The levels of economic integration economics essay

ASSIGN BUSTER

Regional Economic Integration: Why is it happening? Why do nations engage in trade? Provide examples of the levels of economic integration.

The reason why the Regional Economic Integration is happening because nowadays we have the open market in which every countries or state can have the free trade to others countries. This integration results from regional economic integration blocs in which member countries agree to eliminate tariffs and other restrictions on the cross-national flow of products, services, capital and in more advanced stages labor within the bloc (THE ROLE OF THE REGIONAL ECONOMIC INTEGRATION ON THE INTERNATIONAL BUSSINESS). One of the most important things that lead to this integration is the globalization. It affects no on many types of life including the economy. So that, this is a significance to have the Economic integration in order to have the better economy in which the globalization is making its effects on.

Nations engage in economic integration because each country cannot produce all the goods and services because of its limitation of resources or technology. Therefore, countries produce what they can and have the fully supply of materials, and then they trade another country in order to exchange for whatever they need. Some countries trade with other nations for particular goods and services because the other countries can produce these cheaper. One country may have the advance at producing high quality widescreen-high-definition TV. Another country may have the resources for producing goods but they don´t have the technology. It would benefit both countries to trade with one another for their different but complementary goods and services.

There are several levels of the regional economic integration which are the Free Trade Area, The Custom Union, The Common Market, and The Economic Union. The Free Trade Area is the least restrictive form of economic integration among countries. In a free trade area, all barriers to trade among member countries are removed. (Free Trade Area). The free trade area does not have a common external tariff, meaning different quotas and customs. A free trade area is a result of a free trade agreement between two or more countries. Free trade areas and agreements (FTAs) are cascadable to some degree; if some countries sign agreement to form free trade area and choose to negotiate another free trade agreement with some external country(ies) â€” then the new FTA will consist of the old FTA plus the new country(ies). (Free Trade Area)Therefore, goods and services are freely traded among member countries in much the same way that they flow freely. European Free Trade Association (EFTA) and North American Free Trade Agreement (NAFTA) are one of the biggest free trade areas in the world.

The customs union is one step further along the spectrum of economic integration. Like a free trade area, it eliminates trade barriers between member countries and adopts a common external trade policy (2) in goods and services among themselves. One of the biggest customs unions is the Andean Pact. It has Bolivia, Columbia, Ecuador, and Peru as its members. In addition, however, the customs union establishes a common trade policy with respect to nonmembers. Typically, this takes the form of a common external tariff, whereby imports from nonmembers are subject to the same tariff when sold to any member country. Tariff revenues are then shared among members according to a perspective formula.

The common market has no barriers to trade among members and has a common external trade policy like the customs union. Additionally, the common market removes restrictions on the movement of the factors of production (labor, capital, and technology) across borders. (2) Thus, restrictions on immigration, emigration, and cross-border investment are abolished. When factors of production are freely mobile, then capital, labor, and technology may be employed in their most productive uses.

An economic union has the free flow of products and factors of production between members, a common external trade policy, a common currency, a harmonized tax rate, and a common monetary and fiscal policy. (2) The creation of a true economic union requires integration of economic policies in addition to the free movement of goods, services, and factors of production across borders. (Micheal R. Czinkota, Illka A. Ronkainen Micheal H. Moffett.). In an economic union, members would harmonize monetary policies, taxation, and government spending. An economic union is the same as a common market (Uniform trade barriers both internally and with third countries, as well as free movement of capital, labor and information); however it has some additional rules such as the uniform economic and social policy, one single currency, and no physical borders within. (Characteristic of an economic union)Nowadays, the only one economic union is the European Union (EU). EU is the most important economic in the world in which almost European countries are the members. It has the great effect to the world economy.