# INTERNATIONAL ECONOMIC INTEGRATION

- Institutional combination of seperate national economies into larger economic blocks or communities

- Basic Concern: Promotion of efficiency in resource use on a regional basis

# INTERNATIONAL ECONOMIC INTEGRATION

- Early Regional Blocs: associated with imperialism or colonism (Example: COMECOM- Council for Mutual Economic  Assistance; Soviet Union, Bulgaria, Check Republic, Poland, Hungary, Romania; disaggregated in 1990s)

- First Serious Step: European Economic Community (1957)

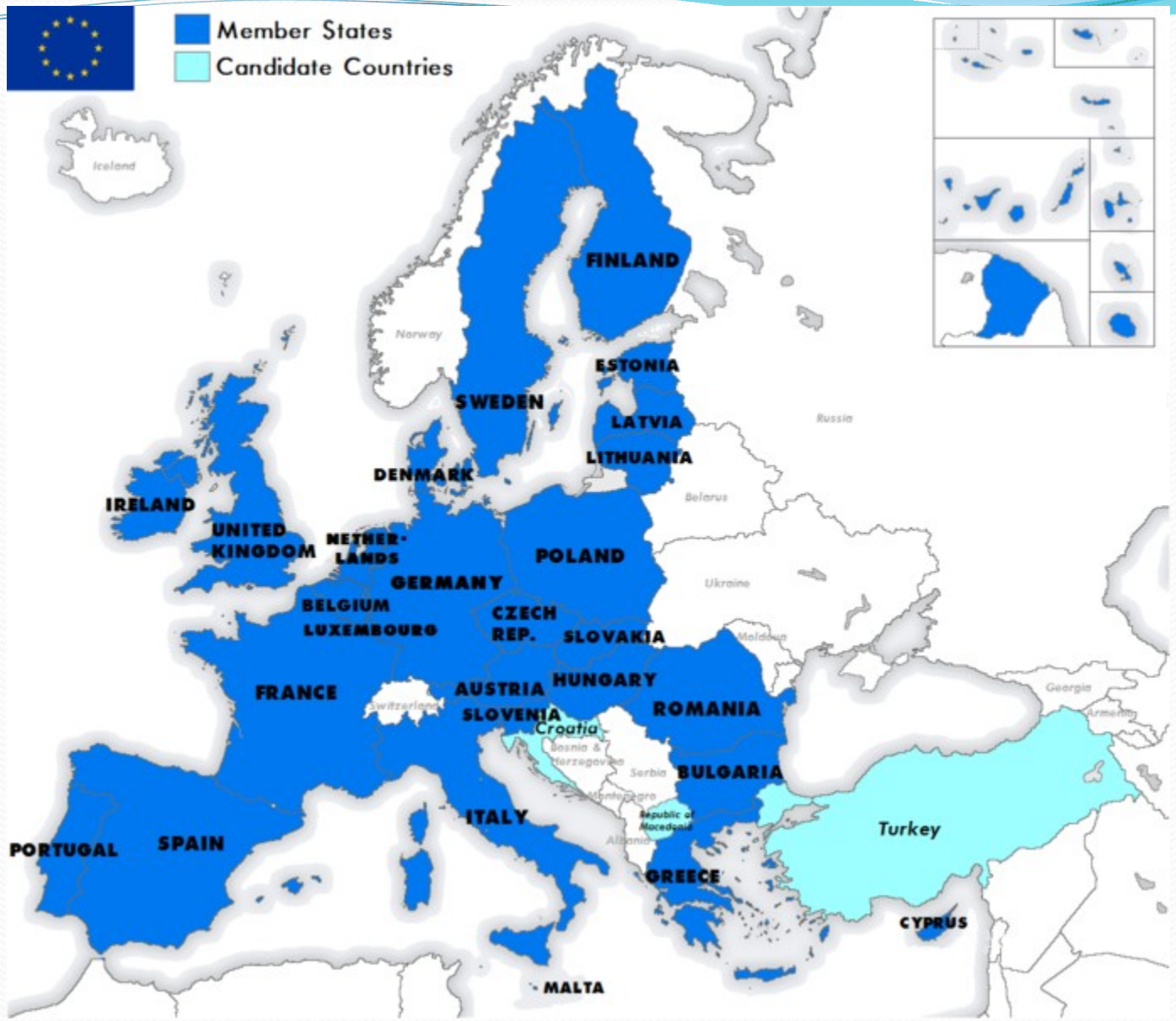
- 120 countries are at least members of one integration!

# FORMS OF ECONOMIC INTEGRATION

- Preferential Trading Agreement
- Free Trade Area
- Customs Union
- Common Market
- Economic Union (Harmonization or integration of monetary /fiscal policies)

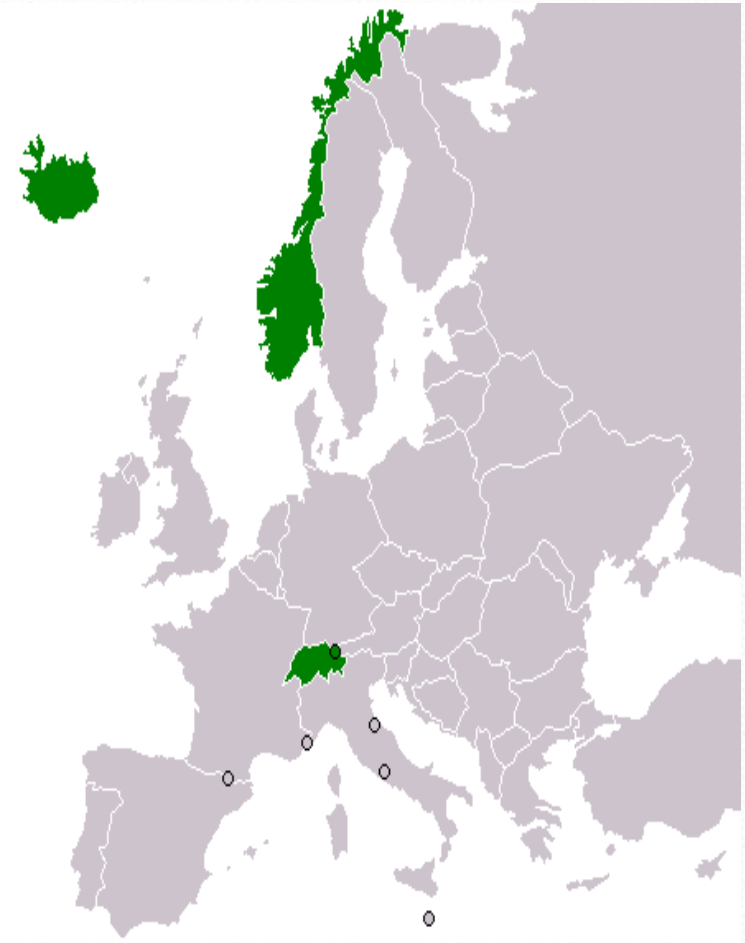
# European Union (EU)

- 1951 The Treaty of Paris European Coal and Steel Community
- 1957 The Treaty of Rome
- **Countries**: Austria (8.1 million), Belgium (10.2 million), Cyprus, Czech Republic (10.3 millions), Denmark (5.3 million), Estonia (1.4 million), Finland (5.1 million), France (60.4 million), Germany (82 million), Greece (10.5 million), Hungary (10.2 million), Ireland (3.7 million), Italy (57.6 million), Latvia (2.4 million), Lithuania (3.5 million), Luxemburg (429 200), Malta (400 000), Poland (38.6 million), Portugal (10.8 million), Slovakia (5.4 million), Slovenia (2 million), Spain (39.4 million), Sweden (8.9 million), The Netherlands (15.8 million), United Kingdom (58.6 million)


Member States
Candidate Countries
Iceland
Norway
FINLAND
ESTONIA
SWEDEN
LATVIA
LITHUANIA
Russia
DENMARK
Belarus
IRELAND
UNITED KINGDOM
NETHER-LANDS
POLAND
GERMANY
Ukraine
BELGIUM
LUXEMBOURG
CZECH REP.
SLOVAKIA
Moldova
FRANCE
AUSTRIA
HUNGARY
Georgia
Switzerland
SLOVENIA
ROMANIA
Croatia
Bosnia & Herzegovina
Serbia
BULGARIA
Montenegro
Republic of Macedonia
Albania
ITALY
Turkey
PORTUGAL
SPAIN
GREECE
CYPRUS
MALTA

# EFTA (European Free Trade Association)

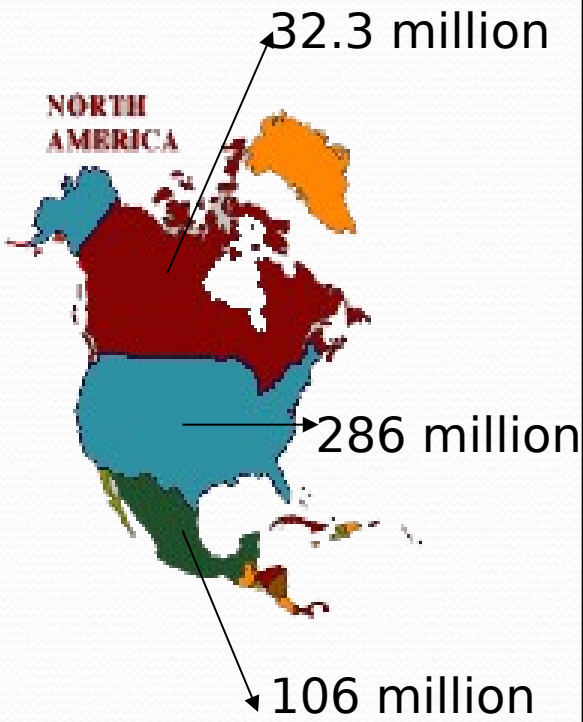
The EFTA Convention established a free trade area among Iceland (296,737), Liechtenstein (33,717), Norway (4.6 million) and Switzerland (7.5 million) in **1960**.



# NAFTA
# (North America Free Trade Agreement)

In January **1994**, Canada, the United States and Mexico launched the North American Free Trade Agreement and formed the **world's largest free trade area**.

NAFTA has enabled both Canada and Mexico to increase their exports to the United States: Canadian manufacturers now send more than half their production to the U.S., while Mexico's share of the U.S. import market has almost doubled from 6.9% in pre-NAFTA 1993 to 11.6% in 2002.



# LAFTA

## (Latin America Free Trade Agreement)

The **Latin American Free Trade Association** was created in 1960 by Argentina (39.5 million), Brazil (186 million), Chile (16 million), Mexico (106 million), Paraguay (6.3 million), Peru (27.9 million), and Uruguay (3.4 million). By 1970, LAFTA expanded to include Bolivia (8.8 million), Colombia (42.9 million), Ecuador (13.3 million), and Venezuela (25.3 million). In 1980, LAFTA reorganized into the Latin American Integration Association. Membership remained unchanged until Cuba (11.3 million) joined in 1999.

# MERCOSUR

## (*Mercado Común del Sur*) (Southern Common Market)

Mercosur was created in **1991** and encompasses four Latin American countries (Argentina (39.5 million), Brazil (186 million), Paraguay (6.3 million) and Uruguay (3.4 million)). Its purpose is to promote free trade and the fluid movement of goods, peoples, and currency. Bolivia, Chile, Colombia, Ecuador and Peru have associate member status. On 9 December 2005, Venezuela was accepted as a new member.



# ASEAN
# (Association of Southeast Asia

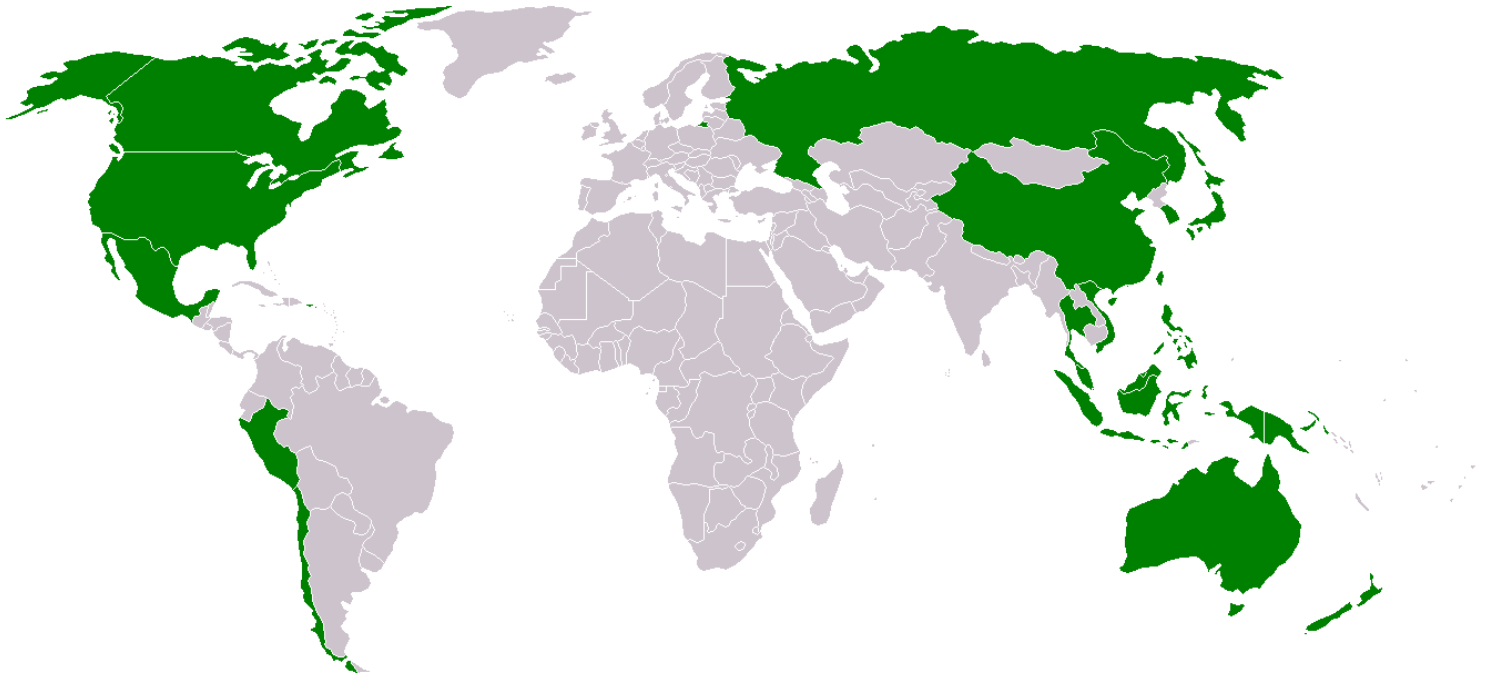


- The **Association of Southeast Asian Nations** (**ASEAN**) is a political, economic, and cultural organization of countries located in Southeast Asia. Formed on August 8, 1967, by Thailand (65.4 million), Indonesia (242 million), Malaysia (24 million), Singapore (4.4 million), and the Philippines (88 million), as a non-provocative display of solidarity against communist expansion in Vietnam and insurgency within their own borders.

# APEC
# (Asia-Pasific Economic Cooperation )

**APEC** is a forum for 21 Pacific Rim countries (styled "Member Economies") that seeks to promote free trade and economic cooperation throughout the Asia-Pacific region. Established in 1989 in response to the growing interdependence of Asia-Pacific economies and the advent of regional economic blocs (such as the EU and the NAFTA ) in other parts of the world. Members account for approximately 40% of the world's population, approximately 54% of world GDP and about 44% of world

- Australia
- Brunei
- Canada
- Indonesia
- Japan
- Republic of Korea
- Malaysia
- New Zealand
- Philippines
- Singapore
- Thailand
- United States
- China[1]
- Hong Kong[2]
- Chinese Taipei[3]
- Mexico
- Papua New Guinea
- Chile
- Peru
- Russia
- Vietnam



# BSEC
# (Black Sea Economic Cooperation)

- The **Organization of the Black Sea Economic Cooperation** is an organization created on June 25, 1992, to promote cooperation between its members, hoping to transform the BSEC into a regional economic organization. Founding members are: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, Russia, Turkey, and Ukraine. Since then, Serbia and Montenegro has also become a member.

# ECO
# (Economic Cooperation Organization)

- The Economic Cooperation Organization (ECO) is a multi governmental organization which was originally established in 1985 by Iran, Pakistan and Turkey to allow socio-economic development of the first member states. The ECO is the successor organisation of what was the Regional Cooperation for Development (RCD), founded in 1962, which ended activities in 1979. In the fall of 1992, the ECO expanded to include seven new members, namely Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan

- ECO provides a platform to discuss ways to improve development and promote trade, and investment opportunities.

# THE THEORY OF CUSTOM UNION

- Problems in the analysis of integration:
  - Partial equilibrium vs. General equilibrium analysis
  - Welfare effects: Income distribution not considered
  - Effects can be measured only after it has occured

# THE THEORY OF CUSTOM UNION

- Effects on
  - Global welfare
  - CU as a whole
  - Individual members of the CU
  - Welfare of third world countries

# THE THEORY OF CUSTOM UNION

- Essential features of a customs union:
  - Elimination of tariffs on imports from member countries
  - Adoption of a common external tariff on imports from the rest of the world
  - Apportionment of customs revenue according to an agreed formula

# THE THEORY OF CUSTOM UNION

- Basic Assumptions:
  - Perfect competition in commodity and factor markets
  - Factor mobility within countries but not between them
  - No transportation costs
  - Tariffs are the only form of trade restrictions; they are assumed to be spesific
  - Prices reflect the opportunity costs of production
  - Trade is balanaced
  - Resources are fully employed

# THE THEORY OF CUSTOM UNION

- Orthodox theory analyses the effects of CU on resource allocation in terms of trade creation and trade diversion.

# THE THEORY OF CUSTOM UNION

- Trade Creation:  Union-induced shift from the consumption of higher-cost domestic products in favour of lower-cost products of the partner country.

  - Production effect: The reduction or elimination of the domestic production of goods, instead being imported from the partner country.
  - Consumption effect: Increased consumption of partner-country substitutes for domestic goods that were formerly satisfied at a higher cost.

# THE THEORY OF CUSTOM UNION

- Trade Diversion:  Union-induced shift in the source of imports from lower-cost extarnal sources to higher-cost partner sources.

  - An increase in the cost of the goods previously imported from abroad.
  - A loss of consumers' surplus resulting from the substitution of higher cost partner goods for lower cost foreign goods.

# THE THEORY OF CUSTOM UNION

- The conditions of a trade-creating CU:
  - The larger is the economic area of the CU and the more numerous are the countries of which it is composed, the greater will be the scope for trade creation.
  - The relative effects can be related to the height of the average tariff level before and after union. If the post-union level is lower, the union is more likely to be trade-creating; if it is higher, trade diversion effects may be more likely.

# THE THEORY OF CUSTOM UNION

- The conditions of a trade-creating CU:
  - The more competitive are the economies of the member states, in the sence that the range of the products produced by higher cost industries in the different parts of the CU is similar.
  - The greater are the differences in unit costs of protected industries of the same kinds in different parts of the CU.