

powerful, "warring" trading blocs. The growth of inter-regional trade over the last decade has been about as strong as intra-regional trade and there is considerable argument that, in any case, the formation of "natural" or *de facto* trading blocs is not likely to have detrimental effects on global trade.⁷

2.3 Why are we concerned with blocs?

There is a concern among policy makers and economists that the regionalization of trading relations could pose a threat to multilateral liberalization. This concern has become more prevalent following such events as the EU's pursuit of the Single Market, the Canada-U.S. FTA and the NAFTA. The main concern focuses on the erosion of the principle of non-discrimination and the danger of trade wars between the blocs in which smaller, less powerful trading nations, would be adversely affected.⁸ Most of these concerns are underpinned by concerns for economic welfare and efficiency.

Obviously, if regionalism and regionalization were considered to be pareto superior to multilateral free trade and globalization, there would be no concern over their welfare effects.⁹ The fact that multilateralism is believed to be the most efficient and beneficial route to follow in negotiating international trade rules leads to the concern over increasingly powerful blocs that would divide the world into three separate spheres of influence, diminishing world welfare and economic efficiency. This might not, however, be the case. There is a significant body of work that indicates that regional agreements might be complementary to multilateral agreements.¹⁰ They might act as "test beds" which go further and faster in liberalizing than multilateral agreements could have. These agreements can then pave the way for further multilateral liberalization. Even if regional agreements are thought to substitute for multilateral agreements, and therefore to be counter-productive to broad liberalization, if there is little hope of achieving a multilateral agreement as

⁷*Ibid.*, p. 28.

⁸P. Lloyd, "Regionalisation and World Trade", *OECD Economic Studies*, No. 18, Spring 1992, p. 8.

⁹If regionalization were accepted to be pareto superior to multilateralism and globalization, this would imply that it was the welfare-enhancing economic arrangement. An economic arrangement is considered pareto superior if at least one agent is made better off, and no agent is made worse off, by it. Every agent must be at least as well off as before the arrangement.

¹⁰For example, Lawrence, *op. cit.*, Lloyd, *op. cit.* and Oman, *op. cit.*