

economic phenomenon driven by the same microeconomic forces which drive globalization.⁴

As a *de jure* phenomenon, regionalization can be implemented through different methods, such as preferential trade agreements, customs unions and deeper economic integration leading up to, and including, the formation of a single country.⁵ As a *de facto* process, regionalization is driven by economic forces such as international competitiveness and cost minimization. Like *de jure* regionalization, *de facto* regionalization can strengthen the region's growth, and stimulate extra-regional trade and investment as well as intra-regional trade and investment.

De facto economic integration can either precede *de jure* integration, result from *de jure* integration or be maintained independently of *de jure* regional integration. The Canada-U.S. free trade agreement is one example of considerable *de facto* integration preceding *de jure* integration, at least from the Canadian perspective. The history of the early EEC furnishes an example of a *de jure* regional agreement facilitating considerable *de facto* integration.⁶ Economic integration, however, need not be related to *de jure* measures and *de jure* agreements are not needed in order for trading blocs to develop. For example, it was the private sector that led economic integration in the Asia-Pacific where there continues to be a lack of *de jure* regional ties, despite considerable *de facto* integration. However, it is likely that, in future, *de facto* integration will increasingly lead to formal *de jure* relationships, because of the need for stability in the international economic environment in which multinational firms increasingly operate and invest.

From a game theory perspective, there are two very distinct views on whether trading blocs reinforce or deter trade liberalization in general. Some theorists argue that a smaller number of players, i.e., three regional blocs, would make cooperative solutions easier to reach compared to negotiations that included over 100 countries as parties to the GATT/WTO. This is the "building block" hypothesis. The opposite view is that the ability of powerful players within blocs to benefit if inter-bloc bargaining fails, makes cooperative solutions less likely. This is the "stumbling block" hypothesis. It is worth noting that the trade data do not substantiate the fears of

⁴C. Oman, *Globalisation and Regionalisation: The Challenge for Developing Countries*, OECD, 1994, p. 16.

⁵The pursuit of this type of *de jure* regionalization can be called regionalism.

⁶Oman, *op. cit.*, p. 67.