4.2 Regionalization[55]

The degree of regionalization is measured by the share of intra-regional imports in total imports of the region from the world. It is important to note that, since imports are measured in value terms, price fluctuations can affect import shares.[56] The ratio measures what proportion of the region's trade is with itself, rather than with the rest of the world. *A high and increasing ratio of intra-regional trade would be indicative of strong and growing intra-regional trade transactions.* Since the denominator of the ratio is total imports of the region from the world, an increasing ratio implies that extra-regional imports are decreasing, *as a share of total imports*. This does not mean that the values or volumes of extra-regional and intra-regional imports cannot be growing at the same time. However, their shares of the total cannot both be growing. Therefore, if the intra-regional share is growing, the extra-regional share must be decreasing.

The ratio of intra-regional imports to total imports of the region from the world indicates whether trading blocs are emerging or growing by measuring whether countries within the region are forming closer trade ties and becoming increasingly integrated. The ratio does not measure what factors caused these blocs to form, but captures the results of all effects, economic, legal, political, etc.. Causation cannot be extrapolated from high ratios. For example, if the ratio for Europe is particularly high and growing, this may be the result of the strong *de jure* integration that has taken place since the 1950s. But the ratio itself does not determine this. The same high ratio might have been present in the absence of any regional integration

[55]This measure of regionalization applies to trade-related regional integration only. It ignores international investment-led integration. This can be an important omission, particularly as trade and investment become increasingly linked. International direct investment data are analyzed separately in section 5 of this Paper.

[56]Large swings in oil prices are the most problematic of the price effects. As the price of oil increased drastically in 1972 and 1979, so too would the value of imports from oil-producing countries. As Europe is heavily reliant on extra-regional oil imports, the effect of these price increases was to decrease the intra-regional import shares. The reverse is true when a substantial decrease in oil prices occurs, as was the case in 1986. Since North America is not nearly as reliant on oil imported from outside the region, its import shares are not as affected by large swings in oil prices as those of Europe and Asia.