Trading Blocs and Multilateralism in the World Economy

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The resurgence of continental trading blocs throughout the 1980s will influence the nature and evolution of the world economy in the 1990s and beyond. In this paper, we argue that classical economic analysis of trading blocs is inconclusive, and regionalism cannot be understood in economic terms alone. We focus on an examination of the relationship that exists between trading bloc formation and more fundamental economic and social trends taking place in the industrialized economies since the Second World War. Our contention is that regionalism represents one of the most fundamental restructuring processes affecting the world economy since the principles of international trade were established at the Bretton Woods Conference. Regionalism and multilateralism represent competing, but not necessarily mutually exclusive, principles underpinning economic integration and trade in the global economy. The end products of this competition are the two potentially complementary, spatial processes of trade bloc formation and globalization. Consequently, not only globalization but also regionalism are at the center of the economic transformation of contemporary industrial society and changing international relations. Key Words: trade, trading blocs, regionalism, multilateralism, globalization.

Of one of the most significant developments in the world economy since the Bretton Woods Conference in 1944 has been the emergence of continental trading blocs. The European Union (EU), the North American Free Trade Agreement (NAFTA), and the slowly emerging Asian trading bloc centered on Japan occupy an increasingly prominent role in an ongoing process of geo-economic adjustment (Sopiee et al. 1987). Despite popular conceptualizations in geography and political science declaring globalization and the decline of the nation state as the principal outcomes of these adjustments (see, for example, Kennedy 1987; Henderson 1989; Dunning et al. 1990; Cox 1992; Robertson 1992; Dicken 1992a; Howells and Wood 1993; Nader 1993; Thrift 1994), the continental integration of nation states into trading blocs throws doubt on the robustness of these interpretations (Thurow 1992; Frankel et al. 1995; WTO 1995a). According to a number of economists and political scientists (Preeg 1989; Belous and Hertley 1990; UN 1990a; Bhagwati 1990, 1991, 1992; Schott 1990), commitment to the multilateral framework underpinning globalization is weakening. Despite the successful conclusion of the Uruguay Round and new provisions contained in the World Trade Organization (WTO), which replaced the General Agreement on Tariffs and Trade (GATT) on January 1, 1995, trading blocs can fragment world markets into exclusive and potentially hostile camps through unilateral protectionist trade policies (Krueger 1995). At least theoretically, the collapse of multilateralism could unleash an economic crisis comparable to that of the inter-war Great Depression (Bhagwati 1991; de la Torre and Kelly 1992).

Despite the obvious importance of regionalism and trading blocs to the spatial organization of the contemporary world economy, geographers have made few attempts to date at a systematic examination of these phenomena (Thrift 1990; Gertler and Schoenberger 1992; Grant 1993a). Instead, theoretical and empirical research has focused on the role of finance and flexibility in the global economy (Grant 1994; Leyshon and Tickell 1994). Most of the resulting interpretations stress the alleged decline of the U.S. as the hegemonic power and the transformation of the world economy from Fordism to a post-Fordist mode of social regulation, flexible production techniques, and globalization (Scott 1988; Storper and Walker 1994).
Regionalism versus Multilateralism

The popular perception of trading blocs is one of discriminatory regional organizations whose principal role is to advance the common economic agenda of member countries by protecting domestic markets from foreign competition (Bhagwati 1990). In this sense, trading blocs are regarded as a direct threat to multilateralism and to the goal of free trade established at Bretton Woods. According to this interpretation, the international framework embodied by the GATT/WTO, International Monetary Fund (IMF), and the World Bank has been, or is in the process of being, replaced by a more limited goal of partial trade liberalization centered upon regionalism. Accordingly, the decline of commitment to multilateralism may lead to a break-up of the global trading system and promote protectionist trading blocs whose competing geoeconomic objectives could lead to an international crisis. The principal trading blocs—NAFTA (perhaps extended to Latin America), the EU (including East-Central Europe), and the emerging Asian bloc centering on Japan (and conceivably China)—will become the triad of dominant actors in future conflicts, while the rest of the world will become increasingly isolated. As a prominent economist noted, "given the inevitable trade frictions that will arise between large regional trading blocs—with those left outside, such as the East Asian newly industrializing countries and Japan trying to form their own defensive
blocs—the whole multilateral trading system built up since the Second World War could unravel" (Lal 1993: 350).

Closer investigation of this pessimistic scenario suggests that the consequences of the emergence of trading blocs are far from clear. In the 1960s and 1970s, numerous attempts to promote regional arrangements faltered. The Central American Common Market (CACM), the Andean Pact, and a number of regional arrangements between African countries failed to achieve significant intraregional liberalization and integration. This discouraging history notwithstanding, regionalism experienced a resurgence during the Uruguay Round negotiations in the 1980s and 1990s. During the four-year period between 1990–1994, no fewer than 33 new regional integration arrangements were notified to the GATT (WTO 1995), and many existing regional arrangements, especially in Western Europe, were deepened and widened. Of the total of 109 regional agreements notified to GATT between 1948–1994, Western European countries participated in 76. The collapse of the communist Council for Mutual Economic Assistance (CMEA) in Eastern and Central Europe in 1991 was an additional incentive to expand regional integration in Europe. This surge of regionalism made the Uruguay negotiations more difficult and contributed to its compromise outcome. Although the establishment of the WTO in place of GATT was hailed as a great success and proof that multilateralism was alive and well, serious doubts remain over its ability to resolve trade disputes and to achieve the goal of global free trade (Heine 1993; Ruggiero 1995).

The Uruguay negotiations led to a series of compromises which, in the end, merely delayed the decisions necessary to maintain the multilateral framework. For example, agreements on financial services, direct foreign investment, intellectual property, and agriculture were postponed not resolved. Nor is it clear how effective WTO will be in dealing with intra- and inter-bloc tensions. Mexico’s financial crisis, Japan’s deflating economy, America’s currency, and Europe’s uncertain progress toward monetary union collectively ensure a difficult climate for future negotiations on multilateral trade liberalization. Although there are still geographers and economists who discount the significance of regionalism and trading blocs (see for example, Corbridge and Agnew 1995), the fact remains that by the time the WTO was created, nearly all its members had notified GATT that they were parties to at least one regional integration agreement. If the Asia-Pacific Economic Cooperation’s (APEC) announced objective (November 1995) of achieving free trade by 2020 is formalized, all WTO members including Hong Kong and Japan will be parties to one or more trading blocs.

Although economic integration theory and preferential trading agreements have attracted much attention in economics and political science, geographers have had little to say on these issues. Their neglect is premised on two mistaken assumptions: (1) that there is little or no evidence for the regionalization of world trade around separate regional nodes; and (2) that evidence of restructuring the world economy around Western Europe, North America, and Japan is not the same as three emerging trading blocs. As to the first point, the relative importance of regional nodes is evident from an examination of trading transactions using the IMF’s Direction of Trade statistics (IMF 1991). Our brief summary begins with the caveat that there are many methods, and associated problems, for measuring global trading patterns. While this is not the place to review the relative merits of those different approaches, Grant (1993a) has pointed out that the traditional measures and perspectives employed here provide a useful tool for interpreting and forecasting trade trends.

Figure 1 depicts world merchandise trade and the key roles therein of three regional groupings: the EU (of twelve); NAFTA; and Association of South-East Asian Nations (ASEAN) plus Hong Kong, Japan, South Korea, and Taiwan. This triad of regional blocs dominated trade in the world economy of 1991. In that year, intra-regional trade accounted for 38 percent of all the world’s merchandise imports and exports. Intra-EU trade alone accounted for 24 percent of all such trade. Inter-regional trade is quite modest by comparison, representing just 10 percent of the world’s merchandise imports and exports. Nearly 50 percent of all world trade occurs within or between the three major regional nodes (representing only twenty-five countries). When trade between this triad of regional blocs and third countries is taken into account (amounting to 19 percent), regionalism’s dominant role becomes clear. This empirical evidence thus makes a strong prima facie case for regionalism as one of the most influential factors determining world-trade flows. To what extent these regional flows represent a fundamental restructuring of the world economy is the
key question addressed in this paper. We will argue that the ongoing conflict between regionalism and multilateralism represents competing organizing principles of economic integration and trade which are at the very heart of the economic and social transformation of contemporary industrial society and international relations. The results of competition between these two principles of geoeconomic relations promise to have profound and far-reaching consequences for the ongoing globalization of the world economy and the transformation of local production districts.

The central question, again, has to do with the consequences of regionalism for global free trade. Unfortunately, there are no straightforward answers for a question that is one of the oldest and most contentious issues in economics and regional science (Balassa 1962; Feld and Boyd 1980; Greenaway et al. 1989; Bhagwati 1991; Keenwood and Loughead 1992; Mansfield 1993).

Strictly speaking, the ongoing debate about the merits of regionalism and trading blocs is inconclusive. According to many critics, multilateralism and the WTO are virtually synonymous. The principal aim of the WTO (and the GATT before it) is to promote a nondiscriminatory open market in which only prices and tariffs determine international comparative advantage among sovereign nation states. Through a process of multilateral negotiations involving as many consenting countries as possible, impediments to the free movement of the factors of production are gradually removed. While the WTO can be viewed as a trading bloc itself (OECD and the World Bank 1993), the large number of member countries belonging to the WTO makes this bloc qualitatively different from all other forms of regionalism. Nevertheless, since not all countries are members, the WTO, at least theoretically, is the largest and most open trading bloc of all (Figure 2).

According to classical liberal economists, the goal of free trade enshrined in the WTO will lead to the optimal utilization of the factors of production in ways that reflect variations in comparative advantage. Such an optimal allocation will ultimately lead to an increase in collective welfare of all participants (Lloyd 1992; OECD 1993; Finger 1993). The WTO is itself a trading bloc with the goal of facilitating a global free-trading system, first, by ensuring that most trade impediments are tariff-based and therefore “transparent”; and, second, by the gradual reduction and removal of these tariffs. The primary “coercive weapon” of the WTO is the nondiscrimination principle supported by most favored nation (MFN) and national-treatment regulations.

If nondiscrimination is the core regulating principle underpinning the GATT/ WTO and multilateralism, the latter’s permission of trading blocs and regionalism under this system of inter-
national regulation is paradoxical because regionalism epitomizes the very opposite of non-discrimination. Notwithstanding GATT Article XXIV’s allowance for trading blocs, the overall level of tariffs has been lowered significantly since the inception of the GATT (Rugman and Verbeke 1990; Bhagwati 1992). This fact enables supporters of trading blocs to argue that regionalism, if properly managed and supervised, can foster the process of multilateral trade liberalization (Aho 1993; Woolcock 1993; Planque 1993). The pertinent question, therefore, is the extent to which regionalism promotes or erodes trade liberalization.

Neoclassical economists clearly regard trading blocs as a “second-best” alternative to multilateral free trade (Bhagwati 1988). Their arguments derive, by and large, from the views of a Canadian economist Jacob Viner (1950) who provided a more or less definitive analysis of the trading-bloc issue. Although Viner’s concepts of trade creation and trade diversion were enunciated more than forty years ago, they have been almost universally accepted by scholars of international trade (Tovias 1991). According to Viner, a preferential trading arrangement promotes trade creation when a country’s more expensive domestic production is replaced by cheaper products imported from a participating country. Greater domestic consumption generates additional trade and welfare in the process. Conversely, trade diversion occurs when imports of inexpensively manufactured goods from nonmember countries are replaced by more expensive imports from participating countries. The resulting increase in intraregional trade takes place at the direct expense of imports from outside the bloc, hence trade diversion reduces or, at best, does not increase global welfare in this scenario. In other words, if a trading bloc promotes trade creation, it will also promote global trade liberalization. This simple but powerful theory of trading blocs survived virtually intact until the late 1980s when the growing disparity between the theory and practice of international trade and trade regulation became painfully apparent for participants in the prolonged and acrimonious Uruguay negotiations.

Since then the debate has grown more complex (Lawrence 1994). According to Jackson (1993), trading blocs can actually promote global free trade if the MFN principle is applied. Moreover, regional trade arrangements can serve as stepping stones for building political support and strengthening the will for negotiating freer trade worldwide (Lawrence 1991; Summers 1991; Krugman 1993). Furthermore, Anderson and Snape (1994) argue that intraregional trade statistics can be misleading as, for example, when the proportion of GDP traded within regions increases sufficiently to promote growth not only

of GDP traded extraregionally. The world economy, in this sense, continues becoming more integrated across geographical regions, despite a significant increase in the intraregional trade within Europe, the Americas, and Asia. Although East Asia and the Pacific Rim countries do not belong to a significant trading bloc, there are signs of an emerging regionalism in the West Pacific Rim (Emmerson 1994; Yoshida et al. 1994; but see the dissenting arguments of Frankel and Kahler 1993; Saxonhouse 1993). Finally, Krugman (1991b), Summers (1991), and Hufbauer (1990), argue that trading blocs merely formalize the already existing practice of geographically proximate countries, or in his terminology “natural partners,” who are bound to trade with each other more than with distant or “unnatural” partners. In turn, economic historians argue that the historical evidence is ambiguous on the issue of multilateralism (Irwin 1993). They point out that the present preoccupation with regionalism is not new; after all, much of nineteenth-century trade liberalization was achieved through bilateral arrangements between the principal economies.

In contrast some scholars call for a more cautious evaluation of the impact of trading blocs, suggesting that trading blocs tend to set higher tariff levels and thus move further from the ideal of world free trade (de la Cepal 1988; Krugman 1991a). Frankel et al. (1995) warn that trading blocs consisting of entire continents may represent an excessive degree of regionalization. Since two of the most important trading blocs, the EU and NAFTA, practically embrace entire continents, the world economy may have already entered the phase of “excessive” regionalization. The optimal path saving the goal of free trade in such a configuration is to extend the privileges of regional arrangements from two-country agreements (like the Free Trade Association between the U.S. and Canada) to a wider subcontinental bloc, then to the continental level and beyond (Frankel et al. 1995). Perhaps, the most outspoken critic of trading blocs has been Bhagwati (1993). He argues that the recent proliferation of trading blocs signals the breakdown of multilateralism, at least as the first best option. Many powerful economies are now attempting to increase the gains from trade, according to Bhagwati, by forging coalitions with geographically proximate partners at the cost of losing the significantly smaller benefits of freer trade between blocs of more distant trade partners. Although this might not necessarily lead to a trade war between blocs, it clearly represents a second-best solution to the preferable MFN principle. The largest challenge in the second-best scenario is to resist the temptation of protectionism. Although trading blocs do not necessarily lead to a trade war, they certainly increase the possibility of hostile unilateral actions (Bhagwati 1993).

In sum, classical economic analysis as well as “new trade theory” are ambiguous about the outcome of regionalism. Under certain favorable political conditions, such as an unwavering commitment to the MFN principle (even under Article XXIV of the GATT/WTO), trading blocs can contribute to the goal of global free trade. All the same, they represent a second-best scenario which, given unfavorable political circumstances, is prone to complicate the multilateral ideal. Clearly, classical analysis of the issue of regional integration requires elaboration.

The Political Economy of Trading Blocs

A general theory of the political economy of economic integration has yet to be developed (Gilpin 1987; Halliday 1994). Nevertheless, some of the elements of such a theory already exist. Hirst and Zeitlin, among others (Gertler 1988, 1992; Dunford 1990; Hirst and Zeitlin 1991; Dicken 1992), reviewed some of the key themes and terminology commonly used in theories linking macroeconomic supply and demand adjustments in highly developed market economies. The most prominent terms used to describe the nature of the “new” international economy and its spatial organization are flexibility and globalization. Theories of flexible specialization, flexible accumulation, post-Fordism, and regulationist ideas all stress the role of flexibility and globalization in the evolution of highly integrated economies (Amin and Robbins 1990; Webber 1991). Technological advances in transport, communication, and digital techniques are the main facilitators of this new economic environment. A group of institutionalist writers (Piore and Sabel 1984; Sabel and Zeitlin 1985; Hirst and Zeitlin 1991; Hirst and Thompson 1992) attempted to incorporate the notion of flexible industrial districts into the context of a more general process of industrial restructuring in which Fordist mass-production methods are juxtaposed with alternative business strategy characterized by flexible
The key to flexible specialization is the notion of industrial districts consisting of small, medium-sized, and large decentralized enterprises cooperating in a series of ever-changing networks. Consequently, flexible specialization is at once a general theoretical approach to the analysis of change in industrial societies and a specific model of productive organization. It appears, therefore, that regionalism and trading blocs can be conceptualized as an equivalent search for flexibility on a continental rather than a national scale. Territorial discrimination linked to "minilateralism" between participating countries permits greater mobility in the factors of production and an expansion of intersectoral linkages demanded by flexible production and distribution networks. At the same time, a gradual shift toward protectionist policies increases the chances of stability in the intrabloc relations between state and capital. Regionalism therefore may be seen as a mode of regulation at the international scale.

The regulation school assigns a particularly important role to local government and the nation-state in the evolution of industrial society (Aglietta 1979; Boyer 1990; Lipietz 1993). The central role of regulation or government-led stabilization of the economy underlines the importance of state and government in economic development (Lipietz 1992; Jessop 1995). According to regulationists, the economic development of industrialized countries after World War II was made possible by a broad consensus within and cooperation between labor and capital. This national consensus integrated political, economic, and social relations into a conception of capitalist industrial society—a mode of social regulation—which sought the stabilization of particular patterns of production, consumption, and international relations. The resulting regime of accumulation constitutes a coherent macroeconomic phase of capitalist development (Tickell and Peck 1992). Unfortunately, the key term, "regime of accumulation," is loosely defined, and its precise meaning is subject to considerable controversy (Dunford 1990; Hirst and Zeitlin 1991). In essence, capital, government, and culture are conjoined in a complex configuration of habits, customs, social norms, enforceable laws, and technology that culminates in a regulatory system which guarantees the reproduction of the mode of production. The crux of the regulationist approach is in its fusion of the mode of regulation with the regime of accumulation to create a stable period of economic and social development (Lipietz 1987). According to the advocates of this theory, the long postwar period of economic boom during which western European, Japanese, and North American economics prospered arose out of such a period of stability. Assembly-line Fordism represents the industrial component of that stability based on mass production of standardized goods, mass consumption, and governance through principles of Taylorist and Keynesian management.

Somewhat disappointingly, regulationists have failed to provide a satisfactory link between national forms of regulation and the international regulatory framework for stability, e.g., Bretton Woods and the GATT. The nation-state is, according to regulation theory, the basic building block of stability; yet the focus on the state ignores the fact that production is heavily internationalized (some would say globalized, Thrift 1994) and that trade, including intrafirm trade and foreign direct investment, is assuming an ever-increasing role in the economies of the leading industrialized countries (Cox 1987). The prime candidate for the international regulatory framework established in the aftermath of World War II is the Bretton Woods System. This system (and the GATT as one of its chief components) reinforced the stability of the Fordist mode of national regulation in highly industrialized countries (Corbridge 1994).

Nearly all of the principal supranational institutions regulating international trade were created during the postwar period. By far the most important of them—the GATT—stimulated reductions in the tariffs of an ever-increasing circle of member countries. The opening up of world markets instigated by the GATT’s multilateral approach is certainly one of the principal factors behind the immense success of the West European, North American, and Asian economies. To be sure the phenomenal growth of trade after World War II was primarily the result of the increasing productive capacity and productivity of highly developed economies, yet it is worth stressing that trade’s rapid growth also was the result of the GATT-led system of international regulation which provided both stability and a relatively coherent environment necessary for economic planning and industrial expansion (Gill 1990). In short, the “Fordist compromise,” flexible specialization, and globalization are, in large degree, the fruits of the immensely successful postwar regulatory framework for the interna-
This powerful combination of regulation at the level of the nation-state coupled with multilateral trade formed the basis for a long period of prosperity in the West and for the economic successes of many developing countries (Preeg 1993).

The irony of the success of GATT-led international liberalization, according to regulationists, was that it led to the current crisis of Fordism and multilateralism. Technological change, foreign competition, and the ever-changing nature of production and management placed the national mode of regulation under enormous stress—a stress compounded by the end of the Cold War, the impetus for a new round of trade liberalization, and the opening of markets in Eastern Europe, Russia, and China (aspiring members of the WTO; Table 1). The historical coincidence between Fordism and multilateralism is clear, but the reasons why are not. Even less obvious is the relationship between Fordism’s successor and trading blocs.

### Table 1. The Waiting List: Countries that Have Applied to Join GATT/WTO

<table>
<thead>
<tr>
<th>Applicants</th>
<th>Date Working Party Established</th>
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<tbody>
<tr>
<td>Albania</td>
<td>December 1992</td>
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<tr>
<td>Algeria</td>
<td>June 1987</td>
</tr>
<tr>
<td>Armenia</td>
<td>December 1993</td>
</tr>
<tr>
<td>Belarus</td>
<td>October 1993</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>November 1986</td>
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<tr>
<td>Cambodia</td>
<td>December 1994</td>
</tr>
<tr>
<td>China</td>
<td>March 1987</td>
</tr>
<tr>
<td>Croatia</td>
<td>October 1993</td>
</tr>
<tr>
<td>Estonia</td>
<td>March 1994</td>
</tr>
<tr>
<td>Jordan</td>
<td>January 1994</td>
</tr>
<tr>
<td>Latvia</td>
<td>December 1993</td>
</tr>
<tr>
<td>Lithuania</td>
<td>February 1994</td>
</tr>
<tr>
<td>Macedonia</td>
<td>December 1994</td>
</tr>
<tr>
<td>Moldova</td>
<td>December 1993</td>
</tr>
<tr>
<td>Mongolia</td>
<td>October 1991</td>
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<tr>
<td>Nepal</td>
<td>June 1989</td>
</tr>
<tr>
<td>Panama</td>
<td>October 1991</td>
</tr>
<tr>
<td>Russia</td>
<td>June 1993</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>July 1993</td>
</tr>
<tr>
<td>Seychelles</td>
<td>July 1995</td>
</tr>
<tr>
<td>Sudan</td>
<td>October 1994</td>
</tr>
<tr>
<td>Taiwan</td>
<td>September 1992</td>
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<tr>
<td>Tonga</td>
<td>November 1995</td>
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<tr>
<td>Ukraine</td>
<td>December 1993</td>
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<tr>
<td>Uzbekistan</td>
<td>December 1994</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>July 1995</td>
</tr>
<tr>
<td>Vietnam</td>
<td>January 1995</td>
</tr>
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*GATT/WTO committee to consider accession.


### Post-Fordism and Trading Blocs

Few issues in social science are more contentious than the role of multilateralism and trading blocs in the world economy after the Uruguay Round. Although post-Fordism, flexibility, and globalization are often considered the most likely successors to Fordism and Taylorism, there is no equivalent analysis of international relations. Post-Fordism is not a single and coherent theory. Instead, it is a collective rubric covering several theories and ideas which have emerged in recent years (Hirst and Zeitlin 1991). Although some argue that post-Fordism represents a fundamentally different mode of regulation from Fordism (Jessop et al. 1991; Lash and Urry 1987; Jacques and Hall 1989; Harvey 1989), most scholars reserve room for doubt (Gertler 1988; Pollert 1988; Sayer 1989). Whatever this new mode of national regulation, it has coincided with a gradual emergence of various forms of regionalism and trading blocs. In short, the economics of flexibility at the level of the individual enterprise or nation-state is now being extended into the international sphere in the search for flexibility on a continental scale. Trading blocs are perhaps the most tangible geographical evidence of this process.

Regulation theory is neither prescriptive nor deterministic and as a result provides little in the way of guidance as to Fordism’s successor. Although regulation theorists draw generously from Marxism and the French school of historiography of the *longue durée*, the theory was explicitly designed as an alternative to more orthodox versions of Marxism epitomized by the theory of the new international division of labor on the one hand and neoclassical economic analysis on the other (Lipietz 1993). According to regulationists, the Fordist phase started to unfold in the early 1970s in response to a number of unique events and processes. Although regulationists cannot agree about the precise reasons for this decline, most argue that during the 1960s, productivity gains began to fall in most developed economies (Moulet and Swyngedouw 1989). This combined with rising real wages in many sectors of industrial activity and cuts in fixed capital spending tripped off a vicious circle of stagflation, particularly in the EU and North America (Sapir 1993). The trade policies of EU member-states turned increasingly protectionist and resulted in...
the introduction of various nontariff barriers (NTB), e.g., voluntary export restraints (VER), voluntary import expansion (VIE), and the so-called anti-dumping measures (ADM). Although some of these measures were legal, most were designed to circumvent the spirit of GATT and to shelter European industries from outside competition (Cable and Henderson 1994). North American countries followed a similar policy (Gill 1990). These measures avoided the main problem, which was that European and North American industries such as consumer electronics, textiles, automobile or steel production were unable to compete internationally. The reasons were complex, but these included, among others, rigid labor contracts, Taylorist management methods, and inflexible methods of industrial design and production (Lehmkuhl 1993). These structural difficulties gradually started to worsen the economic performance of the old industrial economies in Europe and North America.

In contrast, the economies of Southeast Asia and Japan experimented with flexibility and corporatist policies. Firms introduced new forms of management and production, e.g., Total-Quality-Monitoring (TQM), Just-In-Time (JIT) delivery systems, and industrial robotics. Japanese industries operated within a rather different mode of social regulation and with a more successful set of industrial policies (an alternative critique is presented by Beason and Weinstein 1993), competitive export practices, and domestic structural arrangements. Much of Japan’s manufacturing and services were organized into kigyo-shudan and keiretsu—large industrial groups bound together by cross shareholdings of equity, interlocking directorates, commercial and financial relations, and jimmyaku (personal connections). Unlike their European and North American competitors, keiretsu ensured enormous financial, technological, and human resources that enabled the Japanese to absorb huge losses when necessary as well as to sustain and expand a strong presence in strategic markets despite temporary losses. Japan was also a remarkably cohesive society in which collective wa [harmony] was emphasized at nearly all levels of social relations and industrial policies (Wolff and Howell 1992).

With the benefit of hindsight, we now see that European and North American economies were slow in responding to the challenges from East and Southeast Asia (Boyer 1990; Lipietz 1992; Wise and Gibb 1993). At first, most Western enterprises dealt with outside competition, domestic structural difficulties, and falls in productivity by increasing prices—a decision which eventually led to a double-digit inflation and industrial conflict. Since the Fordist mode of regulation required a direct relationship between standards of living and wages, each wave of inflation led to a corresponding wage increase. The purchasing power of the core currencies fell, further reducing demand, and postwar economic growth began to falter. Furthermore, the multilateral liberalization of trade coupled with the industrial success of Japan and several other developing economies in Asia put European and North American markets under severe (and unwelcome) competition. An indirect result of this competition was the globalization of many European and North American enterprises. Among the many innovations introduced by these global enterprises were the relocation or expansion of their operations abroad in order to take advantage of low-wage labor in regions such as Hong Kong, South Korea, and Taiwan—regions that eventually and in turn evolved into fully fledged industrial economies modeled closely after their Western prototypes (UN 1990b, 1990c; Ariff and Chye 1992). The bulk of their exports, meanwhile, were directed back toward the relatively open European and North American markets. Small wonder that the Southeast Asian governments became enthusiastic supporters of the GATT and multilateralism (Pangestu et al. 1992; Hodder 1994). The combined effect of these developments was such an unprecedented surge of trade between the OECD economies that the growth of international trade outstripped the growth of industrial output (Keenwood and Loughead 1992).

According to many critics, nation-states and their respective governments began to lose control over the macroeconomic management of their domestic economies. The Fordist mode of regulation was threatened by the internationalization of production, consumption, and the growing flexibility of capital and money markets (Leysen 1992; Leyshon and Tickell 1994; Glasmeyer et al. 1993). There were very few viable alternatives left to counter this erosion of national control and regulation. Some of the most frequently used policies included increasing exports by lowering prices to more competitive levels or adopting nontariff barriers and other protectionist measures in a tacit violation of the international regulatory framework. The consequences of internationalization and multilateral-
ism extended well beyond the economic sphere. Regardless of the precise nature of this mechanism, the crisis of the Fordist model of industrial development created a new international climate and increased calls for the protection of domestic enterprises and, in certain cases, whole communities and sectors of the economy. The result has been new policies of managed or fair trade and an erosion of multilateralism and the corresponding international regulation (Scherer and Belous 1994). In short, a new regime of international regulation is emerging.

The Uruguay Round

The launching of the last Round of the GATT was stimulated, to a significant degree, by the American government, which perceived GATT as a mechanism for addressing the problem of its domestic deficit through a revival of the multilateral framework and the fledgling international regulatory system (de Melo and Panagariya 1993). The Uruguay Round of the GATT was, by far, the most complex and ambitious Round to date. Its twenty-eight separate accords extended multilateral rules of trade to agriculture, textiles, services, intellectual property, foreign investment, and more. In 1995, tariffs on industrial goods were cut by more than a third, and farm export subsidies and NTBs are to be reduced significantly in several stages. Moreover, GATT itself was transformed into the WTO. Unlike GATT, which did not have real executive powers, WTO is a permanent organization that has authority to settle trade disputes between members through a formalized disputes procedure, consisting of the Dispute Settlement Body (DSB), the Trade Policy Review Body (TPRB) with provisions for appeals, and binding arbitration (WTO 1994).

Concurrently, however, deep cleavages have appeared in the world trading system, dividing countries that experienced significantly restructured costs in their most exposed industrial sectors, e.g., the U.S., Britain, and France, from those countries that emphasized instead the need for a new social and industrial compromise between labor and capital, e.g., Japan and Germany (Grant 1993b). In this new mode of social regulation, policymakers focused on a new collective-bargaining contract with labor, capital, the state, and noninflationary fiscal and monetary policies. At the same time, the trade gap between the principal economic regions started to sharpen and to become a focus of vigorous domestic political and economic pressures (de Melo and Panagariya 1993). In some cases, these pressures resulted in aggressive unilateral protectionism and policies of “fair trade” in open violation of the existing rules of international trade. Examples include the use of Super 301 legislation by the American administration and the anti-dumping policies adopted by the EU (Gaile and Grant 1989; McConnell and MacPherson 1994).

On the face of it, the new WTO regulations should strengthen the multilateral regulatory framework. However, it was precisely this multilateral opening of international markets that contributed to the restructuring and post-Fordist pressures on many industrialized economies in the first place. The new rules will, if anything, increase further international competition (after all this is precisely one of the objectives of free trade). In other words, the pressure to restructure and “re-engineer” internationally uncompetitive sectors will become even more intense under the WTO. One possible consequence of this pressure may be the need to transform local production districts and to accommodate the sometimes painful social changes that ensue. These pressures may, in turn, contribute to the erosion of the multilateral regime of regulation. Consequently, an increasing number of economists insist that the GATT/WTO is changing and that world trade is regulated not by multilateralism and market forces but by predatory pricing, strategic industrial policies, and the monopolistic behavior of multinational enterprises (Tyson 1987, 1992; Krugman 1992; Hirst and Thompson 1992)—practices that are often used to justify a significant rise in protectionism and unilateral trade policies (Grant 1993a; Krueger 1995). The history of the Uruguay Round of negotiations is testimony to the rocky transformation of the international regulatory framework.

Regulationists argue that the postulated decline of Fordism and the parallel rise of post-Fordism and flexible specialization arose from a complex and unique set of circumstances starting with the inflationary shocks of the 1970s and the macro-economic policies of the leading industrialized countries. The crisis of Fordism exposed an inability of this mode of regulation to deal with the trend toward a large and complex international division of labor and trade (Sayer 1989). The phenomenal growth of multinational enterprises is the most tangible evidence of that trend.
In short, the crisis of the Fordist mode of regulation had become truly international. But once the postwar geo-economic balance started to shift, the old system established at Bretton Woods accelerated its transformation. The complex and acrimonious Uruguay negotiations were simply not sufficient to resolve all of the emerging trade conflicts between multinational enterprises, nation-states, and trading blocs.

In response to the competitive challenge of Southeast Asian economies, key western producers adopted a whole range of flexible production methods which promoted a reorganization of entire production systems. Western firms incorporated various technological and managerial innovations including digital manufacturing techniques, vertical disintegration of producer services, and flexible working hours replete with a whole array of new and sometimes undesirable social and political side effects (Cooke and Morgan 1993). New industrial relations and production techniques enhanced significantly the ability of businesses to secure more optimal inputs. The emergence of the EU, NAFTA, and Asian triad represented the institutional response to the contradictory requirements of flexibility—the need for preserving and enhancing the possibilities of mobility in the factors of production while limiting the threat of foreign competition (Gertler and Schoenberger 1992). Thus regionalism may be viewed as the result of a set of national economic policies that seek to regulate economic activity in a strictly defined space in order to reduce the threat of foreign competition and to preserve the advantages of economic flexibility and large markets. From this standpoint, trading blocs are the building blocks of the newly emerging regime of international regulation. Although these blocs are not necessarily protectionist and do not, therefore, contradict multilateralism, they nevertheless introduce a new level of uncertainty into inter-bloc competition. In this sense, multilateralism and regionalism are at once two competing and complementary processes associated with the transformation of international economic relations.

**Conclusion: Regionalization and Nation-States**

Regionalism and trading blocs are a significant component of the changing nature of the international trading system. Our central contention is that the globalization hypothesis, so frequently espoused to theorizing about the contemporary economy, has been overstated (Peck and Tickell 1994; Corbridge and Agnew 1995). Far from being merely powerless spectators, nation-states have responded to globalization by weakening their commitment to the principles of multilateral trade and engaging the process of regional integration. The Director-General of the WTO has made the point precisely: “regional agreements are becoming more and more important in terms of trade rules, and for the political weight they represent in international negotiations. These are elements which could break up the parallelism between regional and multilateral progress; there is a risk that antagonism between regional groups could make progress in the multilateral system more difficult” (Ruggiero 1995:10). We agree; regionalism and not globalization is emerging as the main path to achieving the goal of global free trade. The nation-state through regionalization is instrumental in the transformation of the multilateral international framework. Contrary to commentators who insist that nation-states are becoming increasingly irrelevant, we suggest that national states allied into regional blocs are the principal agents in reconstructing the international framework (Corbridge and Agnew 1995). Given the nation-state’s strong and historic role in structuring trade activity, the formation of economic alliances between nation-states into trading blocs is the logical institutional outcome and the most recent example of the state’s powerful and ongoing leverage.

Multilateralism and regionalism are, to a certain degree, contradictory and associated with different modes of regulation and spatial outcomes. Indeed, it can be hypothesized that multilateralism (regulated through the GATT) and Fordism combined to forge a solid foundation for postwar economic advance. We are not the first to suggest that multilateralism and Fordism may be intrinsically linked. The contradictions encapsulated in the more anarchic effects of multilateralism (e.g., flexibility or globalization) contributed to the crisis of Fordism and to multilateralism itself as a principle of international regulation. The multilateral framework was further jeopardized by competition from Japan and Southeast Asia. The gradual change of Fordist production methods into a more flexible mode of production and regulation contributed to a new international regulatory climate in which calls for
the protection of domestic markets evolved into aggressive policies of “fair” and “managed” trade. The ascent of this new mode of social regulation, although far from complete, has thus far coincided with regionalism and the formation of trading blocs. It is difficult to conclude that the two are causally linked, but we incline toward that opinion. In a key sense, trading blocs represent the spatial expression of the changing regime of international regulation. That said, regionalism is not identical with post-Fordism, flexible specialization, or whatever else will follow Fordism. After all, the central argument for continental integration is the need for the regulation and coordination of two contradictory goals in the international economy: first, the need to pursue international flexibility in labor and capital markets; and second, the need to protect domestic markets from outside competition.

Trading blocs are indisputably complex phenomena, and flexibility, globalization, or protectionism alone cannot explain their recent growth. The successful conclusion of the Uruguay Round, notwithstanding, it is as unlikely that trade blocs will disappear as it is that international trade relations will return to their old pattern. Unique historical circumstances combined with changes in the nature of multilateralism have caused an irreversible erosion of confidence in the principles of multilateralism and laid the foundations for various forms of regionalism. Trading blocs are not the result therefore of some universal laws of capitalist development so much as they are the outcome of a complex web of coincidental historical, economic, and political circumstances.

Regionalism therefore represents a powerful process that, in tandem with globalization, is fundamentally transforming trade relationships in the world economy. Trading blocs will surely play an increasingly significant role in shaping this new form of international governance. Regionalism also has profound consequences for national modes of regulation. This does not imply, however, that multilateralism is any less relevant. On the contrary, the Uruguay negotiations provided a powerful boost to the multilateral mode of international regulation. Nevertheless, the new multilateralism is likely to be dominated by trilateralism between the largest trading blocs. The power relations between this triad will dominate future international relations. Countries outside these blocs will be relegated severally to bilateral negotiations with each bloc. Although an all-out trade war between the principal trading blocs is unlikely, the potential for conflict is increasing. The likely scenario in the medium term is a slow but persistent transformation of multilateralism coupled with increasingly unilateral and interventionist policies. The emerging forms of trade relations based on regionalism and trading blocs will, it seems, determine the nature of geoeconomic relations for the foreseeable future.

References


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