

## Supranational Bodies

1. Regionalism
2. Types of regional economic integration
3. EU, NAFTA, ASEAN & APEC

## Learning Outcomes

1. Role of supranational bodies in economic development
2. Impact on national and regional economies

## **(1) REGIONALISM**

- ✓ Tendency for states to collaborate at regional level to achieve specific economic & welfare goals:
  - Regional trade agreements
  - Bilateral free-trade agreements
  - Trade blocs
- ✓ **Regionalism** dominant feature of contemporary global economy (regionalization versus globalization)
- ✓ Fundamental basis of regional economic blocs: preferential trading arrangements (PTAs)
  - **Take advantage of size in trade**: large market for producers and protection from outside competition
  - Liberalize commerce amongst members (through tariff reductions)
  - But discriminates against non-members
- ✓ Regional economic blocs have considerable influence on world trade

### Effects of Regional Blocs

- ✓ Trade diversion: trading with partner in bloc instead of outside, diverts investment towards other locations
- ✓ Trade creation: replaces home production, increase imports / exports

### Integration within Global Triad

- ✓ Disproportionate share of global production, trade & investment to be concentrated in global triad (North America, Europe & East Asia)
- ✓ **Emergence of core & periphery**

## **(2) TYPES OF REGIONAL ECONOMIC INTEGRATION**

	<u>Free Trade Area</u>	<u>Customs Union</u>	<u>Common Market</u>	<u>Economic Union</u>
Removal of trade restrictions between members	✓	✓	✓	✓
Common external trade policies towards non-members		✓	✓	✓
Free movement of production factors between members			✓	✓

Harmonization of economic policies under <b>supranational control</b>				<input checked="" type="checkbox"/>
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- ✓ Vast majority of regional blocs: FTAs & customs union
- ✓ Only EU considered as economic union

### (3) EUROPEAN UNION (EU)

- ✓ Most highly developed & structurally completed
  - 500m people, GDP US\$13.4tr
  - Single market of customs union, common currency & common policies (trade, agricultural)
- ✓ Removal of physical, technical, fiscal barriers
- ✓ Internal liberalization and deregulation creates virtuous circle of growth for European community, member states & firms
  - Greater economic hinterland & bargaining power

#### Issues facing the EU

- ✓ **Geographical unevenness**
  - Core-periphery segregation surfaces
- ✓ **“Insiders” & “Outsiders”**
  - Splits in single European currency & monetary union (EMU)
  - Denmark, Sweden & UK opt out of EMU (stronger own currency, national identity & greater financial control)
- ✓ **Further enlargement?**
  - Difficulties with scale & complexity of current agenda (E.g. issues of porous borders)
  - Nature of applicant states strain on EU budget (E.g. Turkey, ex-Soviet countries)

### (4) NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

- ✓ Since 1994, integrates US, Canada & Mexico
  - 390m people, GDP USD\$7.6tr
  - First trade bloc involving MEDCs & LEDCs
- ✓ Aims to **eliminate tariffs & restrictions on free trade & investment**
  - All tariffs on goods phased out within 10 years
  - Facilitation of service trading
  - Provision for some protection of ‘sensitive industries’ (e.g. US sugar)
- ✓ NAFTA formation expedited by competition from EU
- ✓ Agreement monitored by 3-country commissions
  - Any 2 countries can instigate investigation on suspected breaches of regulations
- ✓ Rationale for NAFTA:
  - USA: ensure stable economic & political development and access to Mexican resources (raw materials, labour)

- Mexico: attract inward investment from Europe & Asia, secure access to US & Canadian markets
- Canada: consolidate Canada-US Free Trade Agreement
- ✓ Eventual aim for NAFTA to include Latin America

## Impact of NAFTA

- ✓ **Opinion towards NAFTA divided**, especially in USA
  - Loss of jobs from US to Mexico due to relocation of manufacturing & rising trade deficit
- ✓ **Impact too early to judge** as many provisions have not taken effect

## **(5) ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)**

- ✓ Intergovernmental institution established 1967 to promote regional cooperation based on mutual respect
  - Emphasis on negotiation & consultation, no legal constitution
- ✓ AFTA initiated in 1992 ASEAN meeting, involving 10 member nations
- ✓ Aims to remove all internal trade barriers by 2003

## Impact of AFTA

- ✓ Exports among ASEAN nations almost doubled between 1993 & 1996
- ✓ Trade between members increased from 17% (1980) to 22% (2000)
- ✓ Increased economic cooperation

## Strengths & Weaknesses of ASEAN

- ✓ (+) Promote & maintain positive relations amongst diverse nations
- ✓ (-) Soft & slow response to problems due to principle of **non-interference** in domestic matters of member states
- ✓ (-) **Limited success in stimulating economic activity** due to limited trade amongst members
  - E.g. Vietnam trades with China, Singapore trades with US & EU

## Challenges facing ASEAN

- ✓ Integration of different economies of Cambodia, Laos, Myanmar & Vietnam
- ✓ **Rising of competition from other East Asian countries** (China, India)
  - Prospects of ASEAN+3; arrangements to involve Japan, China & South Korea in an FTA

## **(6) ASIA-PACIFIC ECONOMIC COOPERATION FORUM (APEC)**

- ✓ Established in 1989 on Australian government initiative
- ✓ Involves Pacific Rim nations (Oceania, East Asia, Russia, North America, Mexico, Peru & Chile)
- ✓ Different agendas amongst different nations:
  - USA: strengthen economic & political interests in Asia

- China: gain acceptance in international economy
- Australia: legitimizing role as Pacific economy
- Smaller Asian nations: involvement in region & fearing dominance by Japan, USA & China
- ✓ **“Open regionalism”**: liberalization conducted in open, multilateral manner
- ✓ Discuss wider issues (competition policy, environmental protection)
  - Discuss ≠ implement!