SOS POLITICAL SCIENCE AND PUBLIC ADMINISTRATION

MBA FA 404

SUBJECT NAME: INTERNATIONAL MARKETING

UNIT-V

TOPIC NAME: REGIONAL ECONOMIC INTEGRATIONS

MEANING OF REGIONAL INTEGRATION:

Regional Integration is a process in which neighboring states enter into an agreement in order to upgrade cooperation through common institutions and rules. The objectives of the agreement could range from economic to political to environmental, although it has typically taken the form of a political economy initiative where commercial interests are the focus for achieving broader socio-political and security objectives, as defined by national governments. Regional integration has been organized either via supranational institutional structures or through intergovernmental decision-making, or a combination of both.

Past efforts at regional integration have often focused on removing barriers to free trade in the region, increasing the free movement of people, labor, goods, and capital across national borders, reducing the possibility of regional armed conflict (for example, through Confidence and Security-Building Measures), and adopting cohesive regional stances on policy issues, such as the environment, climate change and migration.

Intra-regional trade refers to trade which focuses on economic exchange primarily between countries of the same region or economic zone. In recent years countries within economic-trade regimes such as ASEAN in Southeast Asia for example have increased the level of trade and commodity exchange between themselves which reduces the inflation and tariff barriers associated with foreign markets resulting in growing prosperity.

FUNCTION OF REGIONAL INTEGRATION INITIATIVES:

- The strengthening of trade integration in the region
- The creation of an appropriate enabling environment for private sector development

- The development of infrastructure programmers in support of economic growth and regional integration
- The development of strong public sector institutions and good governance;
- The reduction of social exclusion and the development of an inclusive civil society
- Contribution to peace and security in the region
- The building of environment programmes at the regional level
- The strengthening of the region's interaction with other regions of the world.

REGIONAL ECONOMIC INTEGRATION:

Regional economic integration refers to efforts to promote free and fair trade on a regional basis. Free trade area 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 nonmember nations.

Regional economic integration has enabled countries to focus on issues that are relevant to their stage of development as well as encourage trade between neighbors.

Regional economic groups eliminate or reduce trade tariffs (and other trade barriers) among the Partner States while maintaining tariffs or barriers for the rest of the world (non-member countries) Regional Economic Integration offers many benefits to the participating member countries.

FOUR MAIN TYPES OF REGIONAL ECONOMIC INTEGRATION:

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 nonmember nations. An example is the North American Free Trade Agreement (NAFTA).

2. **Customs 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 nonmember countries in a similar manner. The Gulf Cooperation Council (GCC) Cooperation Council for the Arab States of the Gulf website accessed April 30, 2011, http://www.gcc-sg.org/eng/index.html. Is an example.
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 labor and capital between member countries. Like customs unions, there is a common trade policy for trade with nonmember 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).Common Market for Eastern and Southern Africa website, accessed April 30, 2011, http://www.comesa.int.
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).Europe, the Official Website of the European Union, accessed April 30, 2011, http://europa.eu.

In the past decade, there has been an increase in these trading blocs with more than one hundred agreements in place and more in discussion. A trade bloc 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 blocs 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 bloc 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 may find it easier to agree with smaller numbers of countries. Regional understanding and similarities may also facilitate closer political cooperation.

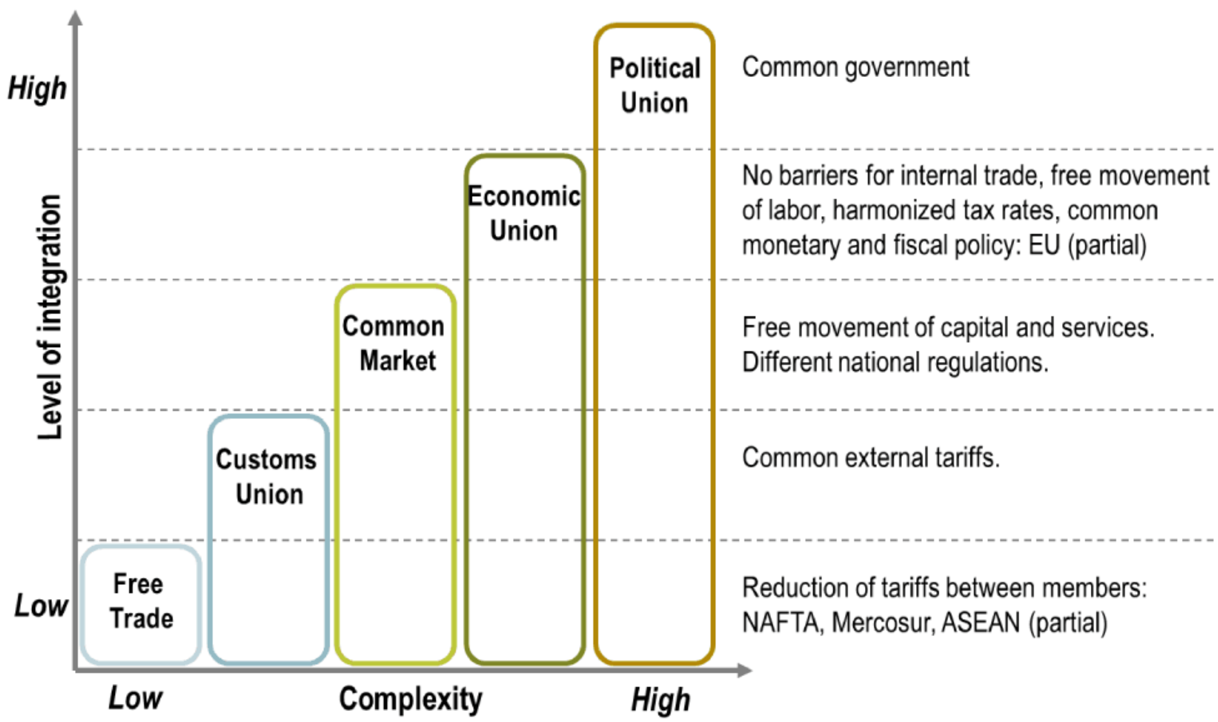
CONS:

The cons involved in creating regional agreements include the following:

- **Trade diversion.** The flip side to trade creation is trade diversion. Member countries may trade more with each other than with nonmember nations. This may mean increased trade with a less efficient or more expensive producer because it is in a member country. In this sense, weaker companies can be protected inadvertently with the bloc agreement acting as a trade barrier. In essence, regional agreements have formed new trade barriers with countries outside of the trading bloc.
- **Employment shifts and reductions.** Countries may move production to cheaper labor markets in member countries. Similarly, workers may move to gain access to better jobs and wages. Sudden shifts in employment can tax 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.

ECONOMIC INTEGRATION CAN BE CLASSIFIED INTO FIVE ADDITIVE LEVELS:



- **Free trade:** Tariffs (a tax imposed on imported goods) between member countries are significantly reduced, some abolished altogether. Each member country keeps its own tariffs in regard to third countries. The general goal of free trade agreements is to develop economies of scale and comparative advantages, which promotes economic efficiency.
- **Custom union:** Sets common external tariffs among member countries, implying that the same tariffs are applied to third countries; a common trade regime is achieved. Custom unions are particularly useful to level the competitive playing

field and address the problem of re-exports (using preferential tariffs in one country to enter another country).

- **Common market:** Services and capital are free to move within member countries, expanding scale economies and comparative advantages. However, each national market has its own regulations such as product standards.
- **Economic union (single market):** All tariffs are removed for trade between member countries, creating a uniform (single) market. There are also free movements of labor, enabling workers in a member country is able to move and work in another member country. Monetary and fiscal policies between member countries are harmonized, which implies a level of political integration. A further step concerns a monetary union where a common currency is used, such as with the European Union (Euro).
- **Political union:** Represents the potentially most advanced form of integration with a common government and were the sovereignty of a member country is significantly reduced. Only found within nation-states, such as federations where there are a central government and regions having a level of autonomy.

As the level of economic integration increases, so does the complexity. This involves a set of numerous regulations, enforcement, and arbitration mechanisms. The complexity comes at a cost that may undermine the competitiveness of the areas under economic integration since it allows for less flexibility for national policies. The devolution of economic integration could occur if the complexity and restrictions it creates are no longer judged to be acceptable by its members.

OBJECTIVE OF REGIONAL ECONOMIC INTEGRATION:

A primary economic objective of integration is to raise:

(i) Real output& income of the participants, and

(ii) Rate of growth by increasing specialization and competition by facilitating desirable structural change.

At the most basic level, economic integration is an agreement between countries, which aims to reduce costs for both producers and consumers. Its end goal is to remove barriers to the free flow of goods and services so that member countries can share a common market and harmonize their fiscal policies.

ADVANTAGES AND DISADVANTAGES OF REGIONAL ECONOMIC INTEGRATION:

ADVANTAGES	DISADVANTAGES
• Trade creation • Protection • Increased economies of sale • Increased investment	• Trade diversion • Retaliation • Decreased investment