

is, they could reduce incentives to participate in multilateral liberalization. For instance, in the case of CAFTA, Central American countries may, in the short term at least, gain more from CAFTA than from a multilateral reduction in trade barriers.

**IMF SURVEY:** What lessons does your study hold for policymakers—both within the United States and abroad?

**YANG:** Let's start with policymakers abroad. First, it is clearly important to develop closer trading links with major partners, especially if they increase investment or encourage policy reforms that improve productivity. Second, care must be taken not to rely on preferential arrangements as a panacea because, over time, other countries may join and whittle away that preferential access. Third, countries should adopt policies appropriate to their specific conditions and development needs. For example, Latin American countries that rely on textile and garment exports should aim to streamline and improve domestic production to deal with upcoming global competition. This is a more durable solution than a temporary gain from preferential access to the United States.

For the United States, the lessons are similar. Moreover, given its size and leadership role, the United

States can set the tone in shaping regional arrangements that complement a more stable global system incorporating multilateral and nondiscriminatory lowering of trade barriers within a common set of rules. The global framework would allow for treatment of many issues, such as barriers to agricultural trade and antidumping, which have proved to be difficult to handle at the bilateral and regional levels.

Finally, policymakers should be aware that regionalism may not be in the interest of the world economy in the long run. The multilateral approach—with its key objective of eliminating discrimination in trade—has been a cornerstone of global prosperity since World War II. In a world of regionalism and bilateralism, we could end up in a prisoners' dilemma in which countries seek advantages over each other through discrimination ("competitive" regionalism), whose outcome would be in no one's interest. ■

Copies of IMF Working Paper No. 03/206, "The United States and the New Regionalism/Bilateralism," by Alvin Hilaire and Yongzheng Yang, are available for \$15.00 each. Please see below for ordering details. The full text is also available on the IMF's website ([www.imf.org](http://www.imf.org)).

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 ROSC=Report on the Observance of Standards and Codes

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