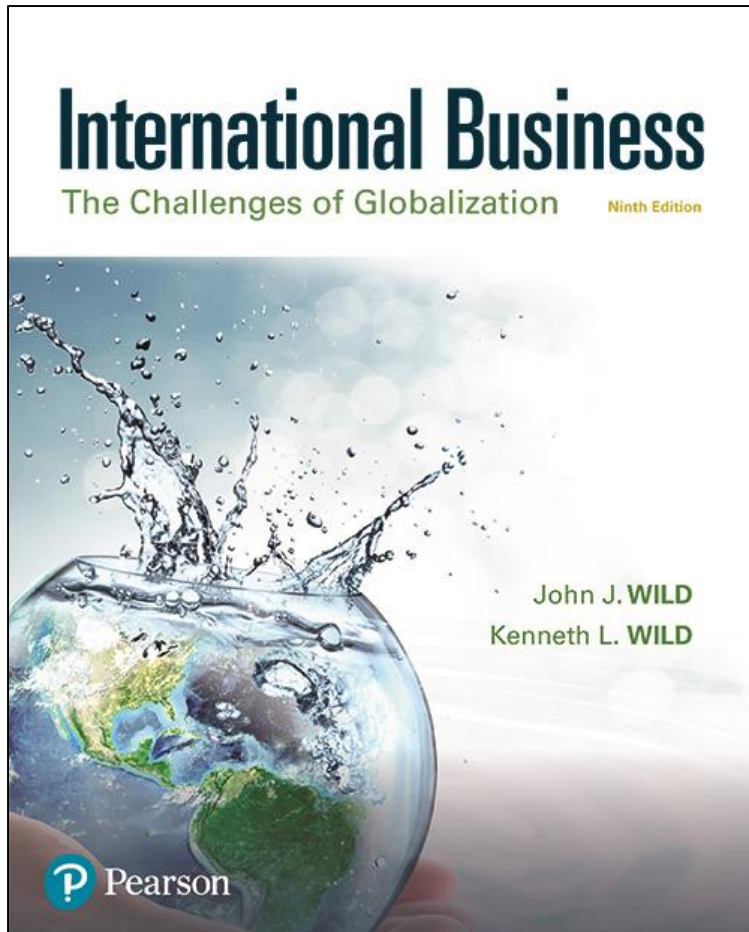


International Business: The Challenges of Globalization

Ninth Edition



Chapter 8

Regional Economic Integration

Learning Objectives

- 8.1 Outline the levels of economic integration and its debate.
- 8.2 Describe integration in Europe and its enlargement.
- 8.3 Describe integration in the Americas and its prospects.
- 8.4 Summarize integration in Asia and elsewhere.

Nestlé's Global Recipe

- Largest food company in the world
 - In nearly every country on the planet
- Food is integral to cultural fabric
 - Sensitivity to local dietary traditions
- Monitoring regional integration
 - Trade agreements: can be double-edged swords

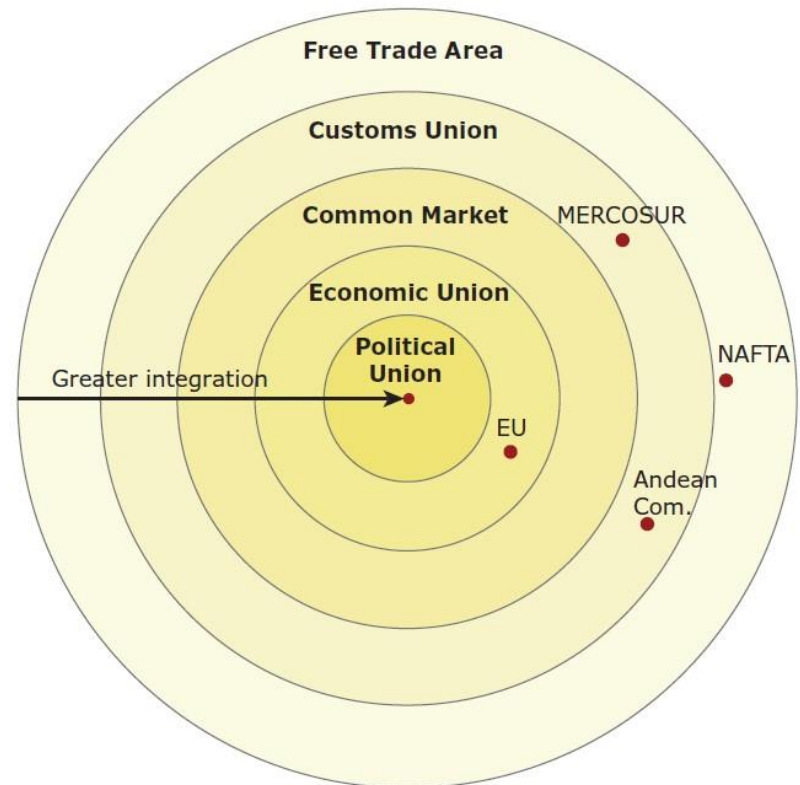


Levels of Integration and the Debate

Regional Economic Integration (Regionalism):

Process whereby countries in a geographic region cooperate to reduce or eliminate barriers to the international flow of products, people, or capital.

Figure 8.1 Levels of Regional Integration



Levels of Economic and Political Integration (1 of 2)

Free Trade Area

- Removes all barriers to trade among members with each nation determining its own barriers against nonmembers

Customs Union

- Adds the requirement that all members set a common trade policy against nonmembers

Common Market

- Adds the free movement of labor and capital and sets a common trade policy against nonmembers

Degrees of Economic and Political Integration (2 of 2)

Economic Union

- Requires members to harmonize their tax, monetary, and fiscal policies, create a common currency, and concede some sovereignty to the larger organization

Political Union

- Requires members to coordinate their economic and political policies against nonmembers, with a few exceptions

The Case for Regional Integration

- Trade Creation
- Greater Consensus
- Political Cooperation
- Employment Opportunities
- Corporate Savings

The Case Against Regional Integration

- Trade Diversion
- Shifts in Employment
- Loss of National Sovereignty

Table 8.1 The World's Main Regional Trading Blocs (1 of 3)

EU	European Union
	Austria, Belgium, Britain, Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Greek Cyprus (southern portion), Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden
EFTA	European Free Trade Association
	Iceland, Liechtenstein, Norway, Switzerland
NAFTA	North American Free Trade Agreement
	Canada, Mexico, United States
CAFTA-DR	Central American Free Trade Agreement
	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic, United States
CAN	Andean Community
	Bolivia, Colombia, Ecuador, Peru

Table 8.1 The World's Main Regional Trading Blocs (2 of 3)

MERCOSUR	Southern Common Market
	Argentina, Brazil, Paraguay, Uruguay, Venezuela (Bolivia, Chile, Colombia, Ecuador, and Peru are associate members)
CARICOM	Caribbean Community and Common Market
	Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago
CACM	Central American Common Market
	Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
FTAA	Free Trade Area of the Americas
	34 nations from Central, North, and South America and the Caribbean
ASEAN	Association of Southeast Asian Nations
	Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Vietnam

Table 8.1 The World's Main Regional Trading Blocs (3 of 3)

APEC	Asia Pacific Economic Cooperation
	Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, Russia, Singapore, Taiwan, Thailand, United States, Vietnam
CER	Closer Economic Relations Agreement
	Australia, New Zealand
GCC	Gulf Cooperation Council
	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
ECOWAS	Economic Community of West African States
	Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo
AU	African Union
	Total of 53 nations on the continent of Africa

Quick Study 1

1. What is it called when countries in a region cooperate to reduce or eliminate barriers to the international flow of products, people, or capital?
2. What are the names of the lowest and highest levels of regional economic integration?
3. An increase in trade between nations as a result of regional economic integration is called what?
4. Trade shifting away from nations not belonging to a trading bloc and toward member nations is called what?

Integration in Europe (1 of 2)

European Union: Early Years

European Coal and Steel Community (1951)

- Removed trade barriers in coal, iron, and steel

European Economic Community (1957)

- Outlined and took initial steps toward common market

European Community (1967)

- Expanded to other industries, including atomic energy

Integration in Europe (2 of 2)

Single European Act (1987)

- Harmonized regulations, strived for lower barriers

Maastricht Treaty (1991)

- Set single currency targets, outlined eventual political union

European Union (1994)

- Final name change and reduced barriers further

Integration in Europe (1 of 5)

European Union: European Monetary Union

- **Economic Criteria**

- Inflation must be below 3.2 percent.
- Inflation must not exceed that of the three best-performing countries by more than 1.5 percent.
- Government debt must be no higher than 60 percent of GDP.
- Government deficit must be no higher than 3.0 percent of GDP.
- Interest rates on long-term government securities must not exceed, by more than 2.0 percent, those of the three with the lowest inflation rates.

Integration in Europe (2 of 5)

- Nineteen EU member nations have adopted the single currency, the euro.
- **Management Implications of the Euro:**
 - The euro removes financial obstacles created by the use of multiple currencies.
 - Completely eliminates exchange-rate risk
 - Reduces transaction costs
 - The euro makes prices among markets more transparent.

Integration in Europe (3 of 5)

Enlargement of the European Union

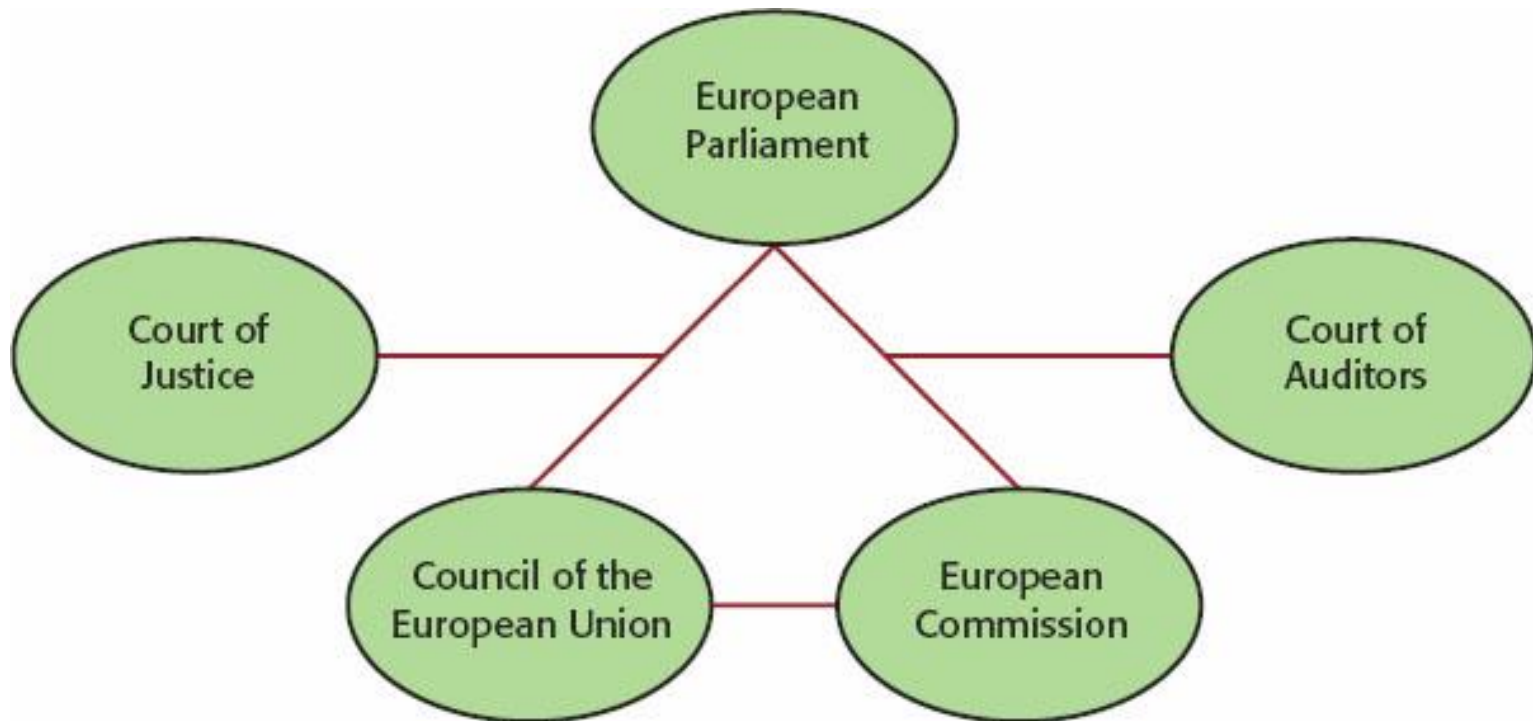
Copenhagen Criteria

- Stable Institutions
- Functioning Market Economy
- Assume Membership Obligations
- Adopt Rules of the Community, Court Of Justice, and Treaties

Integration in Europe (4 of 5)

Structure of the EU

Institutions of the European Union



Quick Study 2

1. What is the name of the official single currency of the European Union?
2. A country may receive membership in the European Union once it meets what are called the what?
3. Why did nations belonging to the European Free Trade Association not want to join the European Union?

Integration in the Americas (1 of 6)

North American Free Trade Agreement (NAFTA)

- Effective in January 1994
- Comprises a market with 480 million consumers
- A GDP of around \$21 trillion
- Free Trade Agreement
- Provisions:
 - Government procurement practices
 - Subsidies
 - Countervailing duties
 - Trade in services
 - Intellectual property rights
 - Standards of health
 - Safety
 - Environment

Integration in the Americas (2 of 6)

Local Content Requirements and Rules of Origin

- Local Content Requirements
- NAFTA Certificate of Origin
- NAFTA Rules of Origin

Effects of NAFTA

- Growing trade among the three participating nations
- Effect on employment and wages is not as easy to determine
- Claims of environmental damage
- Environmental protection efforts
- Delays in NAFTA expansion

Integration in the Americas (3 of 6)

Central American Free Trade Agreement (CAFTA-DR)

- Established in 2006 to include seven countries
 - The United States, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic.
- Combined value of goods traded is around \$50 billion
- Benefits to the United States
 - Reduce tariff and nontariff barriers against U.S. exports to the region.
 - Ensure that U.S. companies are not disadvantaged by Central American nations' trade agreements with other countries.
 - Reform of Central American nations' legal and business environments.
 - Support U.S. national security interests.

Integration in the Americas (4 of 6)

Andean Community (CAN)

- Comunidad Andina de Naciones, or CAN
 - Four South American countries located in the Andes mountain range—Bolivia, Colombia, Ecuador, and Peru
 - A market of around 100 million consumers
 - A combined GDP of about \$600 billion
- Rocky beginning
- Internal tariff reduction
- Common external tariff
- Common transport policies
- Incomplete customs union
- Ideological conflict

Integration in the Americas (5 of 6)

Southern Common Market (MERCOSUR)

- El Mercado Comun del Sur, or MERCOSUR
 - Established in 1988 between Argentina and Brazil but expanded to include Paraguay and Uruguay in 1991 and Venezuela in 2006
 - Associate members include Bolivia, Chile, Colombia, Ecuador, Peru, and Suriname
 - Mexico has been granted observer status in the bloc.
 - A market of more than 290 million consumers
 - A GDP of around \$4 trillion
- A customs union
- Emerging as the most powerful trading bloc in all of Latin America
- Worldwide export appeal

Integration in the Americas (6 of 6)

Central America and the Caribbean

Caribbean Community and Common Market (CARICOM)

- Formed in 1973
- 15 full members, 5 associate members, and 8 observers active
- A combined GDP of nearly \$30 billion
- A market of almost 16 million people
- Do not have the imports one another needs

Central American Common Market (CACM)

- Formed in 1961
 - Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua
- A market of 30 million consumers
- A combined GDP of about \$200 billion
- The common market was never realized

Free Trade Area of the Americas (FTAA)

- Would be the largest free-trade area on the planet
 - From northern tip of Alaska to southern tip of Tierra del Fuego in South America
 - Would comprise 34 nations and 830 million consumers
- Protests by many groups is slowing progress

Quick Study 3

1. Canada, Mexico, and the United States belong to the regional trading bloc called what?
2. What countries belong to the regional trading bloc called CAFTA-DR?
3. What is the name of Latin America's most powerful regional trading bloc?

Integration in Asia and Elsewhere (1 of 3)

Association of Southeast Asian Nations (ASEAN)

- Formed in 1967
- Ten ASEAN (www.aseansec.org) countries
 - Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, and Cambodia
 - A market of nearly 600 million consumers
 - A GDP of nearly \$2.4 trillion
- Main objectives
 1. Promote economic, cultural, and social development in the region
 2. Safeguard the region's economic and political stability
 3. Serve as a forum in which differences can be resolved fairly and peacefully
- China, Japan, and South Korea are accelerating efforts to join ASEAN.

Integration in Asia and Elsewhere (2 of 3)

Asia Pacific Economic Cooperation (APEC)

- Formed in 1989
- Now has 21 members
- Accounts for more than 44 percent of world trade
- A combined GDP of about \$36 trillion
- Aims to strengthen the multilateral trading system
 - Liberalizing trade and investment procedures among member nations

Integration in Asia and Elsewhere (3 of 3)

Closer Economic Relations (CER) Agreement

- Completely eliminated tariffs and quotas between Australia and New Zealand

Gulf Cooperation Council (GCC)

- Evolved to become as much a political entity as an economic one

Economic Community of West African States (ECOWAS)

- Progress on market integration is almost nonexistent

African Union (AU)

- To strengthen cohesion among the peoples of Africa

Quick Study 4

1. What are the stated aims of the Association of Southeast Asian Nations (ASEAN)?
2. The stated aim of which organization is not to build a trading bloc but instead to strengthen the multilateral trading system?
3. What is the name of the grouping of 55 nations across the continent of Africa?

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