



Chapter 4

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?

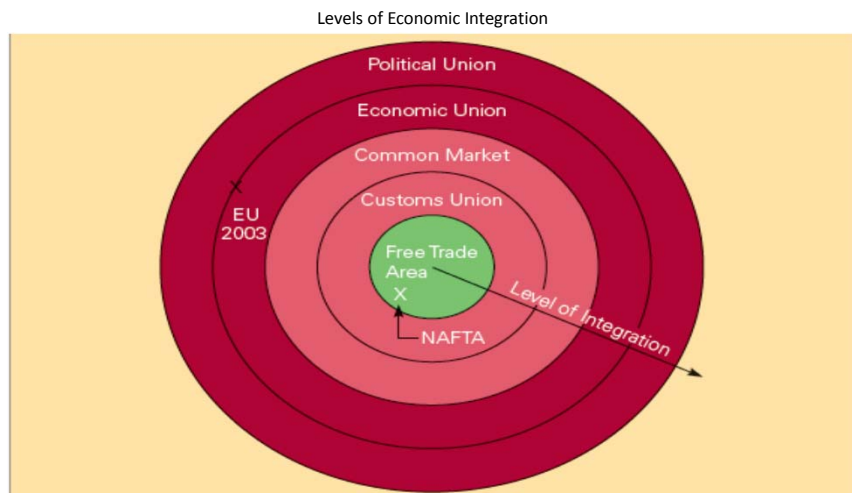
- **Regional Economic Integration:** agreements between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each others.
- Over the last two decades, the number of regional trade agreements has been on the rise, *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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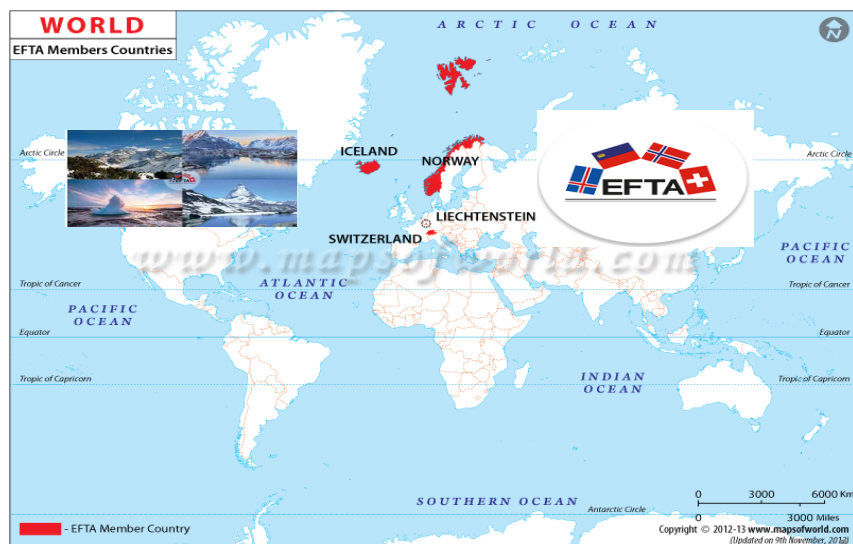
1. Free Trade Area: Eliminates all barriers to the trade of goods and services among member countries.

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

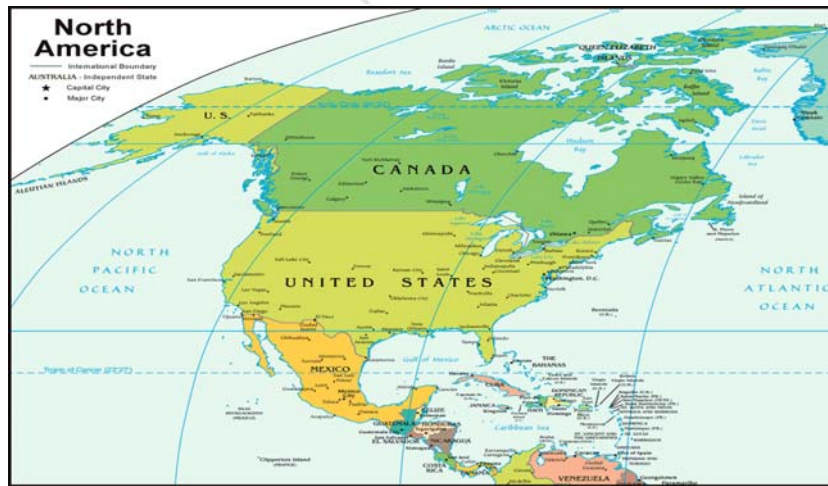
European Free Trade Association (EFTA) : Norway, Iceland, Liechtenstein, and Switzerland.

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 with other countries .
 - **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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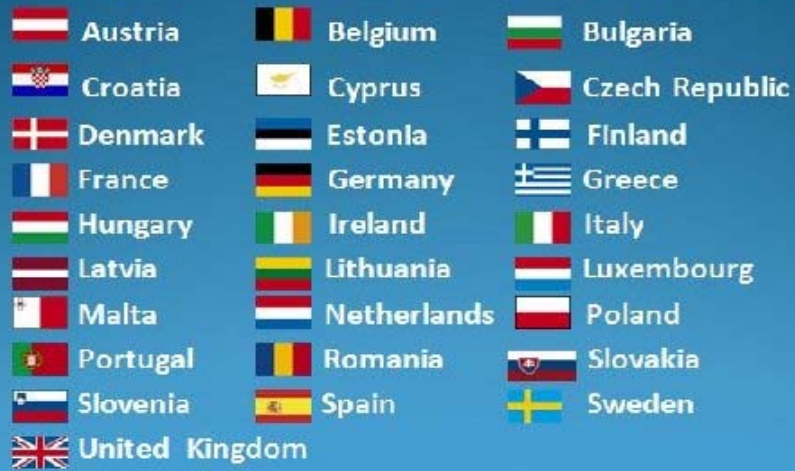
4. Economic Union :

- 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



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5. Political Union :

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

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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.
(WORLD TRADE ORGANISATION) •
- 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.