

the inward orientation which the term "bloc" connotes, but of evolving trade centres with world-wide commercial interests.²

Membership in a bloc does not imply that there is either a formal or informal agreement, strategy or policy that includes some countries and excludes others; membership in a bloc can result from such uncontrollable factors as geographic proximity, natural transportation linkages, cultural biases, etc.. Blocs are not necessarily nefarious.

In the absence of a clear, accepted economic definition, this Paper broadly defines a trading bloc as a relationship within which a certain percentage of member countries' trade is with each other. This percentage is arbitrary, but relatively high. An emerging trading bloc would imply that member countries' trade with each other is increasing relative to their trade with the rest of the world. Increasing absolute levels of trade among the member countries do not indicate the emergence of a bloc if trade with the rest of the world is also increasing. It is the *share* in total trade that must be considered.

Blocs only emerge when economic interactions cross national boundaries within one geographic region and intra-regional international trade shares are high. This leads to the question of what differentiates the definition of a country from the definition of a bloc. Since the formation of national borders is political and arbitrary by nature, the definition of trading blocs is arbitrary as well. An economic and trade union, i.e, unification or harmonization of trade, fiscal and monetary policies, is automatically achieved within countries when they form. Therefore, the formation of blocs is somewhat of an artificial concept and concern since it deals only with trade between, and not within, nation-states and the welfare implications of only this type of regionalization of trade. When, or if, Europe becomes a complete economic union with unified monetary and fiscal policies, it will take on the economic appearance of being one country. The international community does not consider the threat of the U.S. (a confederation of somewhat independent states) being a large trading bloc in and of itself, with the same concerns the formation of a European trading bloc raises.

Nonetheless, the concern about emerging trading blocs is valid because there are potential negative welfare effects flowing from the development of a tri-polar economy centred around the U.S., Japan and Europe. However, the implications of limiting trade are not confined to a reduction in extra-regional international interactions

²N. Plessz, *The Economic Effects of Regional Integration*, OECD, TD/TC(93)15/ANN6, February 1994, pp.3-4.