

1. Introduction

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. Increasing tri-polarization of global economic relationships around a triad composed of the United States, Japan and the European Union is accepted as conventional wisdom and much concern has been raised over regionalization outpacing globalization as the pervasive global economic force.¹ But, to what extent is the world economy really becoming tri-polarized?

There are many potential indicators of regional economic integration, two of which are examined in this Paper: trade and direct investment. Trade is the primary measure of regionalization used in this Paper for several reasons. Trade is an important measure of international economic success and competitiveness and changes in trade flows can have direct effects on global economic welfare. Since trade is an important part of international economic transactions, the formation of trading blocs is an important part of regionalization of global economic activity. Although answering the question of whether regional trading blocs are forming around the triad does not answer the broader question of whether tri-polarization of the world economy is indeed occurring, it does go part way towards providing an answer and is an indicator of the strength of regionalization as a whole.

Trade data are more reliable, comparable and available than international investment data. Conclusions based on data pertaining to intra-regional investment require particular caution. The effects of international direct investment on both domestic employment and trade in both the home and host country are not well understood and are highly industry and case specific. Therefore, the welfare implications of trade regionalization are better understood and have been studied more closely than those of regionalized international direct investment, and it is these welfare effects which are the crux of whether regionalization should be a concern to policy makers. Since some welfare effects of international direct investment filter through trade, investigating trade patterns captures some of the effects of international investment.

¹For example, S. Ostry, *Governments and Corporations in a Shrinking World*, 1990, outlines the popular concerns about regionalism and regional trading blocs, and C. McMillan, "Globalization: Multilateral vs. Regional Approaches to Trade Policy", in *Business and the Contemporary World*, Vol. VI., No. 3, 1994, is an example of the view that multilateralism is under threat from the increasingly powerful triad.