In summary, we care about growing regionalization not because of trade effects, specifically, but because of the welfare effects they represent.[19] Generally, new theories and econometric techniques, though unreliable and dependent upon some unrealistic assumptions, have shifted the emphasis away from the trade diversion and terms of trade effects to the longer-run dynamic trade liberalization and real income effects. In this light, it becomes more likely that regionalization can be welfare increasing for the world as a whole and need not be counterproductive to global integration.

3. Some Evidence from the Literature

3.1 Introductory note

Studies which examine the phenomenon of blocs, both trade and investment, are surprisingly varied in focus, scope and hypotheses. Some econometric studies attempt to isolate the impact of regional bias separate from other economic factors, such as geographic proximity and relative growth rates of member economies . Some studies on the EU use different means to try to compensate for country accessions. Other studies examine raw data to track broad trends over time. These variations in methodology and focus lead to problems with comparing the conclusions of different

[19]It is difficult to measure accurately the welfare gains to member economies of a RTA. Plessz (1993) cites that Balassa (1967) estimated that the total net effect for the EEC was less then 0.1 per cent per annum of EEC GDP. Incorporating economies of scale in manufacturing industries, but still using essentially partial equilibrium analysis, Owens (1983) obtained much larger benefits, cumulatively totalling 3 to 6 per cent of the GDP of the EC-6. Plessz also cites other studies of the welfare effects of RTAs, finding that the common feature is that the welfare gains are quite small, even if the trade effects appear relatively important. This phenomenon can be attributable to the lack of realism of the assumptions of perfect competition and constant returns to scale of most of the models. More recently, computable general equilibrium (CGE) models which incorporate non-competitive market structures and scale economies, have estimated welfare gains for Canada involving Canada-U.S. integration that were 2-3 times higher than those obtained under perfect competition. These scenarios, however, are still considered to be unreliable. (N. Plessz, *op. cit.,* p.7.)

The popularity of imperfectly competitive models rests on the fact that they generate larger welfare gains, especially for smaller economies where competition is weak. The quantitative results, however, are very sensitive to specification of the models. "Consequently, they should be regarded as inductive thought experiments rather than reliable predictions but they have changed the perception of the benefits and costs of RTAs." (Lloyd, *op. cit.* pp. 26-7) Therefore, it is difficult to measure what welfare gains result from regional integration, even in the first order, and to determine who gains and who loses, if anyone, indirectly.