free trade in Central and Eastern Europe, North Africa and South America, while countries such as Canada, Australia, Chile, Brazil and others have been equally active players at the regional and sub-regional level. Many of these initiatives reflect a wider process of competitive liberalization – all are being driven by a private sector often well in front of the policy makers.

Regionalism has not slowed the advance of worldwide liberalization; it has accelerated it. The removal of barriers within regions has made member economies more competitive which, in turn, has made domestic industries and interest groups more willing to embrace additional global liberalization. Regional agreements have also been crucibles for innovation and experimentation, the results of which have frequently spilled over into other forums. Witness how the European Community's work on government procurement impacted on the Tokyo Round; or how the Canada-U.S.Free Trade Agreement's investment provisions influenced thinking in the Uruguay Round. Most important, regionalism has been a source of creative tension in the global system as a whole, forcing the pace of other regional and multilateral initiatives. It is not coincidental that the Kennedy Round moved forward with the creation of the European Community, the Tokyo Round with the Community's first enlargement, and the Uruguay Round with the Single Market initiative and with the NAFTA.

Yet the very dynamism of this process can also pose serious challenges to the coherence and stability of the global economy if regionalism begins to dwarf the more fundamental multilateral system. If we fail to answer how the blocs relate to one another and, more important, to the World Trade Organization, then there is a real danger that "Things fall apart." At a minimum, there are the unavoidable administrative problems generated by an increasingly tangled web of bilateral and regional trade agreements. Exporters already navigate a maze of preferential tariffs – tariffs which are often low to begin with, and which can impose transaction costs on businesses out of all proportion to the purported benefits to protected industries. Byzantine content requirements and restrictive rules of origin appear even more anomalous at a time when the global integration of production, distribution and investment is blurring the nationality of firms and products. How, for instance, can we presume to determine if a Canadian-built Honda automobile has 62.5 per cent domestic content when we cannot answer the basic question "Who is us"?

A more fundamental concern is the one identified by my distinguished compatriot, Sylvia Ostry: the issue of system friction. As we strip away external barriers to trade, we begin to expose societal differences – in our financial systems, legal norms, even governmental structures – which can influence market access. Where once trade policy was about regulating commercial