History and functions of regional trade blocs economics essay

A regional trade bloc is referred to the agreement between the governments or even a part of the organizations where the trade barriers including the non tariff and tariffs barrier are eliminated between the states which are participating in the states. In addition to this the trade blocs are defined its member states against the global competitiveness. Regional trade blocs are established to promote the trade at global level (El-Agraa, 1997). In order to tackle with the global competition, the government in each country has established some restrictions including tariffs on goods manufactured by the member states, government subsidies technical and other non tariff barriers, import quotas, onerous bureaucratic import processes. At present there have been four major trade blocs such as ASEAN, EU, MERCOSUR and NAFTA. This assignment report provides the discussion on international trade and regional trade blocs along with the advantages of such blocs.

Historical View:

Historically the first economic bloc was developed in Germany under the name of German Customs Union in 1834. It was formed on the basis of German Confederation and later on by the German Empire in 1871, a main surge in the trade bloc was noticed in the decade of 60s and 70s and subsequently in 90s during the collusion of communism. Under the rise of global competition approximately 50% of the world trade was taken place from regional blocs. According to the economist Jeffery (1993), there were four common traits shared by the members of successful trade blocs such as geographic proximities, political commitment to the regional organization, similar level of per capita GNP and compatible trading regimes. The member sates who are advocating the free trade is opposed to the trade blocs as it is the argument to promote regional blocs against the global free trade (Bernal, 1997). The worldwide economists still argued that whether the regional bloc leads to the fragmented world economy or it is encouraging the stretch of present global multilateral trading system. According to the world economists, trade blocs are basically a trade agreement between the several states which produced the goods and it's a part of the regional organization (Bernal, 1997). There are the several different categories of trade blocs which are defined based on the level of economic integration such as monetary union, custom union, economic union, preferential trading areas, and common market and free trade areas (O'Loughlin and Anselin, 1996).

Major Trade Blocs:

There are four major trade blocs as ASEAN, EU, MERCOSUR and NAFTA. ASEAN is known as Association of South East Asian Nations and was established in 1967 in Bangkok, Thailand. Member countries in ASEAN are Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam. The main goal of trade bloc is to promote the regional peace and stability among the nations, adherence to the United Nations Charter, accelerating the growth, cultural development and social progress within the nations. The collective population of ASEAN is 592 million with the total GDP of USD 1. 492 trillion and total trade is accounted US$1. 536 trillion as of 15 March 2010.

(Source: http://www. rosalienebacchus. com/articles/RegionalTradeBlocks. html)

European Union (EU) was founded in 1951 with the aim of developing a regional free trade association, developing the economic and executive connection and healthy relationship among the member states. Presently there are 27 member countries are associated with the European Union including Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Poland, Portugal, Romania, Slovakia, Slovenia,

Spain, Sweden, The Netherlands, and the United Kingdom. The total population of the EU is approximately 500 million with the accumulated GDP of USD 15, 247 trillion.

(Source: http://www. rosalienebacchus. com/articles/RegionalTradeBlocks. html)

MERCOSUR was established on 26 March 1991 by the treaty of Assuncion. The member countries are divided into two such as full member countries and associate member countries. Argentina, Brazil, Paraguay, Uruguay, and Venezuela are the full member countries where as Bolivia, Chile, Colombia, Ecuador, and Peru are associate member countries. The only difference between the full member and associate member countries is that the associate member countries can access only the preferential trade but not the tariff benefits as like full member countries. The aim of the MERCOSUR trade bloc is to integrate the member state for the purpose of accelerating the sustained economic development depending on the social justice, combating poverty and environmental protection. The overall population is 273 million with the total GDP of USD 2. 774 trillion.

(Source: http://www. rosalienebacchus. com/articles/RegionalTradeBlocks. html)

NAFTA is known as North American Free Trade Agreement and was established in 1994. The aim of NAFTA is to eliminate the trade barriers among the member countries, increase the investment opportunities, promoting the conditions for free trade and protecting the intellectual property rights. Member countries are Canada, Mexico, and the United States of America.

(Source: http://www. rosalienebacchus. com/articles/RegionalTradeBlocks. html)

A recent example of trade bloc is EU which has strengthened the power of individual country. For Example Europe Based Airbus is a largest Aircraft manufacturer which was able to increase its market share by 21% to 50% due to the development of EU as trade bloc. The company was established in 1970 as a consortium of French and German companies. It was later on expanded to Italy and Spain due to the diversity of European Union.

(Source: http://www. stanford. edu/class/e297b/Progress%20of%20the %20European%20Union. htm)

Advantages of Trade Bloc:

There are the following advantages of trade blocs:

Foreign Direct Investment: it attracts the foreign direct investment which provides the benefits of economies of participating the nations. It builds large market which resulted in low cost of manufacturing to the products locally.

Economies of Scale: The development of large market provides the benefit of economies of scale where the average cost of production is reduced and bulk production can be accessible.

Competition: it provides the opportunities to the manufacturer from different regions to come closer and developed the greater competition. It also increases the greater efficiency of the companies.

Trade Effects: the trade blocs eliminate the tariffs which further reduces the cost of importing the goods. Moreover the demand changes and provides the better choices to the consumers for purchasing the products at lowest possible prices.

Market Efficiency: a greater combination exists after the rise in the competition with the better emphasis on market efficiency.

(Source: Mansfield and Helen, 2005)

Conclusion:

A number of organizations believe that the free trade is threatening the choice of their freedom which further pressurizes the countries to harmonize their products to the voluntary preferences (Milner, 2004). The countries therefore believe that the free trade agreements are meant for making money from the businesses and put before the welfare of the countries. On the other hand it provides the opportunity for the member countries to share their expertise and promote the zero tariff trade to benefit the society as a whole (Jaime and Panagariya, 1992).