

The EU within the Global Context of Regional Integration 1

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WHAT is international economics?

It mainly deals with issues related to trade among different independent nations.

seven themes are concerned in the study of international economics:

- the gains from trade
- the pattern of trade
- the volume of trade
- the balance of payments
- exchange rate determination
- international policy coordination
- international capital market

Differences between international trade and domestic trade

In a closed economy,

a country has relatively no incentives to increase the competition of its market.

in a relatively open economy,

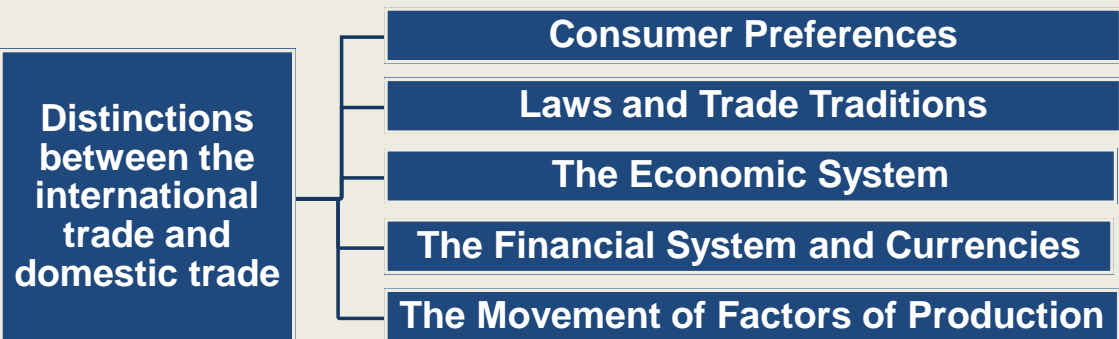
there are different urges for a country to increase the competition of its market.

This is because if a country is willing to target the international market, it must improve the quality standards of its product in order to be able to compete with other rivals in that market.

Differences between international trade and domestic trade

Economic cooperation among countries faces a number of constraints. This is because the nature of international trade is different from the domestic one.

There are different sources of distinctions between the international trade and domestic trade:



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Consumer Preferences

Domestic trade

There is a similarity in preferences of goods and services among citizens.

There is no dichotomy among markets within the geographical boarder of a country.

The level of competition within a country is a relatively low.

International trade

The preferences of goods and services among countries of different citizens are so diverse

(So, what is suitable for a specific country in terms of goods and services may not be suitable for another).

Markets are protected by a number of natural, political, and administrative barriers. Thus, there is a dichotomy among international markets.

The level of competition among countries is very high.

Laws and Trade Traditions

Domestic trade

It is processed by citizens who are belong to the same nationality

So, there are no differences in laws, traditions, and trade tradition.

International trade

It is processed by citizens who are belong to different nationalities

So, there are differences in laws, traditions, and trade tradition.

The Economic System

Domestic trade

It is processed within the same legal economic system and traditions.

So, there are no differences in economic agenda, priorities, and interests.

International trade

It is processed by different countries with different economic systems and traditions.

So, each country has its own economic agenda, priorities, and interests.

The Financial System and Currencies

Domestic trade

a one legal currency is used in purchasing of goods and services and paying debts.

there are same prudential regulations for the financial sector within a country, such as the regulations related to credit and deposits.

International trade

Each country has its legal currency, this requires an exchange system for these currencies.

In addition, trade is processed within various regulations of financial systems.

The Movement of Factors of Production

Domestic trade

There is a relatively elastic ability for the factors of productions to move from one geographical area to another or from one production sector to another.

Thus, there is same relative prices for the factors of productions.

International trade

the ability for the factors of productions to move is a relatively inelastic.

This could cause different relative prices for the factors of productions among countries.

Three Facts,

- In the last century, the growth of international trade and investment was stimulated by the steady decline of trade barriers since the Great Depression of the 1930s.
- In the post–World War II era, the General Agreement on Tariffs and Trade, or GATT, encouraged negotiations among countries to reduce tariffs (import taxes) on imported goods.
- In the last century, one of main strategies of a country is to develop the economic cooperation and coordination with other countries in order to enhance its trade and investments by forming an economic integration.

WHAT IS ECONOMIC INTEGRATION?

also referred to as

regional integration

regional trading agreements' (RTAs)

preferential trading agreements (PTAs)

trading blocs

Economic integration

It is one aspect of 'international economics' which can be defined as "a process which involves the amalgamation of separate economies into larger free trading regions".

It involves the state of increasing economic interdependence between nations.

The economic integration results from the motivation of a country to:

expand its trade

vary its sources of income

Therefore, economic cooperation among different countries has become an essential for economic development.

The motive for economic cooperation results from the fact that the consumption of one commodity in the modern era results from a production process that is accomplished in different countries.

For example,

a cup of tea that an Egyptian citizen drinks was made by tea leaves grown in India or Sri Lanka and was backed by an England company and shipped by a Greece ship, which was manufactured in Japan.

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The economic cooperation among countries almost covers all aspects of economic activities including

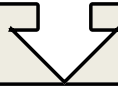
- construction, water supply, waste management, information and communication, financial and insurance activities, and the assembly lines in manufacturing such as in automobiles, transportation equipment, and electric goods.

It should be noted that the international economic cooperation is not limited to the production and the exchange of the consumption goods,

- it is extended to include other aspects of economic activities such as the flows of capital goods, financial instruments, and know-how.

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All these aspects of economic cooperation could help in fostering the economic growth and the overall economic welfare.



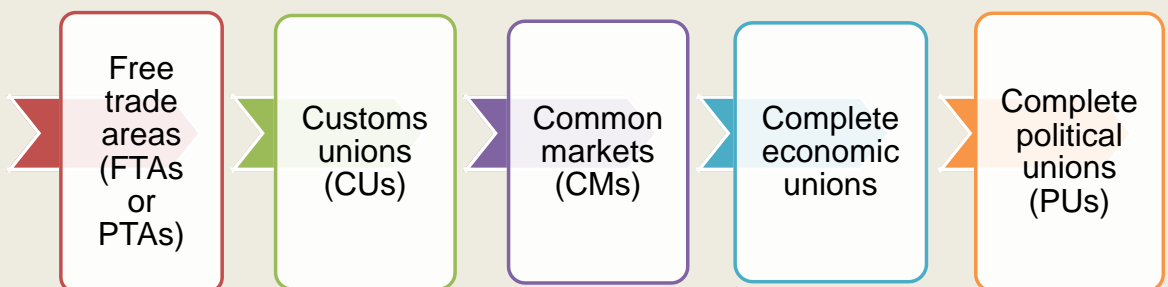
An example of that, when a country imports the services of the foreign experts or send its citizens abroad, it could improve the quality of production by acquiring new production techniques.

Furthermore, when a country attracts the foreign direct investment, not only it could reduce the prevailing unemployment level but also, it could improve the technological bases of its industries.

Therefore, it could be said that economic development in any society could not be achieved without cooperation with other countries in the context of exchanging goods, services, capital, and know-how.

The economic integration is concerned with the discriminatory removal of all trade impediments between at least two participating nations and with the establishment of certain elements of cooperation and coordination between them.

Different forms of economic integration can be envisaged:



Free Trade Areas (FTAs or PTAs)

FTAs is one aspect of economic integration (first stage) in which the member nations remove all trade impediments among themselves,

but

retain their freedom to determine their own policies towards the outside world (the non-participants).

Examples of FTAs

**The European Free Trade Association (EFTA)
The Latin American Free Trade Area (LAFTA)
The North American Free Trade Agreement (NAFTA)
The Greater Arab Free Trade Area or the Pan-Arab Free Trade Area (GAFTA) ?**

Customs Unions (CUs)

CUs is one aspect of economic integration (the second stage).

in addition to the removal of all trade impediments among themselves, member countries must conduct and pursue common external commercial relations.

for instance,

Member countries must adopt common external tariffs (CETs) on imports from the non-participants.

Examples of CUs

**Caribbean Community
East African Community
Eurasian Customs Union
Gulf Cooperation Council**

Common Markets (CMs)

CMs is one aspect of economic integration (the third stage). It is considered is the first stage towards a single market.

in addition to

the removal of all trade impediments among themselves

and the adoption of common external commercial relations with the non-participants,

member nations allow for free factor mobility across national members' frontiers, i.e. capital, labor, technology and enterprises should move unhindered between the participating countries.

Examples of CMs

The European Economic Community (EEC)

Economic Unions (EcUs)

EcUs is one aspect of economic integration (the fourth stage).

in addition to

All the elements included in the CMs

It includes a complete unification of monetary and fiscal policies

i.e. the participants must introduce a central authority to exercise control over these matters so that member nations effectively become regions of the same nation.

Examples of EcUs

The thirteen EU nations which have adopted the single currency, the euro (called the eurozone) ?

Economic Unions (EUs)

EUs is one aspect of economic integration (the Fifth stage).

the participating countries become literally one nation

i.e. the central authority needed in EcUs should be paralleled by a common parliament and other necessary institutions needed to guarantee the sovereignty of one state.

Examples of EcUs

The unification of the two Germanys in 1990.

Schematic Presentation of Economic Integration Schemes

Scheme	Free Intra-Scheme Trade	Common Commercial Policy (CCP)	Free Factor Mobility	Common Monetary and Fiscal Policy	One Government
FTA	✓	✗	✗	✗	✗
CU	✓	✓	✗	✗	✗
CM	✓	✓	✓	✗	✗
EcU	✓	✓	✓	✓	✗
PU	✓	✓	✓	✓	✓



Thank you

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