by this triad. Any country which closes itself off from trade affects the efficiency of the *world* trading system and economic welfare. The U.S., as a large, powerful and relatively self-sufficient nation, is a good example of a country whose lone actions have formidable balance of payments and welfare implications for the rest of the world.

Although some authors maintain that all other variables, such as geographic proximity, cultural ties, etc., must be controlled for when testing for a regional bias, this Paper does not discriminate among these effects.[3] It is not concerned with the causes of regionalization as a factor separate from regional economic growth which spurs intra-regional trade, but only with the extent of the intra-regional trade and *de facto* bloc formation. Indeed, isolating and quantifying the causes is difficult, requires many assumptions, and yields only weak conclusions. This Paper is concerned only with whether regional economic blocs, measured by trade and investment flows, are emerging, strengthening or weakening, and the implications for Canada.

2.2 Regionalization and trading blocs

Regionalization is often considered to be the opposite of globalization and counter-productive to it. In this light, trading blocs, as part of the phenomenon of regionalization, were deemed to be detrimental to globalization and a result of regional bias overriding global efficiency. The emergence of trading blocs was thought to be linked to a weakening of the multilateral system, and part of an entrenchment of a tri-polar power structure that would become increasingly centred around the U.S., Japan and Europe, to the detriment of smaller, weaker nations. However, regionalization and globalization need not be antitheses; they can be parallel reactions to the same economic stimuli. Regionalization could even be the logical result of increased globalization, not a defensive reaction against it.

When investigating regionalization, it is important to recognize that it is not always, nor must it necessarily be, a political or legal phenomenon. There is a difference between a *de jure* process driven by political forces and a natural, *de facto*,

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[3] Regional bias is the effect of regional economic agreements or other regionalism not explained by economic factors. If regional bias exists, then countries within the region will trade and invest more with each other than can be explained by such economic factors as comparative advantage, growth rates and geographic proximity. Since changes in intra-regional trade and investment shares capture all these economic effects, they are not a measure of regional bias.