

implications are derived from the empirical evidence regarding trade and investment patterns and the findings revealed in the literature survey.

## 2. A Conceptual Framework

### 2.1 What is a trading bloc?

Although such international economic relationships as free trade areas, customs unions, common markets and economic unions are well-defined theoretically, the definition of a trading bloc is substantially more difficult to pin down. There are clear criteria that must be met in order for a group of countries to be considered part of a customs union or free-trade area, etc.. Many of these criteria are legal and policy-oriented. For example, for a free trade area, barriers to substantially all trade among members are removed, but each nation retains its own barriers to trade with non-members (the EFTA, for example). A customs union removes all barriers to trade among members and harmonises trade policies toward the rest of the world (the old EEC, for example). Although these definitions are oversimplified and theoretical, i.e., all barriers to trade among non-members might not be removed and there can be lengthy lists of exceptions and non-traditional barriers, there are at least definitional criteria with which to judge whether a group of countries more closely resembles a free trade area or a customs union.

A trading bloc, however, is not defined by policy positions or legal arrangements. The U.S.-Israel free trade agreement is a good example of a politically motivated, legal arrangement which does not constitute the formation of a bloc. The term "bloc" has been used loosely to refer to anything from a free trade area to complete economic and monetary union. A bloc implies a certain amount of exclusion of non-members that can either be a natural fallout of informal bloc formation or the result of more formal agreements. For example, the OECD differentiates between trading "blocs" and trading "centres" in the following way:

Strong trade growth in the regions which are home to the three largest traders - the European Community, the United States and Japan - in combination with important and dynamic inter-regional trade flows among the three, suggest a situation not of evolving trade blocs, with