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Regional Groupings : Issue of free trade

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Forming a regional grouping is an important step in International Economics, monetary and trade integration. Both protectionist and unbridled free traders want that there should be universal economic integration through free trade protectionist have always considered national economic integration as the most important aim of commercial Policy . Regional, grouping is a compromise it aims at regional level economic integration. All international institutions have proved to be in adequate to do the work of polishing and enforcing agreement on global free trade . Hence regional trading. Blocks have received great attention in recent years.

Regional economic integration has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbours. There are four types of regional economic integration which is as follows:

1. **Free trade area :-** This is the most basic form of economic Cooperation. member countries remove all barriers to trade between themselves but are free to independently determine trade policies with non member nations. An example is the North American Free Trade Agreement (NAFTA).
2. **Custom union:-** This type provides for economic cooperation as in a free trade zone. Barriers to trade are removed between member countries. the primary difference from the free trade area is that members agree to treat trade with non member countries in a similar manner.[1]
3. **Common market :-** This type allows for the creation of economically integrated markets between member countries. Trade barriers are removed, as are any restrictions on the movement of labour and capital between member countries. Like customs union, there is a common trade policy for trade with non member nations. The primary advantage to workers is that they no longer need a visa or work permit to work in another member country of a common market. An example is the common market for eastern and southern Africa (COMESA). [2]
4. **Economic union: -** This type is created when countries enter into an economic agreement to remove barriers to trade and adopt common economic policies. An example is the European Union (EU).[3]

In the past decade, there has been an increase in these trading blocks with more than one hundred agreements in place and more in discussion. A trade block is basically a free trade zone, or near-free-trade zone, formed by one or more tax, tariff, and trade agreements between two or more countries. Some trading blocks have resulted in agreements that have been more substantive than others in creating economic cooperation. Of course, there are pros and cons for creating regional agreements.

Pros

The pros of creating regional agreements include the following :

- **Trade creation: -** these agreements create more opportunities for countries to trade with one another by removing the barriers to trade and investment. Due to a reduction or removal of tariffs, cooperation results in cheaper prices for consumers in the block countries. Studies indicate that regional economic integration significantly contributes to the relatively high growth rates in the less-developed countries.
- **Employment opportunities:-** By Removing restrictions on labor movement, Economic integration can help expand job opportunities.
- **Consensus and cooperation: -** Member nations me find it easier to agree with smaller numbers of countries. Regional understanding and similarities may also facilitated closer political cooperation.

Cons

The coins involved in creating regional agreements include the following:

- Trade diversion: - The flipside to trade creation in street diversion. Member countries may trade more with each other than with non member nations. This may mean increased trade with a less efficient or more expensive producer because it is an member country. In this sense, weaker Companies can be protected inadvertently with the block agreement acting as a trade barrier. In essence, regional have formed new trade barriers with countries outside of the trading bloc.
- **Employment shifts and reductions :-** Countries may move production to cheaper labour markets in member countries. Similarly, workers may move to gain access to better jobs and wages. Sudden shifts in
- employment can text the resources of member countries.
- **Loss of national sovereignty :-** With each new round of discussions and agreements within a regional bloc, nations may find that they have to give up more of their political and economic rights. in the opening case study, you learned how the economic crisis in Greece is threatening not only the EU in general but also the rights of Greece and other member nations to determine their own domestic economic policies.

Regional trading arrangements are pursued for variety of reasons. A motivation of every regional trading arrangements have been the prospects of enhanced economic faster specialization and learning by doing, and attract foreign investments.

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there are more than 100 regional trade agreements in place, A number that is continuously involving as countries with reconfigure their economic and political intersect in priorities. Smaller nations may seek safe heaven trading arrangement with larger nations when future access to the larger nations market appears uncertain. This was an apparent motivation for the formation of NAFTA. In 1988, The United States and Canada signed the United States Free trade agreements shortly after it was approved and implemented, The United states started to negotiate a similar agreement with Mexico. When Canada asked you to be party to any negotiations to preserve its rights under the most favoured nation clause (MFN), the negotiations began for NAFTA, was finally signed in 1992 and implemented in 1994.

The goal of NAFTA Has been to encourage trade between Canada, The United states, and Mexico. By reducing tariffs and trade barriers, the countries hope to create a free trade zone where companies can benefit from the transfer of goods. in the 1980s Mexico had tariffs as high as 100% on select goods. Over the first decade of the agreement, almost all tariffs between Mexico, Canada, and the United states were phased out.

The rules governing origin of content Key to NAFTA. As a free trade agreement, the member countries can establish their own trading rules for non member countries.NAFTA'S Rules ensure that a foreign exporter wan't just ship to the NAFTA Country with the Lowest tariff for non member countries. NAFTA Rules require that at least 50% of the net cost of most products must come from or be incurred in the NAFTA region. There are higher requirements for footwear and cars. For example, this origin of contain rule has ensured that cheap Asian manufacturers would not negotiate lower tariffs with one NAFTA country, such as Mexico, and dump cheap products into Canada and United States. Mexican maquiladoras have fared well in this arrangement by being the final production stop before entering the United states or Canada. Maquiladoras are production facilities located in border towns in Mexico that take imported materials and produce the finished good for export, primarily to Canada or the United states.

Other trade agreements with the Americas:-

CARICOM and Audean community –

The Caribbean community and common market (CARICOM), Or simply the Caribbean community, was formed in 1973 by countries in the Caribbean with the intent of creating a single market with the free flow of goods, services, labour end investment.[4] The Indian community(Called the Indian pact until 1996)[5] is a free trade agreement signed in 1969 between Bolivia, chille, Columbia,Aquador and Peru. eventually chile dropped out, while Venezuela joined for about 20 years and left in 2006. This trading block had limited impact for the first 2 decades of its existence but has experienced renewal of interest after MERCOSUR'S Implementation. In 2007, MERCOSUR Members became associate members of the Andean community, And more cooperative interaction between the trading groups is expected.[6]

CAFTA-DR

The Dominican Republic – Central America United States free trade agreement (CAFTA-DR) Is a free trade agreement signed into existence in 2005. Originally, the agreement(Then called the Central America free trade agreement, or CAFTA) Encompassed discussions between the US and the Central American countries of Costa Rica, El salvador , Guatemala, Honduras and Nicaragua. A year before the official signing, the Dominican Republic joined the negotiations end the agreement was renamed CAFTA-DR .[7]

The goal of the agreement is the creation of a free trade area similar to NAFTA. For free trade advocates, the CAFTA-DR is also seen as the stepping stone toward the eventual establishment of the free trade area of the Americas (FTAA) The more ambitious grouping for a free trade agreement that would encompass all the South American and Caribbean nations as well as those of north and Central America. Canada is currently negotiating a similar treaty called the Canada Central American free trade agreement. It is likely that any resulting agreements will have to reconcile differences in rules and regulations with NAFTA As well as any other existing agreements.[8]

Europe : EU :-

The European Union is the most integrated form of Economic Cooperation the EU originally begin in 1952 and the frequent wars between neighboring countries in the Europe. The six founding nations were France, West Germany, Italy and the Benelux countries all of which signed a treaty to run their coal and steel industries under a common management. The focus was on the development of the coal and steel industries for peaceful purpose.

In 1957, the 6 Nations signed the Treaty of Rome, which established the European Economic Community and created a common market between the members, over the next 50 years, the EEC added 9 more members and change its name twice to European Community in the 1970s and the European Union in 1993.[9]

The entire history of the transformation of the east to the EU has been an evolutionary process. However, The Treaty of masters in 1993 stands out as an important movement; It's when the real economic union was created, with this treaty, the EU identified three aims. The first was the establish a single, common currency which went into effect in 1999. The second was to set up monetary and fiscal targets for member countries. Third, The treaty called for a political union, Which would include the development of a common foreign and defence policy and common citizenship. The opening case study addressed some of the current challenges the EU is facing as a result of the impact of these aims. Despites the challenges, the EU is likely to endure given it's historic legacy. Furthermore, a primary goal for the development of the EU was the Europeans realised that they needed a larger trading platform to compete against the US and the emerging markets of China and India. Individually, the European countries would never have the economic power they now have collectively as the EU.

Today, the EU has 27 member countries. Croatia, Iceland, Macedonia, and Turkey are the next set of candidates for future memberships. In 2009, the 27 EU countries signed the Treaty of Lisbon, which amends the previous treaties. It is designed to make the EU more democratic, efficient and transparent and to tackle global challenges, such as climate change, security, end sustainable development.

The European Economic Area was established on January 1 , 1994,Following an agreement between the member states of the European free trade association and the EC. Specifically, it has allowed Iceland, Liechtenstein and Norway to participate in the EU's single market without a conventional EU membership. Switzerland has also chosen to not join the EU, although it is part of similar Bilateral agreements.

CEFTA :-

Central European free trade agreement is a trade agreement between non EU countries in central and southern Europe, which currently includes Albania, Bosnia and Herzegovina, Croatia, Macedonia, Moldova, Montenegro, serbia and United nation interim administration mission on behalf of Kosovo all of whom joined in 2006.[10]

Originally signed in 1992 cefta's Founding members visegras group, also called the visegard four or V4 ,Witch is an alliance of four central European states the Czech Republic hungry, Poland, and Slovakia. All of the visegard group has relatively developed free market economics and have formal ties.[11]

Many of the central European nations have left CEFTA to become members of the EU. In fact CEFTA Has served as a preparation for full EU membership and large proportion of CRFTA Foreign trade is with EU countries, Poland the suzech Republic, hungry, Slovakia and Slovenia joined the EU on may 1 ,2004, With Bulgaria and Romania following suit on January 1. 2007.[12] Croatia and Macedonia are in the process of becoming EU members.[13]

In 2002 ASEAN And China signed a free trade agreement that went into effect in 2010 as the ASEAN China free trade area. In 2009, ASEAN and India also signed the ASEAN India free trade agreement. In 2009, ASEAN signed a free trade agreement with New Zealand and Australia. It also hopes to create an ASEAN Economic Community by 2015.[14] While the focus and function remains in discussion, the intent is to forge even closer ties among the 10 member nations, enabling them to negotiate more effectively with global powers like the EU and the United states.[15]

Asia : APEC :-

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The Asia Pacific Economic Cooperation was founded in 1989 by 12 countries as an informal forum. It now has 21 member economies on both sides of the Pacific Ocean. APEC Is the only regional trading group that uses the term member economies, rather than countries, indifferences to China. Taiwan was allowed to join the forum, but only under the name Chinese Taipei.[16]

As result of the Pacific Ocean connection, The geographic grouping includes the United states, Canada, Mexico, chile, Peru, Russia, Papua new Guine, New Zealand and Australia with their Asia Pacific rim counterparts.[17] This assortment of economies and cultures has, at times, made for interesting and heated discussions. Focused primarily on economic growth and cooperation, the regional group has met with success in liberalizing and promoting free trade as well as facilitating business, economic and technical cooperation between member economies. With Doha round of the WTO dragging, APEC Members have been discussing establishing a free trade zone. Given its broader membership than ASEAN, APEC Has found good success once its member countries agree. The 2 organization often share common goals and seek to coordinate their efforts.

How do these trade agreements and efforts impact business? :-

Overall, global business have benefited from the regional trade agreements by having more consistent criteria for investment and trade as well as reduced barriers to entry. Companies that choose to manufacture in one country find it easier and cheaper to move goods between member countries in the trading block without incurring tariffs or additional regulations.

The challenges for business include finding themselves outside of a new trading block or having the "rules" For their industry change as a result of new trade agreements. Over the past few decades, there has been an increase in bilateral and Multilateral trade agreements. It's often called a "spaghetti bowl" Off global bilateral and multilateral trade agreements, because the agreements are not linear distance learning up nearly; Instead they are a messy mix of crisscrossing instruments, like a bowl off spaghetti, that link countries and trading blocks in self benefiting trading alliances. Business have to monitor and navigate these evolving trade agreements to make sure that one or more agreements do not negatively impact their business in key countries. This is one reason why global business have teams of in-house professionals monitoring the WTO as well as the regional trade alliances.

For example, American companies doing business in one of the ASEAN Countries often choose to become members of the US-ASEAN Business Council, so that they can monitor and possibly influence new trade regulations as well as advance their business interests with governments entities.

The US – ASEAN Business Council is the premier advocacy organization for us corporations operating within the dynamic association of Southeast Asian nations. ASEAN represents nearly 600 million people and a combined GDP of USD $1.5 trillion across Brunei Darussalam, Cambodia, Indonesia, Laos, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The councils members include the largest U.S. companies working In ASEAN And range from newcomers to the reason to companies that have been working in South East Asia for over 100 years…..

The council leads major business missions to key economies convince multiple meeting with ASEAN heads Of state and ministers, end is the only U.S. organization to be given the privilege of raising member company concerns in consultations with the ASEAN Finance and economic ministers, as well as with the ASEAN Customs directors general at their annual meetings. having long established personal and professional relationship with key ASEAN Decision makers, the council is able to arrange genuine dialogues, solve problems and facilitate opportunities in all types of market conditions, and provide market entry and exclusive advisory services.[18]

Issue of free trade :-

Trade liberalization under a regional trading arrangement is very different from the multilateral liberalization embodied in the World Trade Organization. under regional trading arrangements, nations reduce trade barriers only for a small group of partner nation, thus discriminating against rest of the world. Under the WTO, trade liberalization by anyone nation is extended to all WTO members on an unconditional most favored nation basis here there is essentially no discrimination.

Proponents of regional trading arrangements maintains that block of nation with many similar interests are more likely to liberalized trade dramatically then the large heterogeneous groups of nation involved in multilateral negotiations. Regional trading arrangements may be beneficial and harmful to its member as well as to outside nations, A regional trading arrangement is unlikely to beneficial unless it has significant rate creating effects.

When structured according to the principle of openness and inclusiveness regional blocks can be building blocks rather than stumbling blocks for global free trade and investments. There are several ways in which regional blocks can foster global market opening. First, regional agreements may achieve deeper economic integration among member then do multilateral accords, because of greater commonality of interest and simple negotiating process. second of self rain forcing process insight in place by the establishment of a free trade area; As the market and compassed by a free trade area and large, it becomes increasingly attractive for non member to join to receive the same trade preference as member nation. Third, regional libralization encourages partial adjustment of workers out of import competing industries in which the nation comparative advantage is weak and into exporting industries in which its comparative advantage is strong. as adjustment proceeds the portion of the labor force that benefits from Liberalized trade rises and the portion thus loses falls; this promotes political support for trade liberalization in a self reinforcing process. For all of these reasons when regional agreements are formed according to principles of openness, they tend to overlap and expand, thus promoting global free trade from the bottom up.

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