

Executive Summary

The formation of regional economic blocs is seen by some as a potential threat to multilateral liberalization and to smaller trading nations, such as Canada. However, increasing polarization of the global economy around the "triad" of the United States, the European Union and Japan might not be as pervasive as is popularly reported, despite the emergence of policy driven regionalism in Europe and, more recently, in North America. Moreover, even if substantial regionalization of the world economy is occurring, this does not necessarily pose a threat to globalization or multilateralism.

After examining the questions of whether regional economic blocs are emerging and what the potential implications of regional economic integration are for globalization and economic welfare, this Paper reaches three fundamental conclusions:

- regional economic blocs, if measured by actual trade and investment patterns, are not as easily defined as is sometimes suggested by more visible concepts based on legal or policy arrangements;
- globalization and regionalization are not mutually exclusive concepts or polar opposites and regionalization does not necessarily imply net world welfare losses; and
- although there is evidence indicating the existence and possible emergence of powerful regional trading centres, rapid tri-polarization of the global economy is not yet evident to the extent that is popularly reported.

It is important to note that trade agreements do not imply trading blocs. It is possible to have a trading bloc without an agreement or to have an agreement without a bloc. Only economic factors determine economic blocs; by themselves, political and legal agreements are indicative only of political or legal integration. It is also important to understand that policy makers should not be concerned about the formation of economic blocs for any reasons other than their effects on welfare. For example, the trade effects of regionalization are important only because they affect welfare. Therefore, it should be understood that trading blocs, or other forms of economic regional integration are not, *de facto*, nefarious.

Regionalization and globalization are often thought of as being antitheses. However, they can be logical, mutual reactions to the same micro-economic stimuli. Regional integration agreements, like natural regionalization, need not be counter-productive to multilateral liberalization and, depending on the starting point, the welfare implications of such agreements might be positive even for countries outside