Regional economic integration

Regional economic integration becomes a new trend in the world of trading nowadays; there are many World Regions and Trade Organizations such as APEC, EU, NAFTA and ASEAN (Trade, 2010). In this essay, the objective is comparing the European Union (EU) and North American Free Trade Agreement (NAFTA), which are known as two top regional economic integrations in the world. Before comparing and contrasting these two regional trade associations, this essay will firstly consider giving some background knowledge of EU and NAFTA. It will then go on with comparing the level of regional economic integration with free trade area, custom union, common market, economic union and political union between EU and NAFTA. Making the comparison between the impact of integration in EU and NAFTA will be stated as the third section in this essay. At the end, this essay will give a conclusion in order to summarize the key point in the main body.

EU, whose forerunner was the European Economic Community (EEC) that was founded in 1958 and changed its name into EU in 1993, followed the ratification of the Maastricht Treaty (European Union, n. d). The EU includes 27 European countries today, as an economic and political partnership between these countries. In addition, according to Actrav (n. d), the objective of the EU is calling to eliminate the internal trade barriers and create a common external tariff in order to strengthen the economic and social harmonious development and establish finally unified monetary economic monetary union (EMU), promote economic and social between member countries. Moreover, EU can develop the free moverment of goods, services, capital and people.

Compare with North American Free Trade Agreement (NAFTA), according to United States Trade Representative (n. d), NAFTA consist of the United States, Canada, and Mexico on 1 January, 1994. Moreover, some restrictions and duties were eliminated in 2008. SICE (2012) expounded that the objective of NAFTA include the following guidelines:

- Elimination within 10 years of tariffs on 99 percent of the goods traded between member countries.
- Remove majority of the barriers on the cross-border flow of services.
- Intellectual property rights are protected.
- Foreign direct investment between member countries is less restrictions.
- Members can apply national environmental standards.
- Commissions are establish to police violations.

The next part of this essay shows the information about regional economic integration, which relates the EU and NAFTA. According to Charles (2011, p 688), regional economic integration can be defined as ‘ agreements among countries in a geographic region to reduce and ultimately remove tariff and nontariff barriers to the free flow of goods, services, and factors of production between each other.’ European Union and North American Free Trade Agreement are the most obvious example to show regional economic integration. Charles (2011) stated that there are five levels of economic integration, which are free trade area, customs union, common market, common market, economic union and political union. The table 1 is shown below:

The first level of economic integration is free trade agreements (FTAs). Rolf and Nataliya (2001) explained that FTAs can avoid the barriers such as import tariffs and import quotas between signatory countries. Each country can determine its own policies with nonmember. For example, the traffic barriers are very different between member and nonmember (Charles, 2011). In addition, according to WTO (2002), the most popular form of regional economic integration is free trade agreements, which accounts for almost 90 percent of regional agreements. The example of free trade area in the world is the NAFTA that include three countries, are United State, Canada and Mexico. NAFTANOW (2012) explained that NAFTA is the largest FTAs in the world, has abolished most parts of tariff and non-tariff which are barriers for trade and investment in the union systematically. Also, NAFTA has helped create a certain and confident environment for long term investment through the establishment of a successful and reliable regulation for the safe investment. EU also eliminated the tariff and non-tariff barriers during trade between member countries, but has a little bit different with NAFTA, which EU focus on the non-tariff barriers than tariff.

The next level of economic integration is customs union (CU), which build on a free trade area. Michael Holden (2003) descried that members in a customs union have no trade barriers with goods, as well as services among them. Besides, the CU put forward a common trade policy which shows respect to those nonmembers. It is a typical form for common external tariff that has the same tariff sold to any member countries when the subjects of imports are nonmembers. For example, EU began in this level at the beginning, but now it has moved to the high level of economic integration. In addition, NAFTA also has comment external trade barrier from outside. For example, Andean Community is known as the customs unions around the world, which assured free trade between signatory countries and compelled with a common tariff of 5 to 20 per cent on trading products while importing from countries outside the union.

According to Jennifer (2004), every single common market represents a major step to important integration of economy. Except for the involvement of the provision for customs union, a common market (CM) moves all barriers into capital and other resources, people’s mobility within the areas mentioned in the question, as well as removing the non-tariff barriers of trading such as controllable management of the standards for the product. A common market’s establishment typically needs the accordance of those significant policies within many areas. As an example, free movement of labor makes the agreements of worker qualification and certification necessary. Besides, a common market is also typically relevant to a comprehensive assemblage of monetary and fiscal policies, whether through design or the result, because of the increasing economic interdependence with the area and the influences that one member state can bring on another or other countries, which gives more rigorous restrictions on the ability of the engagement on the independent economic policies with the necessarily. The first coming benefit of establishing a common market is the gains of economic efficiency under expectation. Within the common market, labor and capital could respond to the economic signals more easily with the unfettered mobility, which lead to a higher allocation efficiency. In EU and NAFTA, both of regional trade associations can be seem as common market, because they can freely move the capital, people and goods without barriers. For example, in EU the people can travel most of the continent without border controls between EU countries and NAFTA also the same as EU (European Union, n. d).

Michael Holden (2003), the deepest form of economic integration, also known as an economic union, adds the requirements of the accordance between a numbers of key policy areas to a common market. Apparently, economic unions as a higher level of integration, ‘ require formally coordinated monetary and fiscal policies as well as labor market, regional development, transportation and industrial policies’. It would have opposite results to operate dispersive policies in those regions since all countries would share economic space basically. An economic union contains the usage of a unified monetary policy and a common currency with frequency. The functions of an economic union would be enhanced with eliminating the uncertainty of exchange rate through permitting trade to follow efficient was economically instead of being unduly influenced by considering exchange rate, which is also suitable for business location choosing. Supranational institutions would be requested to manage the trade within the areas of union in order to ensure consistent applications of the regulations. These laws should still be administered within a national level while countries would renounce the control over this area. In economic union, there are many different between EU and NAFTA. One of the most important differences is the currency. In the EU, it has a single currency of Euro, however, the currency not just one in NAFTA. In addition, the political structure of the EU and NAFTA also different. There are four main institutions in the EU political structure, which are European Commission, the Council of European Union, the European Parliament, and the Court of Justice. Moreover, EU has own fiscal police of Maastricht Treaty. In contrast, NAFTA has not political structure to control the police, because NAFTA is like a law which became in 1994 (Charles, 2011). Therefore, NAFTA can be seem as economic union because no single currency between member countries.

‘ The move toward economic union raises the issue of how to make a coordinating bureaucracy accountable to the citizens of member nations. The answer is through political union in which a central political apparatus coordinates the economic, social, and foreign policy of the member states’ (Charles, 2011, p268). The United State is the good example, which even closer this stage. However, NAFTA and the EU both are not become political union.

In the third part of this essay, it will talk about the impact of integration in EU and NAFTA, such as economic grow, increased competition and so on. The EU establishes a single currency which is benefit for the Europeans. There are many reasons; first, handling one currency is better than many, because companies and individuals can save a lot. For example, people going from Germany to French, they do not go to bank in order to change German deutsche into French francs. Second, when the consumers to shop around the Europe, one currency can make them easier to compare prices of goods and service, which will lead to increase competition. For example, if the car sell in France is cheaper than Germany, the people can go to France buy the car and then sell in Germany. This will make the German company face a competition with French company. Third, a common currency can increase the highly liquid pan-European capital market. In addition, according to Gabriele (2008), the EU also impact on business because the transaction costs between the members of EU will disappearance, which can make the products produce in lower cost. It will get more competitive advantage with nonmember countries. However, the drawback of Euro is that national authorities will lose control over monetary policy. And ‘ the implied of loss of national sovereignty to the European Central Bank (ECB) underlies the decision by Great Britain, Denmark and Sweden to stay out of the euro zone for now’ (Charles, 2011, p278). Furthermore, another disadvantage of the euro is that may lead to economic growth become lower and inflation will higher in Europe.

The impact of integration in NAFTA is increase exports, imports and investment between U. S. in NAFTA countries, which will lead to increase economic grow. According to United States Trade Representative (n. d), the goods exports of U. S. to NAFTA increased 23. 4% between 2010 and 2009, and up 149% from 1994. In addition, the import from NAFTA countries also developed 25. 6 from 2009, and up 184% from 1994. Moreover, United State foreign directs investment (FDI) in NAFTA also up 8. 8% between 2009 and 2008. All of these data show that the integration makes NAFTA countries trade and invest more than before. In addition, Charles (2011) explained that as other influences over NAFTA, companies from US and Canada would move their industries into Mexico for its labor market with low cost. At the meantime, Mexico could get benefits from the inward investment and the improvement with employment with the labor market. It is beneficial for US and Canada because Mexicans could import more goods from US and

Canada with their increasing incomes, therefore increasing demand of Mexicans and the making up for jobs lost in companies that moved production to Mexico, which brings advantages to US and Canada with the lower-price products made in Mexico. In addition, the advantage of lower labor costs in Mexico can increase the international competitiveness of U. S. and Canadian firm to better compete with outside of competitors such as Asian and European rivals. The negative of NAFTA is that loss of U. S. jobs to Mexico, which up to 5. 9 millions. Moreover, the Mexico's environment deteriorated is the other problem in NAFTA, because the productions of the United States move into Mexico. The same production will effect more cheaply and more dirtily, which will result in environment deteriorated. Such as globally in terms of resource depletion, pollution and greenhouse gas emissions, and ecosystem spoilage. Furthermore, there was also opposition in Mexico to NAFTA from those who feared a loss of national sovereignty. This point of view is similar with the costs of the Euro (Charles, 2011).

In conclusion, after compare and contrast of regional economic integration between EU and NAFTA, there are many factors are similar. For example, they both are free trade area, customs union and common market, because they meet the requirements of these three stages. In addition, they have not tariff and non-tariff barriers between member countries. Moreover, both have common external tariff to nonmember countries and free movement of capital, people and goods. However, the big different between EU and NAFTA is, EU has a single currency and fiscal police, but NAFTA without these two elements. In the part of impact of integration, it shows the positives and negatives of EU and NAFTA. The similar points are both can increase their economic growth and foreign direct investment in signatory countries. In addition, they both face some problem of nation will loss of national sovereignty, such as Mexico and Sweden. However, EU also has a problem of lost control over monetary policy but NAFTA will not face this issue, because NAFTA is not single currency in U. S., Canada and Mexico.