



## Chapter 6

# Regional Economic Integration

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### Learning Objectives

- **The learning objectives for this chapter are to:**
  - Describe the different levels of regional economic integration.
  - Understand the economic and political arguments for regional economic integration.
  - Understand the economic and political arguments against economic integration.
  - Explain the history, current scope, and future prospects of the world's most important regional economic agreements.
  - Understand the implications for business that are essential in regional economic integration agreements.

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## What Is Regional Economic Integration?

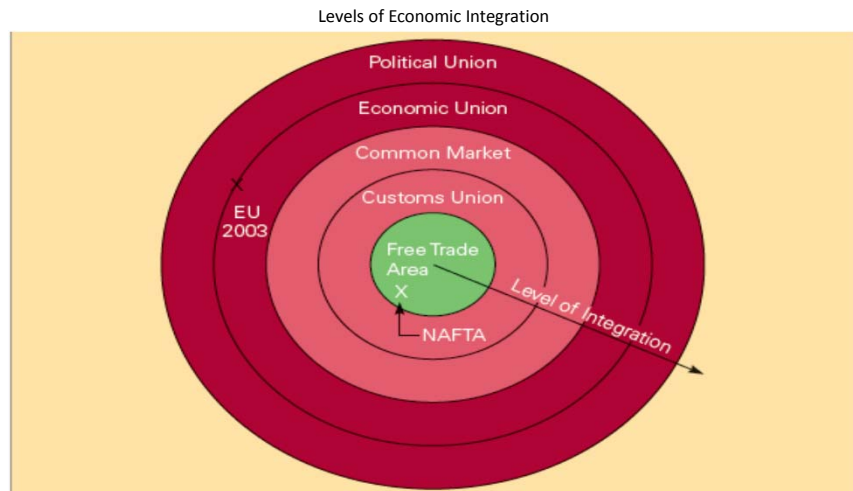
- **Regional Economic Integration:** agreements between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each others.
- Over the last two decades, the number of regional trade agreements has been on the rise, *More than 500 agreements are currently in place.*

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- **Question:** *Is regional economic integration a good thing?*
- Answer:
  - In theory, Yes . Regional economic integration benefits all members.
- **But:**
- There is some concern that the world is moving toward a situation in which a number of regional trade blocks compete against each other.
  - In this scenario, the gains from free trade *within blocs* could be offset by *a drop in trade between blocs*

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## What Are The Levels of Regional Economic Integration?



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## What Are The Levels of Regional Economic Integration?

- **Free Trade Area (FTA):**
  - removes tariffs among members
  - members retain own trade policies toward others
- **Customs Union (CU):**
  - Common trade policy toward others
- **Common Market (CM):**
  - eliminates intra-market factor of production movements
- **Economic Union (EU):**
  - full integration of member economies (common policy)
- **Political Union:**
  - political and economic integration

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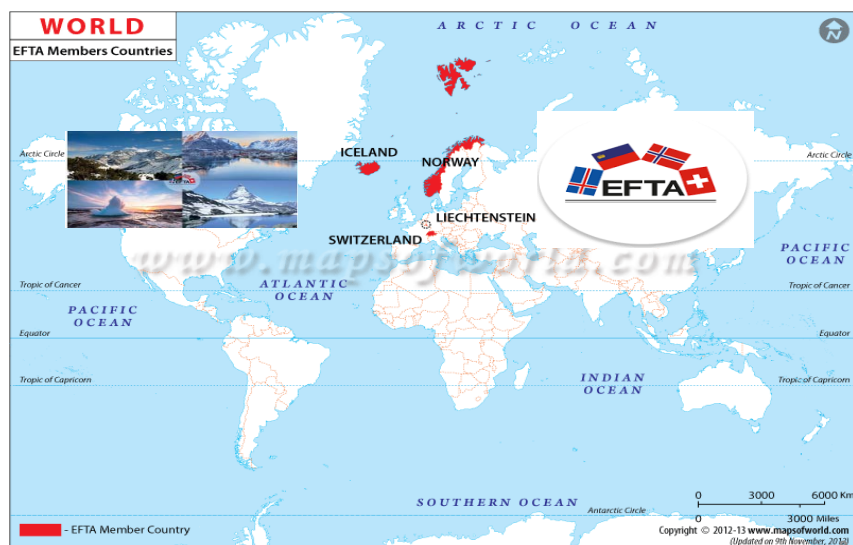
**1. Free Trade Area:** Eliminates all barriers to the trade of goods and services among member countries.

- Removes tariffs among members.
- **Members keep own trade policies toward others.**

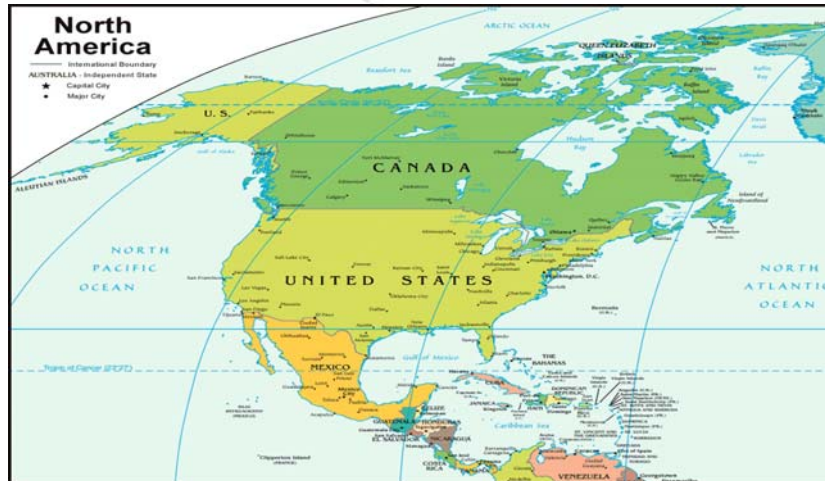
**European Free Trade Association (EFTA) :** Norway, Iceland, Liechtenstein, and Switzerland.

**North American Free Trade Agreement (NAFTA):** USA, Canada, and Mexico .

### European Free Trade Association (EFTA)



## North American Free Trade Agreement (NAFTA)



**2. Customs Union:** Eliminates trade barriers between member countries, and

- adopts a common external trade policy.

- **Andean Community** (Bolivia, Columbia, Ecuador, and Peru)

**3. Common Market :** has no barriers to trade between member countries, a common external trade policy, and the free movement of the factors of production.

- **Gulf Cooperation Council (GCC)**

## Andean Community



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

















### 4. Economic Union :

- has the free flow of products and factors of production between members,
- a common external trade policy,
- a common currency,
- a harmonized tax rate, and
- a common monetary and fiscal policy.

– European Union (EU)

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## 28 European Union Member Countries

 Austria	 Belgium	 Bulgaria
 Croatia	 Cyprus	 Czech Republic
 Denmark	 Estonia	 Finland
 France	 Germany	 Greece
 Hungary	 Ireland	 Italy
 Latvia	 Lithuania	 Luxembourg
 Malta	 Netherlands	 Poland
 Portugal	 Romania	 Slovakia
 Slovenia	 Spain	 Sweden
 United Kingdom		

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## 5. Political Union :

- **Same Economic Union plus (EU+) :**
  - Coordinate the economic, social, and foreign policy of member states.
    - USA
    - UAE

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### Arguments supporting Regional Integration

- There are both economic and political arguments supporting regional economic integration.
- Generally, many groups within a country fight against the idea of economic integration.

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## Economic Case for Integration

- *Economically*, Regional economic integration is an attempt to achieve additional gains from the free flow of trade and investment between countries beyond those achievable under international agreements such as the WTO.
- Since it is easier to form an agreement with a few countries than across all nations, there has been a push toward regional economic integration .

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## Political Case for Integration

- *Politically*, Linking countries together, making them more dependent on each other:
  - Creates motivations for political cooperation, and reduces the probability of aggressive conflict.
  - Gives countries greater political power when dealing with other nations.

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## Obstacles to Integration

- There are two main obstacles to integration:
  1. It can be costly - while a nation as a whole may benefit from a regional free trade agreement, certain groups may lose.
  2. It can result in a loss of national autonomy.

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## What Is The Status of Regional Economic Integration In Europe?

- Europe has two trade blocs:
  1. The [European Union \(EU\)](#) with 28 members
  2. The [European Free Trade Area \(EFTA\)](#) with 4 members.  
[Iceland](#), [Liechtenstein](#), [Norway](#), [Switzerland](#).
- The **EU** is seen as the world's next economic and political superpower of the same order as the United States, USA.

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## What Is The Political Structure of The European Union?

- **The Main Institutions in The EU Include:**
  1. The **European Council** - the ultimate controlling authority within the EU
  2. The **European Commission** - responsible for recommending EU legislation, implementing it, and monitoring compliance with EU laws by member states
  3. The **European Parliament** - debates legislation proposed by the commission and forwarded to it by the council.
  4. The **European Court of Justice**

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## What Is The Status of Economic Integration In The Americas?

- The biggest effort is the North American Free Trade Area (NAFTA).
- **NAFTA :**
- An agreement that came into effect in January 1994 between the **US, Canada, and Mexico** to remove barriers to trade between the three countries over a ten-year period.

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## Why NAFTA?

- **USA-Canada** is world's largest trading relationship.
- USA is Mexico's largest trading partner.
- Mexico, USA's third largest trading partner.

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## Benefits of NAFTA

- **Benefits of NAFTA :**
  - Eliminated tariffs on 99% of the goods traded between members.
  - Removed barriers on the cross-border flow of services.
  - Protects intellectual property rights.
  - Removes most restrictions on FDI between members.
  - Allows each country to apply its own environmental standards.

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❖ **Question:** What are the problems of NAFTA?

Answer:

- Jobs could be lost and wage levels could decline in the U.S. and Canada.
- Mexican workers could emigrate north.
- Pollution could increase due to Mexico's more weak standards
- Mexico would lose its sovereignty.

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• **Question:** How successful has NAFTA been?

○ Answer:

- Studies of NAFTA's early impacts showed good results :
  - Trade between the three countries increased by 250%
  - The members have become more integrated.
  - Productivity has increased in member nations .
  - Employment effects have been small.
  - Mexico initially became more politically stable, but drug related violence remains a problem.

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## What Is The Andean Community?

- **The Andean Pact :**
- A trade association formed in 1969 by the South American countries of **Bolivia, Columbia, Ecuador, and Peru.**
- that aimed to develop industry in the area.
  - Formed in 1969 using the EU model.
  - Was re-launched in 1990, and now operates as a **Customs Union.**
  - Renamed the **Andean Community** in 1997.

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## What Does Economic Integration Mean For Managers?

- **Regional economic integration:**
  - Opens new markets.
  - Allows firms to realize cost economies by centralizing production in those locations where the mix of factor costs and skills is the best.
- **But**
  - Within each grouping, the business environment becomes competitive.

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## Implications for Managers

- **Question:** Why is regional economic integration important to international companies?
- ✓ **Answer:**
  - Regional economic integration means that markets that had been protected from foreign competition are increasingly open
    - EU and NAFTA
  - **But**
    - Within each grouping, the business environment becomes competitive.