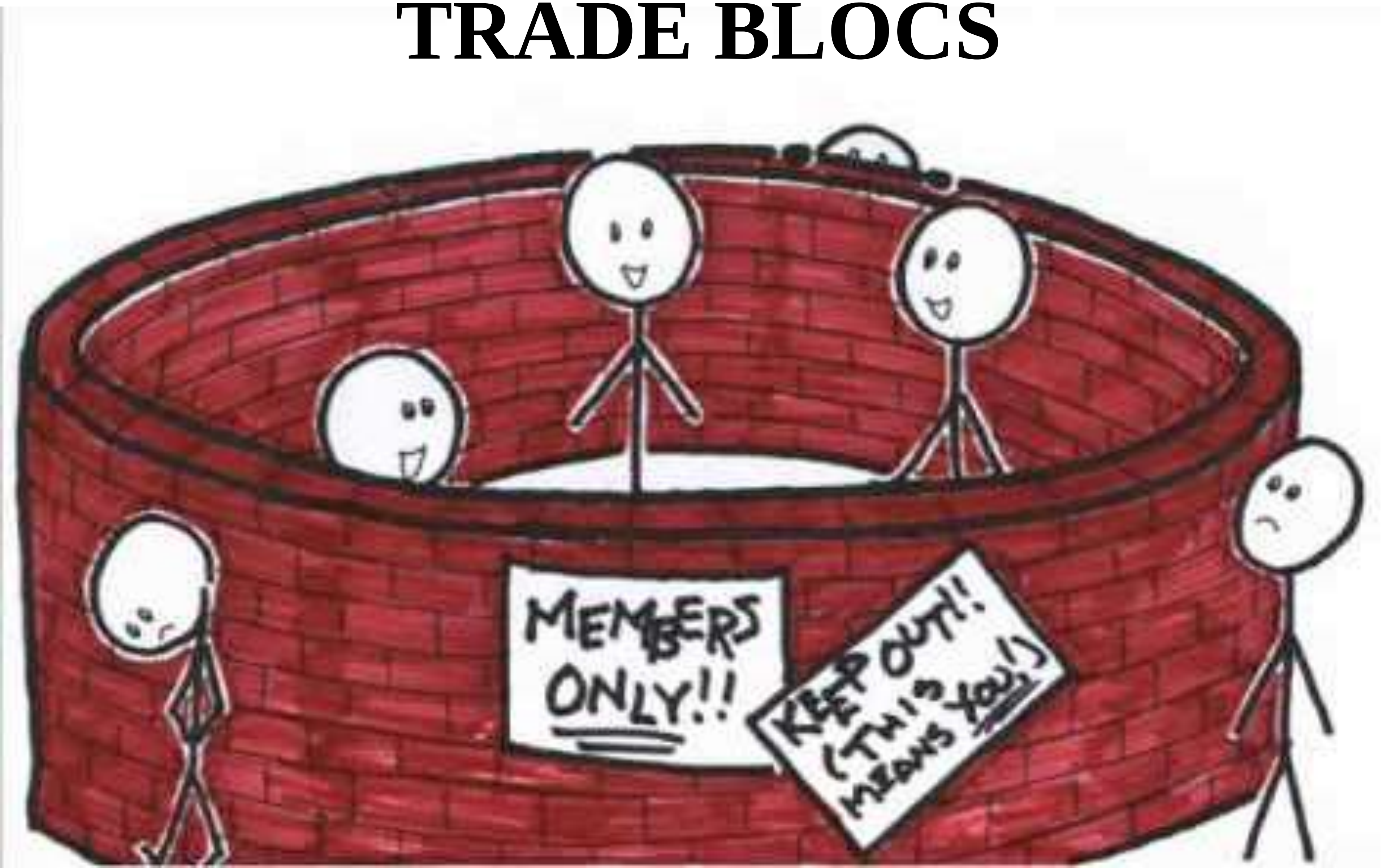
TRADE BLOCS



TRADE BLOC

A Trade Bloc is a set of countries which engage in international trade together, and which are usually related through a free trade agreement or other association.

e.g.

CARIFTA,
CARICOM,
CSME, ECCM, OECS,
EUROPEAN UNION

There are many different types of trade blocs.

TYPES OF TRADE BLOCS

1. Preferential Trade Area
2. Free Trade Area
3. Customs Union
4. Common Market or Single Market

1. **Preferential Trade Area:** Preferential Trade Areas (PTAs) exist when countries within a geographical region agree to reduce or eliminate **tariff** barriers on selected goods imported from other members of the area. This is often the first small step towards the creation of a trading bloc.
2. **Free Trade Area:** Free Trade Areas (FTAs) are created when two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members.
3. **Customs Union:** A customs union involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members. This means that members may negotiate as a single bloc with third parties, such as with other trading blocs, or with the WTO.
4. **Common Market:** A 'common market' (or single market) is the first significant step towards full economic integration and occurs when member countries trade freely in all economic resources – not just tangible goods.
   - All barriers to trade in goods, services, capital and labour are removed.
   - Both tariff and non-tariff barriers are reduced and eliminated.
   - Harmonization of micro-economic policies, and common rules regarding monopoly power and other anti-competitive practices.
   - Common policies affecting key industries, such as the **Common Agricultural Policy** (CAP) and Common Fisheries Policy (CFP) of the European Single Market (ESM).

FREE TRADE AREA

- In a free trade area, members agree to eliminate tariffs, quotas, preferences, and all other barriers to trade on most (if not all) goods produced within the area.

e.g. CARIFTA

- In the case of CARIFTA, members still maintained quotas on certain goods, and provisions were made for the imposition of duties on certain 'sensitive goods' which were produced in the Less Developed Countries (LDCs).

CUSTOMS UNION

A CUSTOMS UNION is an agreement among nation states in which:

(1) all restrictions to trade among them are removed

(2) a COMMON TARIFF and the SAME REGULATIONS OF COMMERCE are applied by all of the members to goods imported from non-members.

e.g. CARICOM

COMMON MARKET

A **Common Market** is a group formed by countries within a geographical area to promote:-

(1) duty-free trade (free movement of goods) among its members

(2) imposition of a common external tariff (CET) on imports from non-member countries.

(3) free movement of labour and capital among its members

e.g.

- EUROPEAN COMMUNITY
- CSME (the CSM)

- Though called a Common Market, in practice CARICOM was really a Customs Union where in addition to eliminating the barriers to trade in goods, the Member States established a Common External Tariff. *Free movement of capital and labour was not allowed under CARICOM.*
- The net effect was that the Common Market area was protected for goods produced **within** the region (because of the CET).

SINGLE MARKET

A type of trade bloc involving more than one nation based on a mutual agreement:-

(1) to permit the free movement of capital, labour, goods and services. **[CSM] - 2006**

(2) to coordinate various social, fiscal and monetary policies among participating member states. **[CSE] – scheduled for 2008 but not yet implemented**

e.g.

CSME

COMMON EXTERNAL TARIFF

The Common External Tariff (CET) is simply a harmonized schedule of duties that would be applied to goods produced outside of the region.

TYPES OF TRADE BLOCS

PREFERENTIAL TRADE AREA

Lower, but not eliminate, barriers among members.

FREE TRADE AREA

Eliminate internal barriers, but maintain independent external barriers.
e.g., NAFTA

CUSTOMS UNION

Eliminate internal barriers, agree on <u>common</u> external barriers.
e.g., EU/Turkey, or Russia/ Kazakhstan/ Belarus (2010)

COMMON MARKET

Eliminate internal barriers, adopt common external barriers, allow free movement of resources (e.g., labor) among member countries.
e.g., Mercosur (Southern Cone Market), East African Common Market, or West African Common

ECONOMIC UNION

Eliminate internal barriers, adopt common external barriers, free movement of resources, AND a uniform set of economic policies.
e.g., European Union

FULL INTEGRATION

e.g., the United States

FREE TRADE AREA

- **removal of barriers to trade on all goods coming from member states**

CARIFTA

- Quotas retained on some goods
- Duties still charged on imports from MDCs listed as ‘sensitive goods’ produced in the LDCs
- Varying tariffs on goods imported from non-members

CUSTOMS UNION

- removal of barriers to trade on all goods coming from member states
- **A Common External Tariff on all goods imported from non-member states**

CARICOM

- Duties still charged on imports from MDCs listed as ‘sensitive goods’ produced in the LDCs
- Restrictions on movement of services, capital and labour
- No common fiscal and monetary policies

COMMON MARKET/SINGLE MARKET

- removal of barriers to trade on all goods coming from member states
- A Common External Tariff on all goods imported from non-member states
- **Free movement of goods, services, capital and labour**

CSM

CSME

- **No harmonized fiscal and monetary policies**
- **No common development strategies for key industries (agriculture, energy, tourism, etc)**

CSE

- As with CARIFTA, CARICOM allows for special treatment for certain sensitive industries in the LDCs (Belize and the OECS). Sensitive goods, as identified by the LDCs, enjoy duty free access to the entire market, while the same goods produced in the More Developed Countries do not enjoy similar treatment – that is to say the rules of origin or tariff treatment have been suspended for such goods.
- There are no import duties on goods of CARICOM origin. Tariffs and quantitative restrictions in all Member States are removed.
- There are agreed regional standards for the production of goods throughout the region. This is a major incentive for producers/manufacturers to aim at a high standard of products.
- Access to larger market: Manufacturers are able to get their goods to over six million (14 million if Haiti is included) people in the Caribbean.

ADVANTAGES OF TRADE BLOCS

1. Free trade within the bloc: Knowing that they have free access to each other's markets, members are encouraged to specialize. This means that, at the regional level, there is a wider application of the principle of **comparative advantage.**
2. Market access and increased volume of trade: Easier access to each other's markets means that trade between members is likely to increase.
3. Economies of scale: Producers can benefit from the application of **economies of scale**, which will lead to **lower costs and lower prices for consumers.**
4. Jobs: Jobs may be created as a consequence of increased trade between member economies.
5. Protection: Firms inside the bloc are protected from cheaper imports from outside, such as the protection of the **EU shoe industry** from cheap imports from China and Vietnam.

Disadvantages of trade blocs

1. Inefficiencies and trade diversion: Inefficient producers within the bloc can be protected from more **efficient** ones outside the bloc. For example, inefficient European farmers may be protected from low-cost imports from developing countries. ***Trade diversion*** arises when trade is diverted away from efficient producers who are based outside the trading area.
2. Retaliation: The development of one regional trading bloc is likely to stimulate the development of others. This can lead to trade disputes
3. Distortion of trade: Trading blocs are likely to distort world trade, and reduce the beneficial effects of specialization and the exploitation of *comparative advantage*.

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