal point of view. According to these views, states and national economies will fade away and give birth to an integrated world market. Financial internationalization has fundamentally undermined state institutions (Cerny 1996: 91). Robert B. Reich believes that the 'American' corporation is becoming disconnected from the USA, because American-owned firms relocate abroad and foreign companies move into the USA. Hence, he thinks that the nationality of a firm's dominant shareholders and of its top executives has less and less to do with where the firm invests and produces its goods (Reich 1991: 119–120). Indeed, American firms employ more and more foreign workers in foreign countries, and overseas capital spending by American firms increased from the early 1980s until the early 1990s. Some of this world-wide activity was nothing more than high-volume standardized production transplanted abroad in order to meet low-cost foreign competitors head-on. According to Reich (1991: 124), the major American company knows 'no national boundaries, feels no geographic constraints' and, although the role of global finance is growing, national savings increasingly flow to whoever can do things best, or cheapest, wherever they are located around the world. This trend is world-wide because national champions everywhere are becoming global webs with no particular connection to any nation (ibid.: 133). Many arguments in favour of this view of a globalizing world economy, because the concept of 'globalization' clearly refers to the process of economic and financial internationalization. Over the past decade, world merchandise exports have roughly doubled, from 10 to 20 per cent. With more and more services being transacted internationally, their share in world trade has risen from 15 to 22 per cent. Operations of the multinationals have expanded and sales by their foreign affiliates may now well exceed total world exports. These statistics all point to globalization – the growing international integration of markets for goods, services, and capital. Globalization is altering the world economic landscape in fundamental ways. It is driven by a widespread push towards the liberalization of trade and capital markets, increasing internationalization of corporate production and distribution strategies, and technological change that are rapidly dismantling barriers to the international tradability of goods and services and the mobility of capital (Falk 1995: 172–206). So globalization is creating wider markets for trade, an expanding array of tradables, larger private capital inflows, improved access to technology and, in turn, outward-oriented reforms adopted by developing economies also contribute to globalization. Globalization increases competition between policy regimes. This process of deeper integration requires maintaining a liberal trade and investment regime which contributes to a creeping process of global convergence between all economies. But global capital market integration combined with the volatility of capital flows is making macro-economic management more complex and requires maintaining the confidence of capital owners in developing economies. Thus the internationalization of services will likely lead the next stage of globalization. Telecommunications and information technology will revolutionize the world economy (Humphreys and Simpson 1996: 105–124) with the increasing tradability of services enlarging the scope of firms in developing countries. Declining costs will offer new opportunities to developing countries willing to liberalize their trade and wanting to invest in services. Therefore, globalization has to be understood as a process of suppressing state influence on the economy and of giving private capital hegemony over any investment decision. Moreover, thanks to deregulation, the financial revolution has put the financial sector in a position of hegemony over the real economy at both the international and the national level, undermining not only political autonomy but the very bases of state authority and democratic legitimacy (Cerny 1996: 91).

On the other hand, we have realists who think that the ongoing process of internationalization and therefore globalization on its own are just reflecting the growth and strength of national companies and the result of the bargaining strength of some powerful states imposing their economic power on weaker states (Kapstein 1991–2: 55–62). Between these two extremes a wide variety of interpretations exists. Some authors discussing the globalization drive argue that globalization only exists in the sector of culture and telecommunications, but that most economies are still 'national' in character. The authors of the French Regulation School reject the contention that the nation–state is *passé* or an accident of history. They argue that the embeddedness of economic institutions is essential for a strong economy and that the nation–state cannot be easily replaced by the market. They state that we do not live in a totally integrated world. Moreover, according to them, globalization is not a totally new phenomenon (Palan *et al.* 1996: 12–31), measured by indicators as the share of exports as a percentage of Gross Domestic Product (GDP) or the share of Foreign Direct Investment (FDI) in total investment flows (Boyer and Drache 1996: 13). Paul Krugman is sceptical about the real character of the globalization of the major economies:

> One might point out that the American economy is not actually that globalized: imports are only 13 per cent of GDP, and at least 70 per cent of employment and value-added is in 'non-tradable' sectors that do not compete on world markets.
>
> (Krugman 1996: 18)

Krugman's thesis echoes the Marxist point of view. Marxists think that globalization is real, but also that when globalization is measured by exports as a share of GDP the reality is totally different (see Table 1.1). On that measure, countries are only a little bit more 'globalized' in 1992 than they were in 1913 (Henwood 1996:6). Basing his work on research done by Angus Maddison (1995: 37–39), a Marxist author like Harry Magdoff believes that not trade but the internationalization of finance is the notably distinguishing attribute of the modern globalization drive (Magdoff 1992:

Table 1.1 Exports as percentages of GDP, 1820–1992

	1820	*1870*	*1913*	*1929*	*1950*	*1973*	*1992*
France	1.3	4.9	8.2	7.7	15.4	23.8	22.9
Germany	—	9.5	15.6	12.8	6.2	23.8	32.6
Netherlands	—	17.5	17.8	17.5	12.5	41.7	55.3
UK	3.1	12.0	17.7	13.2	11.4	14.0	21.4
Western Europe	—	10.0	16.3	13.3	9.4	20.9	29.7
Spain	1.1	3.8	8.1	5.0	1.6	5.0	13.4
Russia	—	—	2.9	1.6	1.3	3.8	5.1
Australia	—	7.4	12.8	11.2	9.1	11.2	16.9
Canada	—	12.0	12.2	11.2	9.1	11.2	16.9
USA	2.0	2.5	3.7	3.6	3.0	5.0	8.2
Argentina	—	9.4	6.8	6.1	2.4	2.1	4.3
Brazil	—	11.8	9.5	7.1	4.0	2.6	4.7
Mexico	—	3.7	10.8	14.8	3.5	2.2	6.4
Latin America	—	9.0	9.5	9.7	6.2	4.6	6.2
Japan	—	0.0	2.4	3.5	2.3	7.9	12.4
China	—	0.7	1.4	1.7	1.9	1.1	2.3
India	—	2.5	4.7	3.7	2.6	2.0	1.7
Indonesia	—	0.9	2.2	3.6	3.3	5.0	7.4
Korea	—	0.0	1.0	4.5	1.0	8.2	17.8
Taiwan	—	—	2.5	5.2	2.5	10.2	34.4
Thailand	—	2.1	6.7	6.6	7.0	4.5	11.4
Asia	—	1.3	2.6	2.8	2.3	4.4	7.2
World	1.0	5.0	8.7	9.0	7.0	11.2	13.5

Source: Maddison 1995: 38.

44–75). In reality, the economies of small countries acquire more openness when successfully industrializing, because they can get proportionately bigger benefits from international trade than large countries (Maddison 1995: 38) (see Table 1.1). Because integration in the world market almost automatically implies open economies, it is said to sharply restrict nations' capacity to autonomously design their own political economy. Nations are all shedding the protectionist measures that once upheld their respective welfare state systems (Esping-Andersen 1996: 1–31). With respect to this phenomenon, Samir Amin (1997: 5) argues that globalization via the market is a reactionary utopia which has to be countered by developing an alternative humanistic project of globalization consistent with a socialist perspective and a global political system which is not in the service of a global market, but which defines its parameters in the same way as the nation–state historically represented the social framework of the national market and not merely its passive field of deployment.

Robert Wade thinks that 'globalization' is a 'buzz word' and that therefore one has to become sceptical about the globalization process, because the world economy is more international than global. Most multinational enterprises have a national home base and populations are much less mobile than goods and finance. Most national economies produce more than 80 per cent for domestic consumption (Wade 1996: 61). However, national economies have become more interconnected than ever before and they are integrated through FDI and international trade. National borders have become permeable and protectionism is no longer a guarantee of economic stability. Trade has steadily grown faster than output and FDI has grown even faster than trade. FDI flows grew three times faster than trade flows and almost four times faster than output (ibid.: 63). Firms have become involved in international networks and alliances, creating joint ventures for research and production of trade. Multinationals now control one-third of the world's private sector assets and 30 per cent of private Gross National Product (GNP) in the major European countries. Wade argues that finance, more than production, has been internationalized. Liquidities are rapidly exchanged across borders because of the deregulation of the financial sector. In the 1960s and 1970s exchange controls hampered financial expansion abroad, but since the 1980s the 'financial derivatives' have added a new dimension to world finance and made governments powerless to control finance. Integration was advanced by the spread of new technologies and by firms wanting to protect their innovations by marketing their patents. The degree of internationalization of the exploitation of patents grew substantially higher than the degree of internationalization of trade. The share of trade in GDP is the highest in the small economies of Asia and Europe. But exports account for only 12 per cent of GDP or less for the USA, Japan and the single-unit Europe. Overwhelmingly, world production and trade are nationally oriented and controlled by big national capital. FDI goes mostly to the developed world and is only secondarily invested in a developing country in the same region (ibid.: 62–66).

Accelerated FDI followed widespread financial liberalization and the pursuit of new strategies of investment and productive organization on the part of multinational firms. Growth of world flows of FDI by multinational firms has exceeded the rates of merchandise exports since the mid-1980s. In many developing countries FDI constitutes the principal source of foreign capital and integrates them into the globalizing and regionalizing economy. The pattern of FDI is extremely complex, because FDI flows are concentrated within three poles of attraction: the USA, the EU and Japan. FDI flows towards the developing countries are concentrated and directed to just ten developing economies of which the Asian 'tigers' and China form the bulk. A large number of developing countries, mainly in Africa, are excluded from these benefits (Robson 1996: 33–44).

Moreover, with a share of 84 per cent in 1989, intra-regional trade was mainly concentrated among the northern industrialized nations. Wade argues that North–South trade is extremely regionalized and not globalized. EU trade concentrates on Eastern Europe, the Middle East and Africa, while Japan and the USA are the major trading partners of the emerging economies of Asia and Latin America (see Table 1.2). After the lowering of the trade barriers during the 1980s from an Organization for Economic Cooperation and Development (OECD) average of about 25 per cent to 5 per cent in the 1990s, non-tariff barriers have become more important. It

Table 1.2 Shift of regional weights in trade, 1985–94

	1985	*1990*	*1991*	*1992*	*1993*	*1994*
EU's trade						
within EU	53.5	59.2	59.7	61.1	59.9	60.4
with NAFTA	10.5	8.4	8.3	8.1	8.9	8.9
with Asia(*)	4.1	4.9	5.4	5.7	7.1	9.3
NAFTA's trade						
with EU	17.7	19.3	18.8	18.0	15.9	14.9
within NAFTA	38.0	36.9	37.2	37.9	40.2	42.7
with Asia(*)	12.0	15.3	16.2	17.0	17.4	21.4
Asia's trade						
with EU	12.4	14.9	14.4	17.1	15.4	14.5
with NAFTA	22.0	20.2	19.1	18.9	19.0	26.3
within Asia(*)	25.6	31.9	34.5	36.9	36.5	48.5

Source: Shin Yong-dai, Kim Jeong-hong and Lee Hang-koo (1996: 88).
Note: Asia's data for 1994 include the Oceania region.

could be argued that North–South trade is frustrated by quotas and 'voluntary' trade restraints.

Changes occurred in the North–South trade pattern. North–South trade has fallen as a proportion of total trade, a process of marginalization that was due to the decline of the share of raw materials in global trade. Falling oil prices after 1985 and a fall in the terms of trade for primary product exports determined southern decline. However, exports of manufactures from the South to the North increased. In 1989 manufactured exports from the South accounted for only 16 per cent of total trade and half of these exports go to the USA. The NICs import a small proportion of their imports from the South and their share of global industrial output also remains relatively small (see Table 1.2).

According to Fouquin, regionalization is a 'natural phenomenon' (1995: 37) embracing the Americas under the aegis of the USA, the Pacific Rim with Japan as leading trading partner and, finally, the EU which had been constructed around the Paris–Bonn axis. In contrast to the USA, Japan did not construct a free trade area along the lines of NAFTA. Within the EU the Germany–France tandem is dominant and is a pivotal force linking German influence in Eastern and Central Europe with French predominance in Northern Africa and the Mediterranean area (see Table 1.3). Fouquin argues that free trade unions do not necessarily favour increasing trade exchanges between the member states. EFTA is perhaps the best example of a less successful free trade area set up by developed countries. The failure of EFTA to stimulate trade between the member states was due to the fact that the small economies of EFTA had to look for export opportunities in the much greater European Community (EC) and therefore neglected intra-regional EFTA trade. Finally, EFTA members applied for EC membership. The EC started in 1957 with six members and progressively opened its membership to other European

Table 1.3 Trade directions of the four most important exporting countries

US	*Japan*	*France*	*Germany*
5.8 Mexico	2.9 Other Asian NICs	3.6 Northern Africa	3.6 Austria/ Switzerland
5.5 Canada	2.7 China	2.9 Belgium/ Luxemburg	2.5 Central Europe
3.3 Venezuela/ Ecuador	2.5 Asian NICs	2.9 South Africa	2.3 Belgium/ Luxemburg
2.2 Other Latin American countries	2.4 Indonesia	2.5 Italy	2.2 Netherlands
1.9 Brazil	2.0 Indochina	2.3 Sub-Saharan Africa	2.0 Italy
1.8 Japan	1.9 USA	2.0 Mediterranean Europe	2.0 Russian Federation
1.6 Australia/New Zealand	1.8 Australia/New Zealand	1.8 Germany	1.9 France
1.4 Asian NICs	1.3 South Africa	1.6 Britain	1.8 Scandinavian countries
1.1 South Africa	1.1 Other Asian countries	1.5 Switzerland/ Austria	1.6 Mediterranean countries
1.1 Other Asian NICs	1.1 Gulf States	1.3 Middle East (except OPEC states)	1.6 South Africa

Source: Fouquin (1995: 39).
Note: The trade direction measures relative exchanges between countries in relation to their total world trade.

countries. In 1995 the European Union (EU) had fifteen members with at least ten members in the waiting-room (ibid.: 40–42). Andrew Gamble and Anthony Payne (1996: 250) think that the globalization and regionalization process is not the outcome of state projects, but the combination of historical and emergent structures. States remain major players in the construction of free trade areas and some of them are setting the pace of the globalization process when designing new trade regimes. According to Ruigrok and Van Tulder (1995: 289–290), 'the international restructuring race led to a "regionalization" within the Triad regions (Europe, Japan plus the Asia Pacific), and the alleged "globalization"'. The question remains whether and to what extent this regionalization should be considered a premonitory symptom of increasing globalization and absolute competition among firms.

THE REGIONALIZATION PHENOMENON

Globalization conditioned the build-up of protectionist regulations, including calls for competitive devaluations, as well as the spread of regional trading blocs. Regionalism is almost 'by definition' discriminating against non-members of a trading bloc (Sander 1996: 17–36). Regionalization can be defined as an integration process on the regional level with the help of governments. Regionalization appears here as an aspect of a process towards the liberalization of markets and FDI regulations. These regional arrangements appear to be the direct result of governmental actions instituting regional trade regimes and creating deeper integration of separate economies on the regional level. Regionalization is a recent phenomenon. After the sharp reduction in world trade flows in the 1930s and 1940s, and the slowness with which the governments reopened their markets to global trade in the 1950s and 1960s, regionalization was the result of US multinational firms investing in production units overseas. These multinationals shifted a good part of their production units into relatively closed markets and sometimes they integrated their operations globally. Regional integration processes were fostered by FDI and economic cooperation or integration policies initiated by post-war governments in Western Europe. The Soviet Union created its own economic trade area. Everywhere, regional integration was a matter of political and military policies and intervention implemented by coalescing nation–states. In Latin America the so-called complementary agreements were preferential arrangements between countries closely linked by geographical proximity or common interest that provided for the apportionment of the manufacturing of various parts and components used in the same production process. These arrangements involved the danger of establishing monopoly positions by giving preferential treatment to selected industries. The Latin American Regional Market proclaimed that regional markets had to be competitive in character, but in later declarations it proposed postponing the reduction of tariff barriers for commodities that would face intra-area competition. The difficulties of readjustment and the possibility of bankruptcy were often cited as a reason for less competition (Balassa 1962: 21–56).

In the developing world, the former colonial countries created free trade areas but the uneven levels of industrialization between the member countries made regional integration through trade liberalization unlikely to be effective without an explicit framework of measures designed to ensure an equitable allocation of new complementary investment. Positive discrimination in favour of the less advantaged countries had to be implemented in order to foster complementarity. External trade traditions persisted. The bulk of trade still went to the industrialized world. Under the Lomé Convention, African states acquired privileges to export to the EC market under national quotas at prices usually higher and more stable than prevailing world market rates. In addition, all developing states were suffering from the shortage of foreign exchange because they had to pay for capital goods imports in hard currency. The result was that investment programmes were held back and that most of their manufactures remained uncompetitive in international markets. Free trade areas in the developing world wanted to forge links to create genuine and equitable regional integration and wanted to mobilize resources to promote import-substituting industrialization policies.

The regionalization process in the Asia Pacific area is fundamentally different from these previous attempts. Asia Pacific regionalization builds on the powerful use of opportunities for international specialization in production within a framework of intensifying economic ties within the region. With no formal, inter-governmental structures for promoting intra-regional trade and specialization and no region-wide trade discrimination, intra-regional trade shares are higher than those within the EU. This unusual phenomenon of high regional concentration of trade with neither official trade discrimination, nor formal institutional support, challenged old ideas of regional development, and inspired a new debate on the concept of regionalism. The defining concept of Asia Pacific and Latin American regionalization is 'open regionalism', which encompasses integrative processes that contain no element of exclusion or discrimination against outsiders (CEPAL 1990; 1994). Pacific Rim countries campaign for reduction of barriers to trade, such as tariff and non-tariff barriers (NTBs), and other obstacles such as transport and transaction costs. They favour an open world trading system in the pure WTO spirit. These countries adopted strategies based on export-led growth, while Europe developed a form of inward-looking regionalization. The concept 'open regionalization' grows naturally out of the themes of market integration, and government support for public goods that facilitate international trade within the region. 'Open regionalism' is the product of market-driven mechanisms. It encompasses regional cooperation on mutual reduction of trade barriers and agreements on trade liberalization, extended to others on an unconditional non-favoured-nation basis. 'Open regionalism' has come up against support in the Americas for concepts of 'discriminatory regionalism'. Most preferential trading arrangements in the developing world adopted free trade schemes with intra-regional trade liberalization which discriminates against outsiders. Some free trade schemes initiated by the USA in recent years also had an ingredient of internationalization of protectionism.

None the less, regionalization refers to the development of intra-regional trade and investment, each inducing a process of 'deeper' behind-the-border industrial integration. The reason for this is clear: potential for gain within regional arrangements can be considerable. First, there is always an advantage of scale. The formation of regional markets without internal barriers makes advantages of scale available. A second major gain is the benefit from combining existing national markets. Small firms within each national market may grow within a larger market. Regional coordination of export promotion strategies may permit the establishment of facilities (financial institutions, marketing firms, freight forwarders, special technical services) (Garnaut and Drysdale 1994: 1–7).

Within this process of regionalizing economies liberalization is seen as a force that helps channel the resources of economies and people into activities where they are most likely to excel. Regionalization appears as a force that softens the effects of globalization by pooling governmental policies and also compensates for the loss of national policy sovereignty. Yet regional arrangements may undermine liberalization when they divert trade and investment (Lawrence 1996: 2) or they may also become a complement or supplement to liberalization under the multilateral trading system.

THE FDI AND THE LOW-WAGE CHALLENGE

The rapid growth and impact of global finance went hand in hand with the appearance of monetary instability and new information technologies. Financial markets globalized and financial operators became as powerful as the governors of central banks who lost sovereign control over the value of currencies. This incited central banks and governments to create monetary stability by establishing regional accords on exchange fluctuations and to integrate production capabilities within each of the three major regions. The rapidly growing strength of Japanese, Korean and European firms in global markets compelled US firms to compete in all world markets and to break up their home-based monopolies. This competitive drive forced multinational firms to redeploy to developing countries and NICs, which outstripped trade growth and contributed to growing unemployment in the developed world, notably in Western Europe. In the developed world firms were pleading for deregulation and flexibility of the work-force, and in order to help these firms some governments lowered wages and invented tax holidays.

FDI by multinational firms increased spectacularly and redeployed production on the principle of comparative advantage. This micro-economic phenomenon plays an important role in the globalization and regionalization drive and is at the very roots of the crisis of the Western 'Fordist' system of industrial production (Ruigrok and Van Tulder 1995). Furthermore, regionalization becomes a policy instrument and a vehicle for cross-border regulations between countries with the same historical background or geographical proximity. Therefore, regionalization is a process controlled by states and political forces and may become a tool for regional protectionism. Multinational firms with a strong regional base may become interested in regional protectionism while others may become more interested in reduced inter-regional trade barriers. In general, the weaker firms will feel threatened by globalization and, in turn, they are more likely to choose bloc regionalization and regional protectionism. In this case, regionalization is a negative reaction to globalization. But bloc regionalization may stimulate competition among firms within a region and reinforce the microdynamic drive to globalization. FDI, cross-border trade and migratory movements accompany the process of globalization and regionalization. With trade, FDI is just one of the powerful levers of deeper economic integration and when these levers reinforce the regionalizing trend they create the need for political arrangements. For instance, Japan is not only exporting a third more to Asia than it does to America; it is making a fifth of its FDI in Asian countries. In terms of size, the Japanese economy represents almost two-thirds of the entire East Asian economy if China is excluded. As the largest exporter and provider of aid, Japan is able to greatly influence, if not dictate, Asia's regional future (Ahn 1996: 5–23). Hence, globalization and regionalization trends are not necessarily antagonistic or antithetical. The two processes are likely to reinforce each other when the same micro-economic forces drive them, because both disrupt and dilute the powers of oligopolies and special-interest groups. But the general form of the global economy is one in which regional players are jockeying for position, and where both protectionism and defensive bilateralism can increase (Axford 1995: 120–122).

Today, three major regional FDI poles – Europe, North America and Asia Pacific – have emerged. These FDI regional poles constitute a challenge to the developing countries of South Asia, the Middle East, sub-Saharan Africa and the former socialist bloc. Because of their economic weakness, the economies of these regions are confronted with a process of globalization they can hardly influence or discuss from a position of strength. The importance of 'global localization' has increased, because international firms are increasingly looking for flexible production in a period of competitive strength. International diffusion of technology and services is boosting the FDI regionalization drive. Therefore, the traditional 'Fordist' and 'Taylorized' big industrial producers are confronted with new players on their home markets who oblige them to react in the same way by internationalizing their production. At the same time they are feeding protectionist pressures in the USA and in Europe.

Meanwhile, numerous firms have run away to low-wage countries in developing or newly industrializing countries or they have invested in production facilities in Central Europe where wages are low and markets are still developing. These 'low-wage export platforms' are an important feature in the globalization and regionalization drive. Much of their output is destined for Europe and the USA. This trend is reinforcing the regionalization process because the production and sourcing networks are operating just across the border. The FDI of European firms in Central Europe and of US firms in Mexico is sustaining this regionalization drive. Other developing or former socialist countries are trying to join this regionalization move and establish 'export platforms' within their own country or region and connect them to the capitalist core. They want to follow the Asian NICs down that path and are turning to export-oriented industrialization strategies in the hope that their 'export platforms' will serve global markets or join regional sourcing networks and markets.

Though the importance of low wages for high-tech production has diminished and emerging economies are trying to follow the example of the East Asian NICs, comparative advantage remains a factor, as is shown by China's export push. Therefore, firms are looking for flexible production facilities in low-wage countries and this means that redeployment from high-wage countries to low-wage countries still occurs. This explains why financial markets foster the globalization and regionalization of production and sourcing networks (Helleiner 1994: 146–168; Reinicke 1995: 39–56). Therefore, becoming a member of a sub-regional grouping is vital for all developing countries in order to develop inter-firm ties and boost FDI. Human resources requirements and infrastructure are necessary too, but they represent heavy investment burdens which are often beyond the financial capabilities of many a developing country. Again, these investments require foreign aid on soft conditions and the import of technology. In order to finance these structural changes, the developing countries are forced to open up their local financial markets and to create a stock exchange market, and to privatize their state-run telecommunications and transport enterprises if they want to pursue the policy of outward-oriented industrialization. In addition, they will have to find markets for their manufactured exports and acquire direct access to Western markets in a period of increased competition between Third World countries.

THE TRIAD BLOCS

In the 1930s and during the Second World War most parts of the world were divided into imperial and quasi-imperial spheres surrounded by barriers to trade and investment. Memories of that inspired the USA to combat discriminatory trading blocs after 1945. Meanwhile, decolonization has produced a slow erosion in formal trading blocs.

The regionalization process started as early as the 1960s in the form of a gradual elimination of all economic barriers, without eliminating the fragmentation of the region into national markets. Most of these regional agreements remained within the concept of free trade areas and most of them were based on a multilateralization of bilateral agreements or unions. The mushrooming of initiatives gave birth to many treaties and institutions of economic integration which still exist, but never were a success, because regional areas were conceived as likelier sites for import-substituting industrialization than small national markets. Few of these regional groupings were successful in furthering freer trade or deeper economic integration between partners. In the developing world regional agreements were seen as a means of reducing dependence on economic ties with the capitalist core region (Kahler 1995b: 19–27).

External pressure was clearly important in provoking the initial movement to liberalization in most countries. Between 1986 and 1991, thirty developing countries undertook unilateral liberalization and today a number of developing countries have more open trade policies, when measured by the level and dispersion of tariffs and the prevalence of quantitative restrictions, than the USA and the EU. Moreover, trade negotiations have begun to affect sovereignty as well as the historical framework of societies at a time when international commodity agreements to stabilize or increase prices for primary commodities have attracted less interest. Developing countries became active participants in the GATT/WTO and individually and as members of coalitions they were committed to the Uruguay Round. Regional arrangements provided external credibility for their own programmes of trade and investment liberalization, as well as wider market access, particularly in the protection-prone industrialized capitalist world.

Western Europe

For a long time Western Europe was considered the model for regional economic integration. The distinguishing feature of the EU's economic integration is its 'depth' with its far-reaching liberalization of factor markets. Yet the factors that drove the integration process of the EU were predominantly political (i.e. not market-driven): economic and military neutralization of Germany and containment of Soviet communism (see Chapter 7 by Alvaro Pinto Scholtbach; Grimwade 1996: 150–191).

Out of these political goals arose a set of institutions, beginning with the European Coal and Steel Community (ECSC). These structures provided a framework for formal integration and within this framework, once established, informal integration was fostered. The European Economic Community (EEC) moved rapidly to a *dirigiste* agricultural regime in a period when the European market was characterized by trade between semi-autonomous national economies and national companies ('champions'). In the 1970s and 1980s the EC was pushed towards deeper integration as a consequence of technological change and increased competition with the newly industrializing countries. Meanwhile, economic and political pressures driving integration have increased now that German reunification and American decline have raised questions about the role of the nation–state and the loss of government autonomy in a highly institutionalized EU (Streeck 1996: 299–315). The privatization of many state-owned European enterprises, partly in response to the EU's 1992 Single Market programme, was intended, among other goals, to reduce the scope of subsidy and buy-at-home distortions. None the less, many of these market-liberalization projects were subject to the idea that the large national champions had to be restructured with the help of the state in order to make them profitable.

The EU's future now depends on the organization's ability to impose the fulfilment of the Maastricht criteria on all members in order to introduce a common currency in 1999. Monetary union will obviously remove exchange rate and national monetary policy from the list of flexible government policies in response to recessions. The Economic and Monetary Union (EMU), in the form implied by the 1991 Maastricht Treaty, will also impose restrictions on fiscal policy. Governments may run budget deficits of no more than 3 per cent of GDP a year in the run-up to EMU. And if Germany gets its way, countries using the single currency will be confined to budget deficits of no more than 1 per cent of GDP over the cycle. This means they must run balanced budgets and embrace the holy principles of monetarism. If Germany succeeds in imposing strict fiscal limits on other single-currency countries, all the burden of adjustment in a recession will fall on output and jobs. The only policy instruments then left to national governments will be micro-economic ones (i.e., structural changes to labour markets). Advocates of the single currency state that the EMU would eliminate the cost of foreign-exchange transactions and exchange-rate hedging. However, it is not obvious that the benefits of economic integration in the sense of liberalization of product and factor markets cannot be obtained without monetary union. For governments, it would help to stabilize the international currency markets. For the EU's single market, inaugurated at the end of 1992 to allow the free movement of people, capital, goods and services, it would end 'competitive' devaluations, within the monetary union. Notwithstanding these promising prospects, many European citizens believe that increased competition and monetarism will provoke a decline of their national welfare state in an ever expanding EU.

In May 1992 the European Free Trade Association (EFTA), which is a grouping of smaller European nations, joined with the EC to form the European Economic Space (EES). It was stipulated, at the EC's insistence, that the EFTA nations would individually adopt the same competition policy regimes as those within the EC. The main problem is still that the EU was conceived as a unified internal market with strong protectionist characteristics and that a further regionalization of the Western European economies can only take place within the institutional and political framework of the EU. EFTA nations who want to join the EU are compelled to give up an important part of their sovereignty. Furthermore, liberalization of the EU's trade could only be realized through bilateral agreements and a complicated system of preferences and quota systems. The EU, with its Common Agricultural Policy (CAP), its role in the Multifiber Arrangement (MFA) and its use of NTBs to protect its steel and textile industries has also from the outset constituted an exercise in the internationalization of protectionism. There is still some anxiety in the rest of the world that the EU may yet turn into 'Fortress Europe'. Although the EU is a full member of WTO, very few of its trading partners receive most favoured nation treatment, but many developing countries are eligible for the EU's Generalized System of Preferences (GSP), which allows exemptions or reduced duty rates for the developing countries (see Chapter 7).

The USA and Latin America

Because Latin America has received little new international lending since 1982, the Latin American governments have had to pay their interest bills on foreign debt by running large trade surpluses. The debt crisis was therefore also a major factor in the deterioration of the US trade balance, as Latin America has cut imports and raised exports to the US markets. The $US1.3 billion US trade surplus with the region in 1980 became a $US14.1 billion US trade deficit with the region by 1987 (Sachs 1989: 17). Obviously, the debt crisis of the 1980s obliged Mexico and the larger South American countries to implement economic reforms, which were centred at first on stabilizing prices and the balance of payments. Then a new wave of reform resulted in government attacks on traditional trade and investment barriers, a process of privatization of state-owned enterprises, and regulatory reforms. The Latin American countries with their protectionist regimes had become increasingly vulnerable to bilateral pressure from the USA and when trying to solve severe balance-of-payments problems had to put a premium on attracting foreign investment. This gave a larger role to the international financial institutions who all urged liberalization and privatization of the economy. In the 1990s virtually all Latin American countries launched reforms aiming at integrating their economies into free trade. These policy reforms meant more or less frontal assaults on the interests of groups rooted in import-substitution activities.

In Mexico, NAFTA was at the core of the liberalizing programme that broke with traditional economic interventionism (see Chapter 11 by Alex E. Fernández Jilberto and Barbara Hogenboom). The agreement was also a means of guaranteeing access to the US market, threatened by increasing use of administrative trade remedies and anti-dumping legislation (Ruigrok and Van Tulder 1995). How NAFTA, with its incorporation of Mexico within the US protective system will damage the trade of other countries remains to be seen. That is the reason why other Latin American countries (Chile, Colombia, Venezuela) are in NAFTA's waiting-room. NAFTA can facilitate a restructuring of the hegemonic position of the US economy with respect to the Latin American continent and definitely eliminate the formal Latin American free trade associations. The Common Market of the South – or Mercado Común del Sur (MERCOSUR) – founded on 26 March 1991, was inspired by a neo-liberal substratum underpinning the idea that a liberalized regional market could boost the activities of regional firms. As a result of this liberalization drive the average tariff charged by Latin American nations to outsiders dropped in 1993 to 15 per cent, from 56 per cent in 1985 and this opening made Latin America the world's fastest-growing market for goods made in the United States. But half of Latin America's trade is now with the USA, and Latin American countries with traditional trade links with Western Europe, such as Brazil, Argentina, and Uruguay, are re-orienting their exports to North America. Because free trade associations may include more and more Latin American countries, it is important to establish whether several sub-regional free trade associations might expand or coalesce. The main problem these Latin American countries are concerned with is the liberalization policies announced by NAFTA. In the case of the poor and weak economies of Central America, joining NAFTA has become a hot item because membership of NAFTA can offer them more possibilities for their agricultural and manufactured products. On the other hand, the USA may push for signing bilateral agreements with the Central American states which will make them more dependent than before upon North American goodwill (see Chapter 12 by Oscar Catalán Aravena).

Although they are discriminatory, regional trade agreements can be consistent with WTO, so long as most sectors are liberalized. Preferential lowering of market access barriers inevitably causes diversion of trade.

The Asia Pacific region

Asia Pacific is emerging as the most dynamic economic region where China, Japan, the USA, the Russian Federation and more countries are contending economically and strategically. But the Asia Pacific region is quite different in several aspects from the European–Atlantic area where regionalism has been most successful. Inter-state relationships are primarily bilateral and are not grouped in common institutions or alliances like the EU or NATO. In response to the EU and NAFTA and after the Uruguay Round, interest in regionalism increased in this area. But what this region is still lacking is a common political and security identity. Economic imperatives are pressing for interdependence, open economies and open regionalism as shown by the successful launching of the Asian-Pacific Economic Cooperation (APEC) and the deepening networks of firms and trade. In comparative terms, the former is state-driven and the latter market-driven. In order to accomplish effective regionalism, it is necessary that the economic imperatives spill over and prevail over military and political imperatives. There are two options when attempting to build regional integration. The first option is to group all Asian countries, excluding the Americas and Oceania, on common Asian values. Countries like Malaysia, China and some Japanese nationalists are in favour of this option. Another option is to build on an alliance with the USA and Oceania in order to preserve security ties. South Korea and the small NICs, with their traditional links with the USA, are in favour of this option. They are joined by Australia, Japan and Canada (Ahn 1996: 6–8).

Regionalization in Pacific Asia is a *de facto* process, because of complementarities between Japan, the NICs and the ASEAN countries and China in terms of their technological capabilities, factor endowments, and wage and income levels. Even as the region's exports to countries outside the region have doubled over the last decade, intra-regional trade has tripled, rising to about 40 per cent of total trade from about 33 per cent in the middle of the 1970s. Since the 1970s the Asian economies have undergone considerable trade liberalization, particularly in East Asia. The rapid growth of East Asia's economies is also reflected in its trade performance. East Asia's newly industrializing countries recorded the highest growth rates in both exports and imports. They have been catching up with Japan in terms of total imports and exports. Interdependence among themselves has increased because of rising intra-regional trade and foreign direct investment. Their economic growth is no longer dependent on the US business cycle. The Asian economies are increasingly integrating and showing a growing ability to generate demand from within the region. The key features of the region's integration are: first, a tradition of market-led economic growth; second, the large stake that many of the nations in the region place on the multilateral trading system; third, the weak incentives that exist for concluding large, formal free-trade agreements in East Asia alone; and finally, the transfer of industries, particularly manufacturing industries, from early starters to latecomers. Unlike the economies of the EU, this interdependent growth was achieved without a formal integration network in a process of market-led economic integration. Self-sustaining economic growth was favoured by the integration of the socialist Asian countries and the relative decline in US economic power. For several reasons this induced rising trade friction between nations on both sides of the Pacific (Stubbs 1995: 785–797), but trade liberalization since the mid-1980s was mostly non-discriminatory and unilateral, and sometimes influenced by the multilateral disciplines of GATT. The main exceptions, sometimes temporary, have favoured the USA, following pressure from Washington to reduce bilateral trade imbalances.

The Asia Pacific economy is the most dynamic economic region and consists of countries with levels of economic development ranging over a very wide spectrum. These differences in economic structure have strong implications for the pattern of economic growth and integration and interdependence. Economic changes in the more advanced countries have influenced the spread of industrialization from Japan and the NICs (Korea, Taiwan, Hong Kong, Singapore) to the other ASEAN countries. The ASEAN group of countries was from the very beginning not based implicitly or explicitly upon an import-substitution strategy (Krueger 1980: 38). It was the first regional trading arrangement based upon an outward-looking trade strategy. The ASEAN countries have very open economies reflecting their development strategy of relying on free flows of goods and capital. Furthermore, the region has emerged as a top trading region with China and the ASEAN countries catching up from behind. ASEAN's trade initiative, ASEAN Free Trade Area (AFTA) founded in January 1992 pursues regional economic cooperation, because, post-Cold War, the organization needed a new *raison d'être*. Preferential tariff reductions will be extended to fifteen selected industrial product groups in which all internal tariffs will be abolished over fifteen years. The conclusion of the AFTA agreement served an important symbolic purpose for ASEAN as an organization, because ASEAN feared isolation in a world of increasingly protectionist regional trading blocs. It was estimated that ASEAN would lose 4 per cent of the value of its 1988 exports to North America from the trade-diverting effects of NAFTA, and 8 per cent of the value of its exports to the EU from trade diversion caused by the conclusion of the Single Market (Schlossstein 1991: 292–4) (see Chapter 13 by Batara Simatupang and Chapter 14 by Carolyn Gates).

The AFTA agreement was a defensive move, motivated by an increasingly regionalized world economy. But positive experiences of economic liberalization in Indonesia, Thailand and Malaysia encouraged governments to cooperate on the regional level. Trade liberalization combined with economic growth in the late 1980s to generate confidence in the neo-classical arguments defended by the Bretton Woods institutions. The advent of export-oriented industries brought about a serious rift between highly competitive exporting groups and those producing for the protected domestic market. By adhering to the AFTA agreement, the ASEAN governments were locked in a regime of lower tariffs. Liberalization of intra-regional trade opened up the door to production for a region-wide market and the high rates of growth in manufacturing induced a rapid change in the composition of intra-ASEAN trade. By 1993 manufactures constituted three-quarters of intra-ASEAN exports, up from less than one-third in one decade. New regional complementaries were emerging and intra-industry trade in manufactures grew significantly, which reflected the regionalization of production networks.

Like the EU, ASEAN now faces the dilemma of how to 'deepen' cooperation, while its membership is 'widening'. Of course, nobody is talking about a monetary union or a common agricultural policy yet. Moreover, trade disputes may call into question ASEAN's cohesiveness. AFTA's aim is to reduce tariffs on almost all items of intra-ASEAN trade to below 5 per cent by 2003, and to remove most NTBs to imports. Some 'sensitive' agricultural items will be allowed protection until 2010, because in many Asian countries cultivation of rice is seen as a strategic industry. In the Asia Pacific region free trade is integrating since the six ASEAN countries and Australia, Japan, Korea, New Zealand and the USA founded the APEC forum in 1989. Since then, membership has been enlarged to include China, Hong Kong and Taiwan and more recently Mexico, Papua New Guinea and Chile. The APEC committed themselves on 15 November 1994 in Bogor (Indonesia) to creating a free trade area stretching from the USA to Thailand and from Chile to China. The objective is economic integration, freeing product and factor markets from official and unofficial resistance. But this ambitious goal set out in what will now be known as the Bogor Declaration, is expected to be reached only by 2020 and stipulates that developed nations should achieve 'free and open trade' by 2010 and developing nations by 2020 but the difference between developed and developing nations is not defined. Moreover, the Malaysian government managed to attach an addendum to the declaration stipulating that the date of 2020 is not binding and the Japanese and Korean governments are muttering about excluding agriculture from APEC's discussions. Paul Keating, the Australian Prime Minister, and Bill Clinton argued that tariff cuts made under APEC could go further and faster than those already agreed under the GATT, but other countries (Japan and Thailand) emphasized that they wanted the WTO to set the pace. Japan in particular stressed that liberalization must not hurt APEC's poorer states, whereas other developed states supported the idea that falling trade barriers in Asia may create extra jobs back home. The APEC will avoid negotiated tariff cuts and encourage each country to reduce tariffs unilaterally. These considerations explain why APEC had very humble beginnings and was considered with scepticism. Furthermore, the diversity of APEC's membership is striking, with member nations on both sides of the Pacific.

APEC is on the way to becoming an inter-governmental institution, with a ministerial council and a secretariat. It is planning to extend liberalization initiatives to various fields of functional cooperation. APEC looks like following in the footsteps of the EU, with the risk of similar pitfalls. But APEC's regional trade liberalization can also provide a non-confrontational, high-level forum. For instance, China wants to be a member of the WTO, thus including a fifth of the world's population in a new liberal trade regime. Although China has promised to do much to bring down tariffs, as well as to phase out most quota restrictions by 1999, it remains highly illiberal over imports. Foreign firms must still deal with a state trading cartel and many trading regulations go unpublished. This might be about to change soon since China announced in November 1995 an impressive range of trade-liberalizing measures when President Jiang Zeemin attended the APEC summit in Osaka, Japan. The US presence in Asia also helps allay Asian concerns about Japanese hegemony in the region. Bilateralism has always been the reserve weapon in the US economic foreign policy, particularly in the Pacific, where regional institutions have been weak and global rules seem permissive. Here the USA has regularly turned to bilateral pressure backed by trade sanctions. But the most controversial issue in APEC remains formal trade liberalization, though APEC was the reaction of several nations aware of the danger of a world divided into blocs that discriminate against outsiders. Because APEC is itself a regional arrangement, it has the paradoxical mission of combatting preferential regionalism. Therefore its members have explored ways in which to develop forms of open regionalism and trade facilitation as well as liberalization.