

relations among national economies, principally through the negotiations of border tariffs, it is now about establishing the ground rules of a transnational economy in areas that were once quintessentially domestic: standards and regulations, investment, and competition policy. Yet it is precisely because these issues cut deeply into traditional notions of sovereignty, and raise important questions about the fabric of our societies, that they are proving so difficult to resolve. Globalization is a great leveller. Fierce competition among economic systems, as well as among economies, is exerting huge pressure for structural convergence. In this sense, market forces may gradually blunt the sharper edges of system friction. But relentless pressure for harmonization will itself be a source of tension in the years ahead – as demonstrated by the way that the current debate over global capital markets or international labour standards is being played out at the domestic level. The concern is that regional integration may entrench systemic differences – in standards, in regulations, in competition laws – making these issues that much more intractable at the global level.

Efforts to resolve deeper systemic friction will, almost by definition, have to advance on an inter-regional – as much as an intra-regional – basis. Thus, a robust multilateral system remains of central importance, in part to manage relations among the blocs. Yet the question remains: how can the World Trade Organization play that role effectively – how can it continue to provide stability to the international order – if it is being overshadowed by increasingly integrated and powerful regional arrangements? The wider the gulf between multilateral and regional agreements, and the more fragmented the system, the more difficult it will be to identify a common ground of rules and procedures. The more our economic interests are defined regionally to the exclusion of the multilateral order, the more difficult it will be to assemble a critical mass of countries willing to move ahead. Although the Uruguay Round adequately addressed the issues of 1982, there is a growing need to address the issues of 1995 and beyond – a need that risks being filled by regional arrangements alone. The recent U.S.-Japan clash over automobiles reveals how powerless even a strengthened dispute settlement mechanism can be when it is not clear that the rules exist.

It is unlikely that any attempt to impose additional restrictions on the growth and structure of regional arrangements will by itself solve the issue of coherence in the global economic system. Nor is it clear that such restrictions are desirable when regionalism can be such a powerful engine of liberalization. A better approach would be to recognize that the fundamental issue is not regionalism itself but the need for the multilateral system to keep pace with global and technological change, and to concentrate on building a consensus to move ahead. At a minimum, there is a need to demonstrate progress on the "built-in agenda"