Regional Economic Integration (REC)

Regional Economic Integration ~~refers~~ to, the agreements among countries in a geographic region to reduce & ultimately remove tariff and non-tariff barriers to the free flow of goods, services and factors of prodn b/w each other.

~~GATT & WATT~~ GATT & WTO also seek to reduce trade barriers, but WTO has a worldwide perspective. By entering into regional agreements groups of countries aim to reduce trade barriers more rapidly than can be achieved under the auspices of the WTO.

Market integration is the extent to which one or more seperated markets combine to form a single market with increased flows of goods, services, capital & labour. Key to market integration is elimination of tariffs, policies, quotas, etc.

Levels of Economic Integration

1) Free Trade Area ⇒, all barriers to ~~free~~ trade of goods and services among member countries are removed. In the theoretically ideal free trade area, no discriminatory tariffs, quotas,

Trans-Pacific Partnership (TPP) - would have replaced NAFTA as the world's largest agreement. In 2017 President Trump withdrew the US from it.

subsidies or administrative impediments are allowed to distort trade b/w members. Each country however is allowed to determine its own trade policies with regard to nonmembers. Thus, the tariffs placed on the products of nonmember countries may vary from member to member. It is the most basic form of (REC)

eg NAFTA → North American Free Trade Agreement - members, created on 1st Jan, 1994. Yet NAFTA has remained a perennial target in the broader debate over free trade. President Trump says it has undermined US jobs & manufacturing and in October 2018, his administration struck a deal with Canada & Mexico on an updated version of the pact, to be known as the US Mexico - Canada Agreement, or USMCA.

EFTA - European Free Trade Association
Iceland, Liechtenstein, Norway & Switzerland
1960

DR-CAFTA → Costa Rica, Dominican Republic, El Salvador, Gautemala, Honduras & Nicaragua
DR - Central America - US FTA in 2006
DR was added in 2007
Costa Rica - 2009

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→ Free Trade Area
→ Customs Union
→ Common Market
→ Economic Union
→ Political Union

India – MERCOSUR PTA
India – Sri Lanka
SAARC → SAPTA → SAFTA (South Asian Free Trade Area)
1995 2006

2) Customs Union
The customs union is one step farther along the road to full economic & political integration. A Customs union eliminates trade barriers b/w member countries & adopts a common external trade policy. This typically takes the form of a common external tariff where exports from non members are subject to the same tariff when sold to any member country. Tariff revenues are shared among members according to a predetermined formula.
eg. EU began as a customs union & has moved beyond this stage.
~~Andean Pact~~ Andean Pact – Bolivia, Colombia, Ecuador, Peru 1969
SACU – South African Customs Union → Botswana, Lesotho, Namibia, SA, Swaziland 1910 – world's oldest
~~Mercosur Accord~~ –

3) Common Market – further along the spectrum of economic integration is the common market which has no barriers to trade among members and a common external trade policy.

In addition to this, there is free mobility of the factors of prodn, including labour, capital & technology among member countries. Thus restrictions on immigration & emigration & cross border investments are abolished. Establishing a common market demands a significant degree of harmony and cooperation on fiscal, monetary and employment policies. Achieving this degree of cooperation has proven very difficult. For years, the EU worked as common market, although it has now moved beyond this stage.

Mercosur Accord - Argentina, Brazil, Paraguay, Uruguay and Venezuela, 1991 (but could attain only limited success)

4) Economic Union - An economic union entails even closer economic integration & cooperation than common market. Like the common market, an economic union involves the free flow of products & factors of prodn. b/w member countries & the adoption of common external trade policy but it also requires common currency, harmonisation of members tax rates and a common monetary & fiscal policy. In simple words, Economic Union is a common market which has unified fiscal &

monetary policies. The formation of an economic union implies giving up a significant portion of national sovereignity and a coordinating beuracracy. EU is an economic union with euro as common currency (European Union) though it an imperfect one because all countries of EU has not adopted euro as common currency (19 out of 28 only adopted Euro). Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Sweden - exceptions. Denmark, United Kingdom → kept their currency.

5) Political Union - The political union is the final stage of integration, which requires participating nations to become unified in both an economic & political sense. It involves the establishment of a common parliament & other political institutions. EU is on the road toward at least a partial political union. The European Parliament, which is playing an even more imp. role in the EU has been directly elected by citizens of EU countries since the late 1970s. In addition the council of Ministers, the controlling decision making body of EU is composed of ministers from each EU member

Case for Economic Integration

Economic | Political

Economic Case for Integration

Economic case for regional integration is straightforward. Economic theories of IT predict that unrestricted free trade will allow countries to specialise in the prodⁿ of goods & services that they can produce most efficiently → resulting in ↑ed world prodⁿ than would be possible with trade restrictions.

- Stimulates Economic Growth
- Reduced Import Prices
- ↑ed FDI → transfer technological, marketing & managerial know how to host nations.
- Economies of scale – with ↑ed market size
- Improved position for trading block
- Higher factor productivity

Another imp. benefit is trade creation – given by Jacob Viner. Trade creation is the benefit that a member country of a customs union gets in the form of increased exports due to elimination of tariff barriers. He explained this by taking example of ~~the~~ United States & Spain

Both wheat producers & exporters subject to common tariff but the cost of prodn was lower in US than in Spain. Spain joined EU - which led to elimination of barriers its products were no longer subject to the common external tariff which non-members had to pay. Now exports of Spain to EU countries costs less than US. This resulted in ↑ed exports from Spain to other EU countries. This benefit of ↑ed exports to Spain as a result of its EU membership is trade creation.

But at the same time, the trade b/w cost effective US & EU declined. When the source of trading competitiveness shifts in this manner from one country to another, it is known as trade diversion.

So Trade creation results in lower prices for consumers of Member nations, the trade diversion on the other hand shifts the competitive adv. from once low cost producer to high cost producer. Hence while economic integration benefits both producer & consumer of member nations, it has a negative impact on other global producers & their exports.

Economic integration is therefore beneficial to members but not non members.

~~Trade D~~
Despite the arguments in favour of REC, the real benefits depend upon when the amount of trade creation exceeds trade diversion.

Trade Deflection – another term but applied only to FTA & not other levels
The goods produced in non member nations find their way into FTA via the member country that has the lowest tariff.

Political
- Political cooperation reduces potential for violent conflict
- By grouping, the countries can enhance their political weight in the world.

Costs.
- Trade Deflection & Diversion
- Loss of national sovereignity
- Polarisation of benefits leading to intra-regional inequality