Regional integration (advantages and disadvantages) essay sample

Economics, Trade

In this paper, I will select a region, chose a trading bloc within that region, and write an article in favor of regional integration and another against it. I will also describe the advantages and disadvantages of regional integration within both articles and relate the stage of economic development of the economically integrated region to potential business opportunities. Before stating my opinions of why I would be for regional integration and then, why I would be against it, I will define the term for clarification and understanding.

According to Hill, regional economic integration are agreements among countries in a geographic region to reduce, and ultimately remove tariff and non-tariff barriers to the free flow of goods, services, and factors of productions between each other (Hill, 2009). For sake of simplicity, I have chosen the North American region, with NAFTA as the trading bloc to state my favor of regional integration for the region, and my disapproval of it.

It is important as well, before beginning my articles, that one understands basic details of NAFTA. In 1994, the United States, Canada, and Mexico, reached an agreement that promised to remove all barriers to the free flow of goods and services between the countries and instituted a phasing out of tariffs and other fees to encourage free trade (InvestorWords, 2009). This agreement coincides directly with the purposes of regional integration, and there are positive and negative effects of such actions.

Article One (In favor of regional integration)Regional integration in North America has faced opposition but not surprisingly, much support as well. It is beneficial that manufacturing would be moved to Mexico where labor is less expensive, and today many businesses have taken profitable advantage on this cost-saving opportunity. Such a move is a clear benefit to Mexico because of the creation of jobs and boosting of its economy. The United States and Canada would thus benefit from Mexico's boosted economy, allowing the two countries to further export products and services to Mexico. Regional integration allows disadvantaged countries, such as Mexico, to realize economies of scale, compete on a broader platform, and increase overall economic efficiency (OECD, n. d.). For the aforementioned region, the demand for products from the U. S. and Canada will increase and in turn, make up for production losses in those countries.

Since the three countries entered regional integration through the NAFTA agreement, trade and investment has expanded and trade among the NAFTA nations has more than tripled from $297 billion to $930 billion, and business investment has risen by 117% since 1993 (U. S. Trade Representative [USTR], 2009).

In addition, U. S. employment rose from 110. 8 million people in 1993 to 137. 6 millon in 2007 (USTR). Mexican wages have continued to grow since the 1994 peso crisis, while studies have shown that Mexican industries that export or that are in regions with a higher concentration of foreign investment and trade also have higher wages (USTR). By joining the agreement, Mexico was able to boost its economy and for the first time was able to elect a president that did not belong to the revolutionary party (USTR). The idea behind free trade is not specifically to create more jobs but to create advantages for more efficiency in production. NAFTA created more jobs within the United States, as employment in the U. S. grew from 120. 3

million in 1993 to 135. 1 million in 2001, an increase of almost 2, 000, 000 jobs per year (Griswold, 2002).

Regional integration has promoted and encouraged positive relationships between the U. S., Canada, and Mexico. The region has established its own set of guidelines concerning its members. The most important aspect of regional integration is the ability to help strengthen economic as well as social and cultural ties between countries, and the biggest advantage is the ability to establish and maintain free open trade. The reduction of costs for producing products is the effect due to the lowering of trade barriers, and regional integration also allows the three countries a larger market share and the opportunity to increase competition.

Regional integration has been a successful economic tool for the Unites States, Canada, and Mexico, by bringing about unity and helping to reform the economies of each country. Mexico experienced an increase in its economy, the election of a non-revolutionary party president, and the U. S. witnessed a drop in unemployment, as well as a growth in jobs. Although there exists those who are opposed to regional integration, it remains a tool that can create unity, security, and free trade for nations that need it.

Article Two (Against regional integration)Regional integration for North America also has its disadvantages, which leads me to write this article against such an agreement. First of all, economic integration has its costs, and involves painful adjustments. According to Hill, due to the establishment of NAFTA, textile workers in Canada and the U. S., which employ low-cost and low-skilled labor, lost their jobs as the two countries moved production to Mexico (Hill, 2009). Another issue would be that Mexico could exploit environmental concerns due to the high level of toxicity in the country's air (OECD, n. d.). Mexican citizens have also felt that NAFTA was not a satisfactory trade agreement because they believed the U. S. would overtake Mexico with companies that would not contribute to its economy (OECD).

Some critics of regional economic integration have worried that regional economic integration will lead to a world in which regional trade blocs compete against each other, free trade will exist within each bloc, and each bloc will protect its market from outside competition with high tariffs (Hill, 2009). Therefore, NAFTA could turn into an economic powerhouse with enough power to shut out foreign imports and exports with high tariff barriers, thus restricting free trade.

The decline in trade between the blocs would be greater than the gains of trade within them. Opposition also came in Mexico from some who feared that the U. S. and Canada would use Mexico as a low-cost assembly site, while keeping their high-paying, high-skilled jobs north of the border (Hill). Again, environmentalists express their concerns that pollution would be promoted due to weak environmental standards under NAFTA. Regional integration would also produce a loss of national sovereignty or a loss of identity as countries hand over some of their monetary, fiscal, and trade decision-making powers, thus making them rely on the trading bloc (Hill). Lastly, the countries may be unwilling to share resources, socio-economic disparity, and historical disagreements (OECD).

Regional economic integration has mainly one overall disadvantage that economists say has often been ignored. Higher cost suppliers, such as the U. S. and Canada in this case, may replace lower cost external suppliers within the free trade area; in other words, the trade agreement will only be of benefit when the amount of trade that is created is greater than the amount it diverts (Hill, 2009). Regional integration is, in essence, a double-edged sword, or a bitter-sweet solution for economic growth and prosperity, with its advantages and disadvantages; it is a risk that many countries are willing to take.

References

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