

European Integration

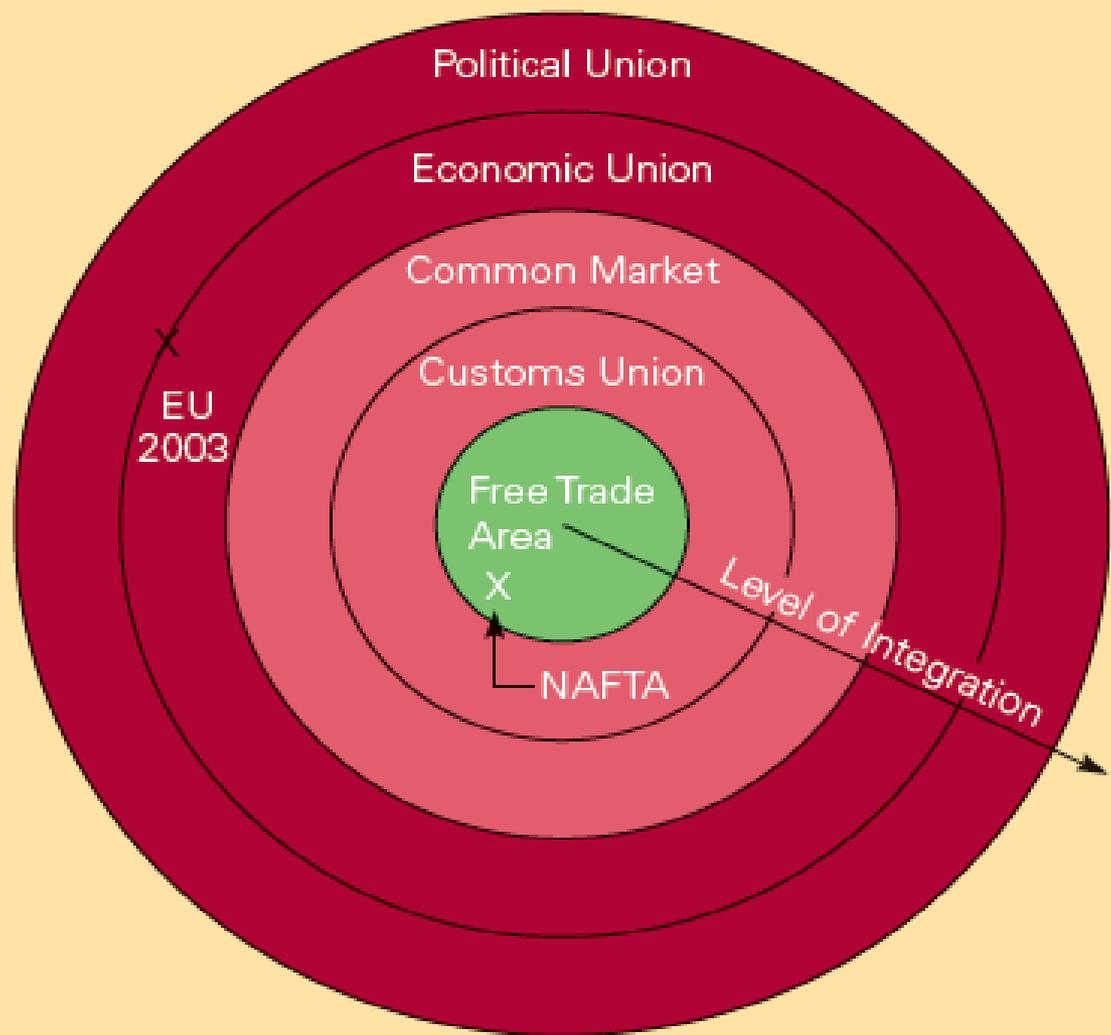
- INTEGRATION???

- **“Regional”** economic integration - agreements between countries in a geographic region to reduce tariff and non-tariff barriers to the free flow of goods, services, and factors of production between each other

1. A **free trade area** eliminates all barriers to the trade of goods and services among member countries
 - **European Free Trade Association (EFTA)** - Norway, Iceland, Liechtenstein, and Switzerland
 - **North American Free Trade Agreement (NAFTA)** - U.S., Canada, and Mexico

2. A **customs union** eliminates trade barriers between member countries and adopts a common external trade policy
 - **Andean Community** (Bolivia, Columbia, Ecuador, and Peru)
3. A **common market** has no barriers to trade between member countries, a common external trade policy, and the free movement of the factors of production
 - **MERCOSUR** (Brazil, Argentina, Paraguay, and Uruguay)

4. 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
 - **European Union (EU)**
5. A **political union** involves a central political apparatus that coordinates the economic, social, and foreign policy of member states
 - the EU is headed toward at least partial political union, and the U.S. is an example of even closer political union



WHY

- All countries gain from free trade and investment
 - regional economic integration is an attempt to exploit the gains from free trade and investment
- Linking countries together, making them more dependent on each other
 - creates incentives for political cooperation and reduces the likelihood of violent conflict
 - gives countries greater political clout when dealing with other nations

Economic integration can be difficult because

- while a nation as a whole may benefit from a regional free trade agreement, certain groups may lose
- it implies a loss of national sovereignty

NAFTA

- The [North American Free Trade Area](#) includes the United States, Canada, and Mexico
 - abolished tariffs on 99% of the goods traded between members
 - removed barriers on the cross-border flow of services
 - protects intellectual property rights
 - removes most restrictions on FDI between members
 - allows each country to apply its own environmental standards
 - establishes two commissions to impose fines and remove trade privileges when environmental standards or legislation involving health and safety, minimum wages, or child labor are ignored

MERCOSUR

- originated in 1988 as a free trade pact between Brazil and Argentina
- was expanded in 1990 to include Paraguay and Uruguay and in 2005 with the addition of Venezuela
- may be diverting trade rather than creating trade, and local firms are investing in industries that are not competitive on a worldwide basis
- initially made progress on reducing trade barriers between member states, but more recently efforts have stalled

The Asia-Pacific Economic Cooperation (APEC)

- has 21 members including the United States, Japan, and China
- wants to increase multilateral cooperation
- member states account for 55% of world's GNP, and 49% of world trade