# Why do nations engage in trade?

## 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 (3). 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 it needs. Therefore, countries produce what they are good at and have abundant supply of raw materials, and then they trade another country in exchange for something that they need. Some countries trade with other nations for particular goods and services because they either lack the technology to produce the goods themselves or the other countries can do it cheaper. One country may have the advance at producing high quality cabinets and entertainment stands for large screen televisions. 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. (1) Therefore, goods and services are freely traded among member countries in much the same way that they flow freely between, for example, Southeast Asia and America. There are no discriminatory taxes, quotas tariffs, or other trade barriers are allowed. Sometimes a free trade area is formed only for certain classes of goods and services. The most notable feature of a free trade area is that each member country is free to set any tariffs, quotas, or other restriction that it chooses for trade with countries outside the free trade area. 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) 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. 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. Under an economic union, members would harmonize monetary policies, taxation, and government spending. In addition, a common currency would be used by all members. This could be accomplished by members' countries agreeing to a common currency or in effect, by a system of fixed exchange rates. Clearly, the formation of an economic union requires nations to surrender a large measure of their formation of an economic union requires nations to surrender a large measure of their national sovereignty. Needless to say, the barriers to full economic union are quite strong. Our global political system is built on the autonomy and supreme power of the nation-state, and attempts to undermine the authority of the state will undoubtedly always encounter opposition. As a result, no true economic unions are in effect today.