

Research paper on regional economic integration

[Parts of the World](#), [European Union](#)



Regional Economic Integration

Regional Economic Integration refers to the creation of agreements among the countries within the same geographical areas, which aims to enhance economic and political cooperation. Its initial purpose is to reduce or remove trade barriers in the region, while the scope of the agreement can also include further areas for cooperation. It is possible to identify several kinds of regional economic integration, which depend on the degree to which countries want to sacrifice their sovereignty in favour of collaboration and barrier reduction. The least restrictive form of economic integration is the so called " preferential trade area". It implies a partial reduction of trade barriers without eliminating them completely. The next stage of integration is referred to as a " free trade area". In a free trade area all kinds of trade barriers between member states are removed. In this case, each member is free to define own policy in relation to the non-member states. Once a common external tariff is agreed on among the member states, the integration takes the form of a customs union. Further integration of the states involves the freedom of movement of goods/services as well as factors of production, thus creating an " economic union". The final stage of cooperation is complete economic integration, which entails nearly full harmonization of fiscal and monetary policies (Czinkota & Ronkainen, 2007).

Perhaps the most widely known examples of economic integration are NAFTA (North American Free Trade Agreement) and the EU (European Union).

However, these two blocs are significantly different in their history, major present and future issues as well as in the implications they create for the

multinationals companies.

a. Five major historical facts

The history of EU and NAFTA is very different. Firstly, the EU is a much older bloc, which originates from 1958. NAFTA, on the other hand, is a relatively recent agreement, which was signed in 1994. Secondly, the story of the EU is the story of a continuous evolution and a gradual integration. It started as a European Coal and Steel Community, which was merely an attempt to protect the region from a potential war. NAFTA, however, has been the first major effort to unite the three countries: the U. S., Canada and Mexico, even though there were limited bilateral agreements between Canada and the U. S. The third historical difference relates to the way the two trade blocs have developed. While EU has been moving towards full economic integration by partially synchronizing political and fiscal policies, NAFTA has preserved its focus on the economic integration. Fourth difference can be found in the size dynamics of the blocs. NAFTA membership has not changed since its inception, while EU continues to grow and currently includes 27 member states. Lastly, most of the EU members have adopted a common currency in order to simplify transactions within the region. NAFTA, however, prefers to maintain own currencies of the member states, thus providing more flexibility and reducing interdependence.

b. Five major current issues

One of the current problems faced by the European Union is a continuous rise of unemployment. According to the latest Eurostat statistics almost 10% of the labour force in the EU is currently unemployed (Social Justice Ireland, 2012). In contrast, the overall NAFTA employment has not been suffered

significantly. However, the issue of job loss in particular sectors, such as Mexican agriculture and American textiles, continues to raise concerns. The difference between NAFTA and the EU lies also in the current growth of the bloc. While the combined GDP of the three NAFTA countries has been increasing during the past years partially due to the productivity enhancement through resource reallocation, the European growth rate has been less than moderate. Moreover, most of the regional growth can be attributed to just a few major players, such as Germany, while the productivity rate in countries like Italy and Greece has been stagnant for a long time. As NAFTA is only a free trade agreement, it does not stipulate the compliance with common environmental standards. This fact raises numerous concerns regarding the limited environmental regulations in Mexico, since Mexican trucks cross American borders and the waste from Mexican factories contaminates water and soil of all NAFTA members (Stenzel). In Europe, however, full compliance with the strict environmental regulations is mandatory, therefore no issues in this area may arise. Lastly, the difference between the EU and NAFTA lies in the degree of movement freedom factors of production, especially labour. Since in the EU people are free to move, the flexibility of labour supply eliminates major differences in wages. In NAFTA, however, people do not have the opportunity to move so freely. Therefore, Mexico continues to have labour surplus, which drives country wages down and generates a wave of criticism for “stealing jobs” from the US (Robert, 2000).

One of the main current issues that is common to both the EU and NAFTA is the support of unfair competition in the agricultural sector. Extensive

subsidies provided to the local farmers create a strong barrier for external suppliers of agricultural products, who try to penetrate NAFTA or the EU markets. Although the issue of agricultural subsidies has been extensively discussed for a long time, there has been little progress in this area.

c. Five major future issues

Having considered the main current issues of NAFTA and the EU, it is possible to determine the main future steps for the regions. For NAFTA, it is important to achieve harmonization in the area of labour and environmental standards, to facilitate freer movement of people and other factors of production, to assist people, who have lost their jobs due to the new division of labour, to reduce non-tariff barriers, in particular in agriculture, and to address the problem of uneven distribution of the benefits of economic integration. For the EU the main future problems lie in the ability to control the increasingly integrated European market, enhance productivity, restructure the labour force market in order to reduce unemployment, allow more efficiency by discontinuing non-tariff barriers (especially in agriculture), and decrease high differential in growth and development rates among member states.

d. Three major implications for MNCs.

The increasing integration within the EU and NAFTA creates important implication for MNCs, which operate in these areas or plan to expand there. Firstly, MNC's presence in one country of the bloc automatically opens the markets of the other member states. Therefore, MNCs should consider the increased market potential of the combined region, as well as the possibility

to select the most convenient location without considering internal barriers to trade (Rugman, 1994). However, along with the perceived homogeneity of the market, there are still major differences on the national level both in terms of consumer demands and product regulations. MNCs, which aim to operate in these regional blocks, should be able to balance the commonality of the bloc with the national differences. Lastly, MNCs should understand the peculiarities of the particular integration mechanisms. Thus, while in Europe there are very few barriers to relocation and cross-border activity, NAFTA only facilitates free movement of products within the region. Therefore, additional attention should be paid to moving factors of production, currency exchange etc.

References

Czinkota, M. R., & Ronkainen, I. A. (2007). *International marketing*. (8th ed. ed.).

Mason, OH: Thomson South-Western.

Robert, M. (2000). *Negotiating NAFTA: explaining the outcome in culture, textiles, autos, and*

pharmaceuticals. Toronto, Canada: University of Toronto Press.

Rugman, A. M. (1994). *Critical issues facing the multinational enterprise series*. Columbia,

SC: University of South Carolina.

Social Justice Ireland. (2012). *Unemployment up 1.8m in EU in past year. now at 10% of*

labour force. Retrieved from [http://www. socialjustice.](http://www.socialjustice.ie/content/unemployment-18m-)

[ie/content/unemployment-18m-](http://www.socialjustice.ie/content/unemployment-18m-)

<https://assignbuster.com/research-paper-on-regional-economic-integration/>

eu-past-year-now-10-labour-force

Stenzel, P. L. (n. d.). North american free trade agreement (nafta) In
Reference for Business

Advameg, Inc. Retrieved from

<http://www.referenceforbusiness.com/encyclopedia/Mor-Off/North-American-Free-Trade-Agreement-NAFTA.html>