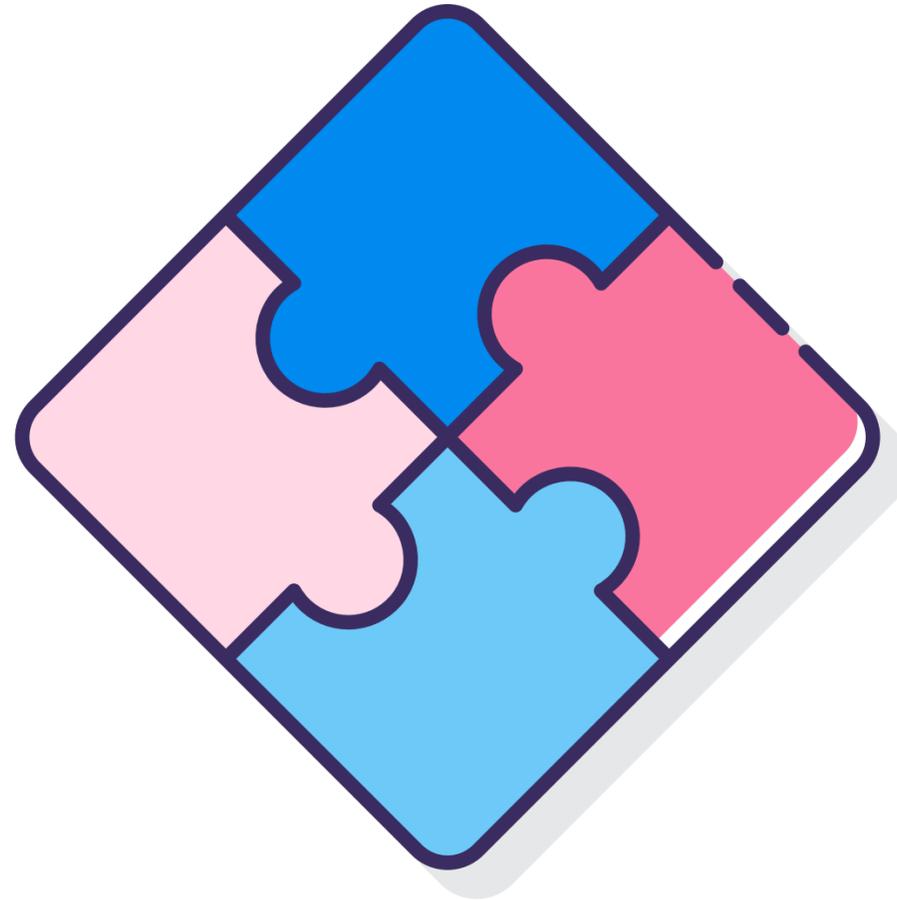


Economic Integration

4.4



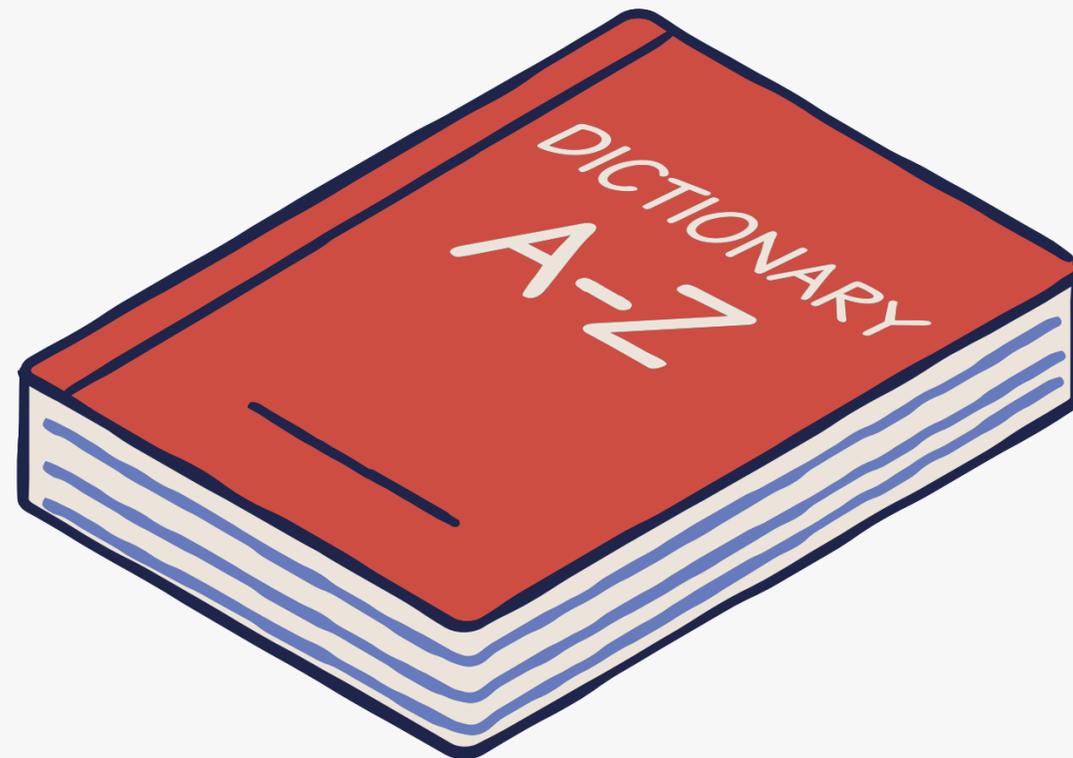


How do you think countries start to trade? What do you think is the best way to increase trade?

Definition

Economic Integration

Economic interdependence between countries usually involves agreements between two or more countries to phase out or eliminate trade and other barriers between them.



Definition

World Trade Organization (WTO)

An international body that sets the rules for global trading and resolves disputes between its member countries. It also hosts negotiations concerning the reduction of trade barriers between its member nations.



Preferential Trade Agreements (PTA)

Where a country agrees to give preferential access (for example, reduced tariffs) for certain products to one or more trading partners.



This is typically seen as the first stage of economic integration.

Inquiry

Browse the list of PTA and define GSP

[CLICK HERE](#)



Types of PTA

Unilateral

A country provides preferential tariff reductions for another without receiving the same treatment in return

Bilateral

An agreement between two countries to phase out or eliminate trade related barriers

Multilateral

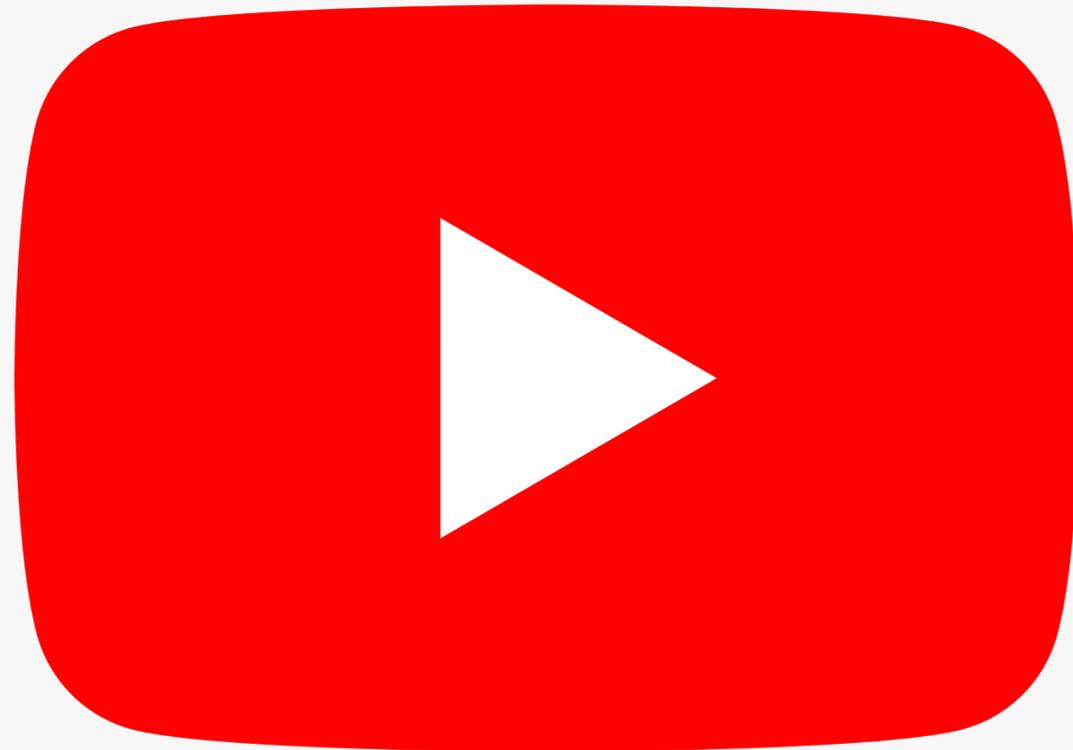
An agreement between many countries to lower tariffs or other protectionist measures, currently carried out within the framework of the WTO

Regional (RTA)

An agreement between a group of countries usually within a geographical region to lower or eliminate trade barriers



Regional Trade Agreement



USMCA - Vox

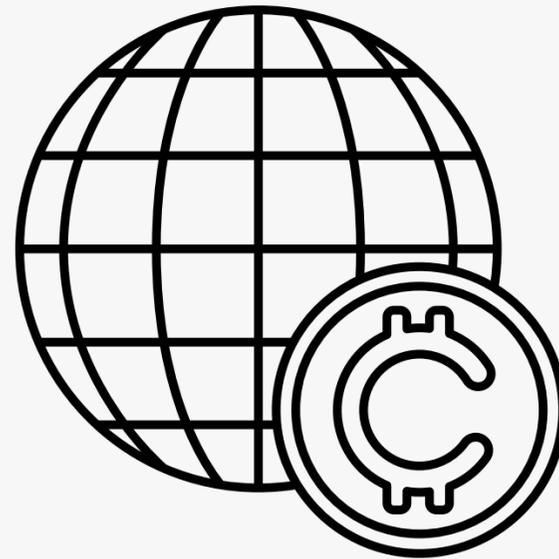
Trading Blocs



Definition

Trading Bloc

A group of countries that have agreed to reduce protectionist measures like tariffs and quotas between them



Trading Blocs are a higher level of economic integration than PTA.

4 Types of Trading Blocks



Free Trade Area (FTA)

An agreement between two or more countries to phase-out or eliminate trade barriers between them, members of the agreement are free to maintain their own trade policy towards non-members

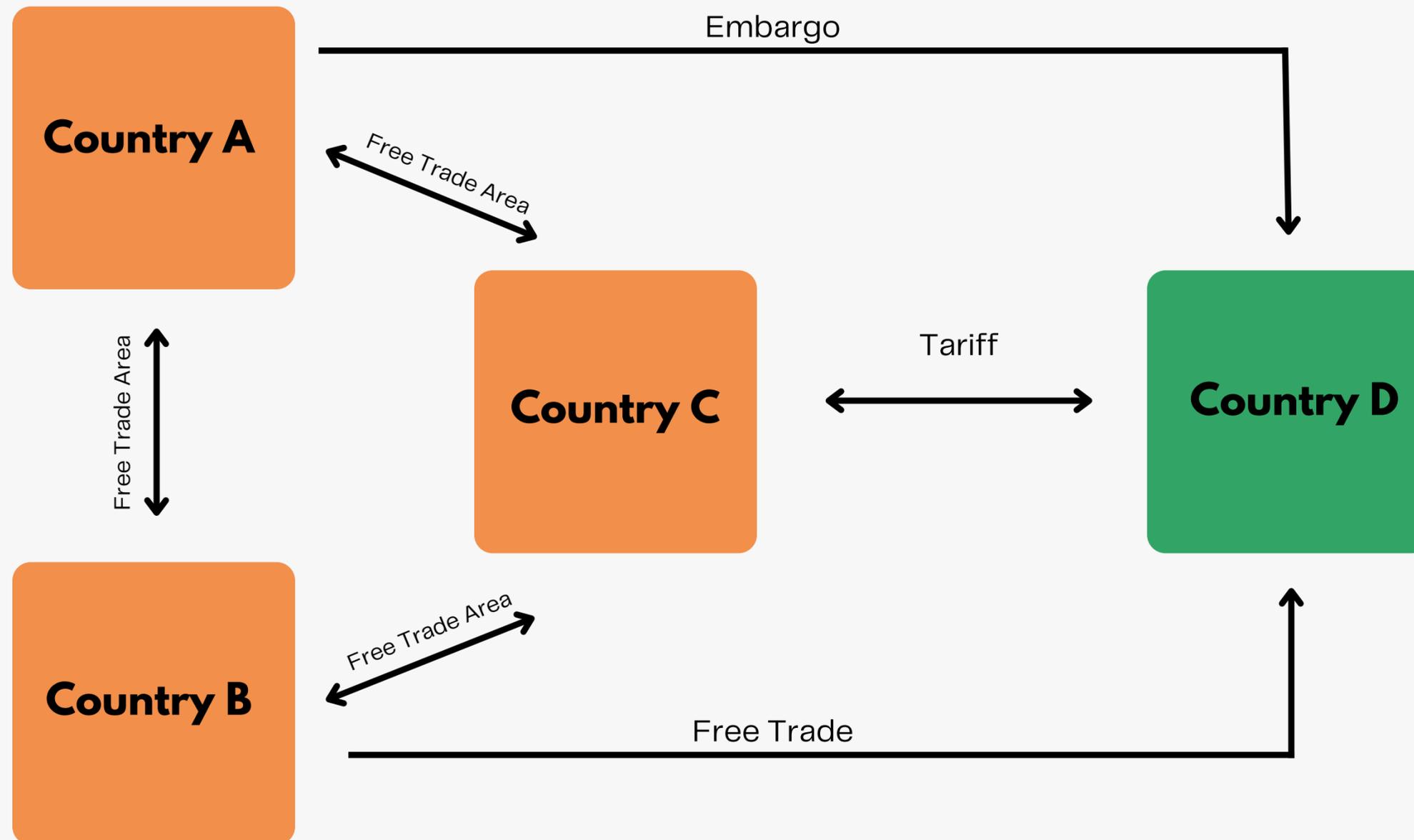


Examples

Click the link below and find a Free Trade Agreement (FTA) with you home country

CLICK HERE

Free Trade Area Diagram

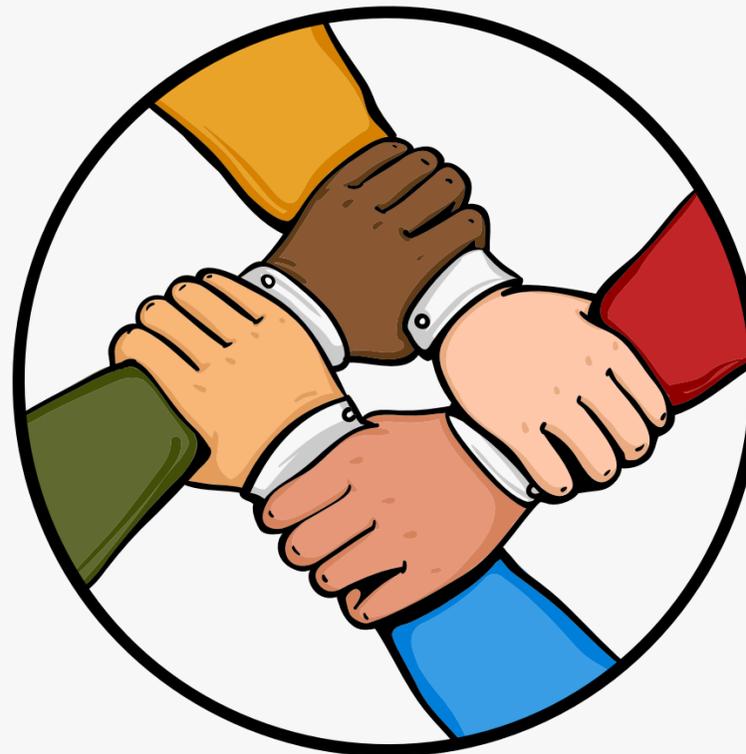


Free Trade Area (FTA)

	Free trade (removal of protectionist policies)	Common tariff for external countries	Free movement of the factors of production	Single Currency
Free Trade Area	X	-	-	-
Customs Union				
Common Market				
Monetary Union				

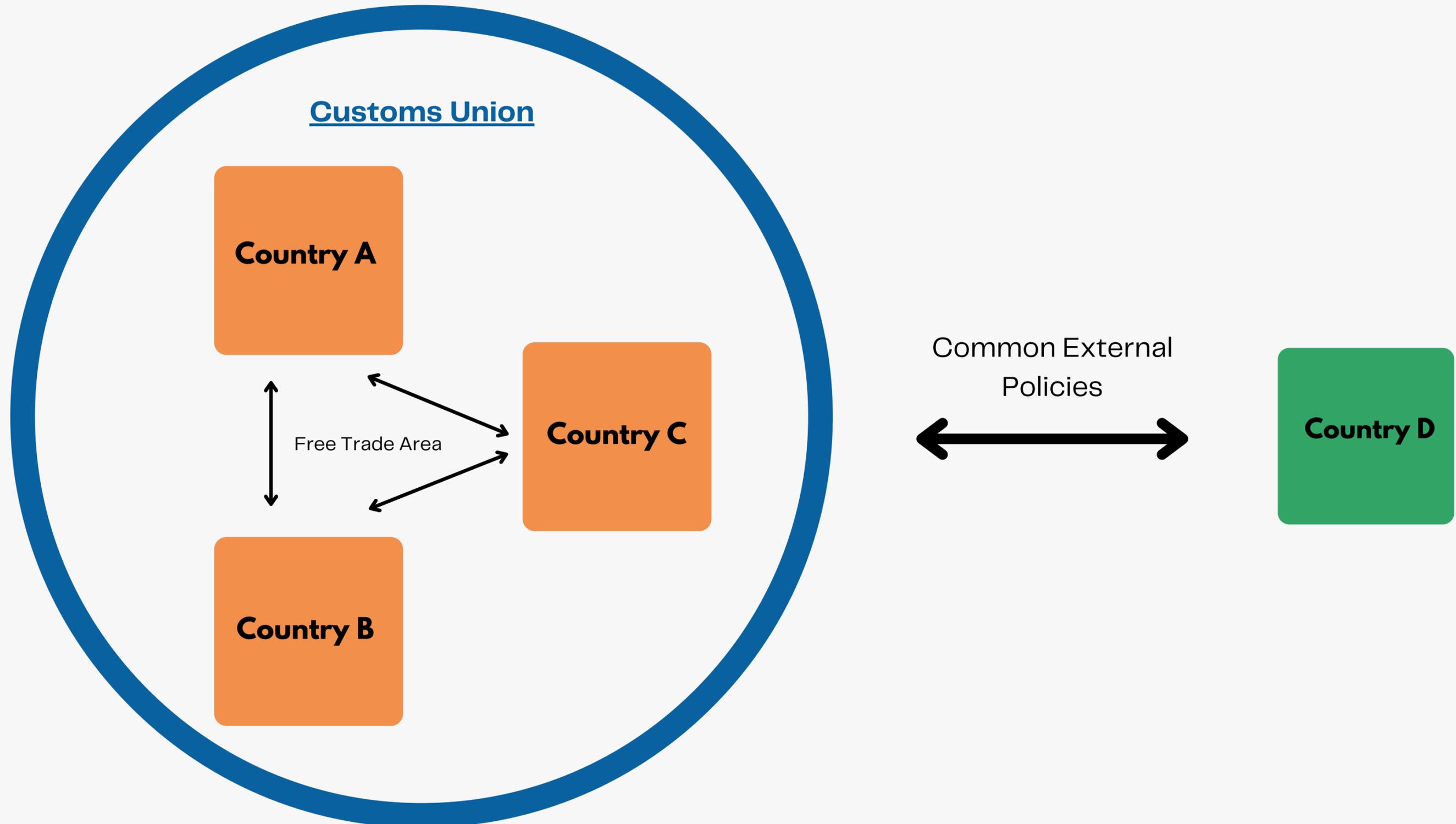
Customs Union

An agreement between countries to phase out or eliminate tariffs and other trade barriers and establish a common external barrier toward non-members.



Examples: EUCU, Southern African Customs Union (SACU), Eurasian Economic Union (EACU)

Customs Union Diagram



Customs Union

	Free trade (removal of protectionist policies)	Common tariff for external countries	Free movement of the factors of production	Single Currency
Free Trade Area	X	-	-	-
Customs Union	X	X	-	-
Common Market				
Monetary Union				

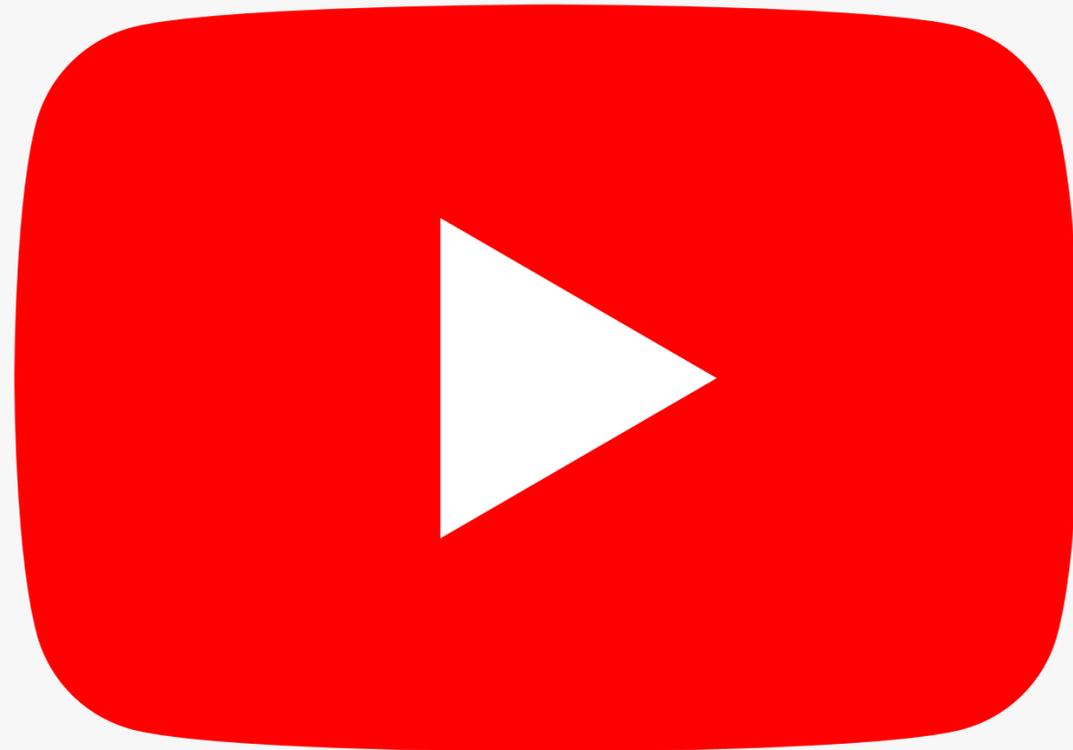
Common Market

When a group of countries agree not only to free trade of goods and services but also to free movement of capital and labour.



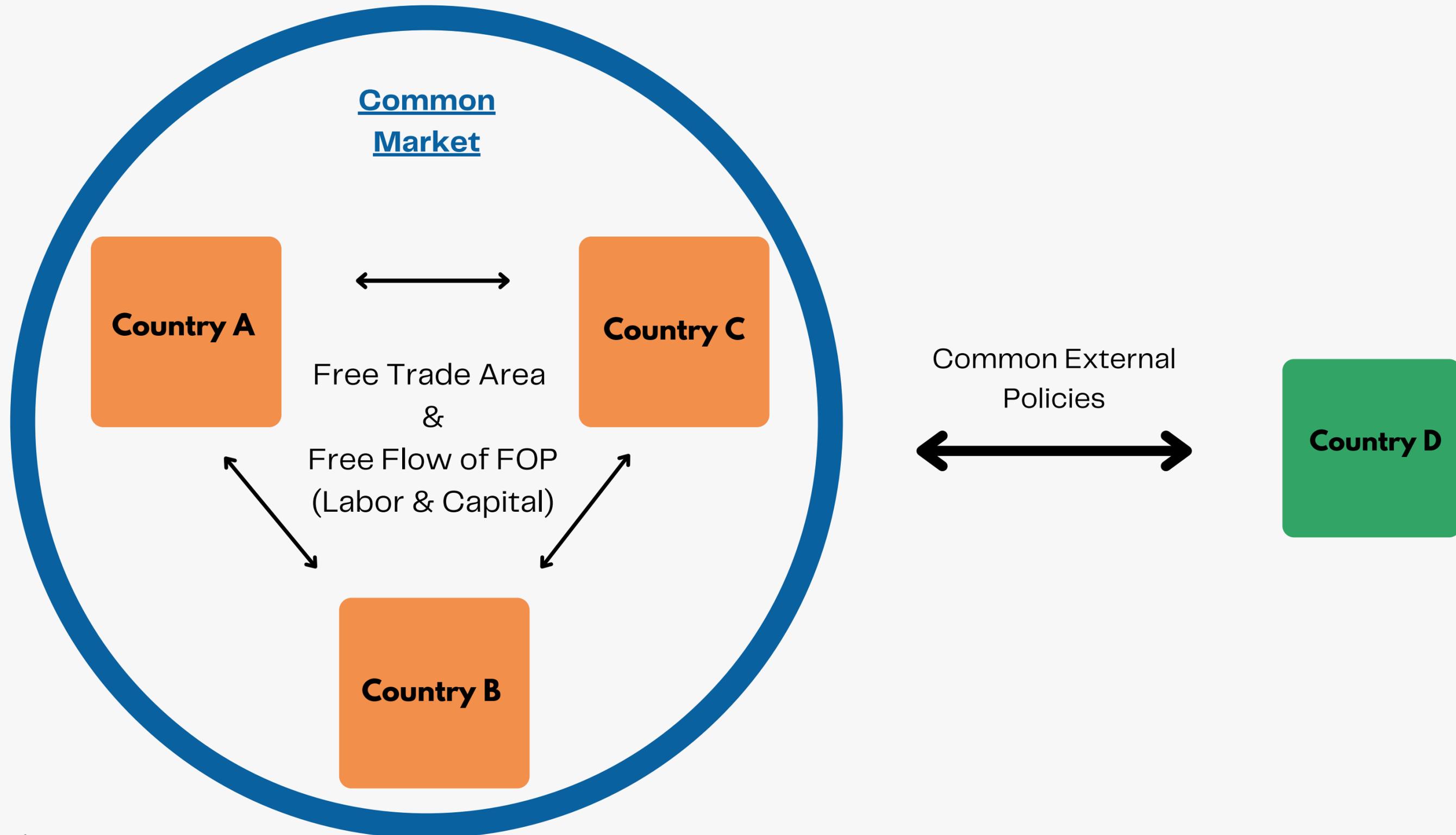
Examples: European Union (EU)

What is the EU?



The European Union Explained - CGP Grey

Common Market Diagram



Common Market

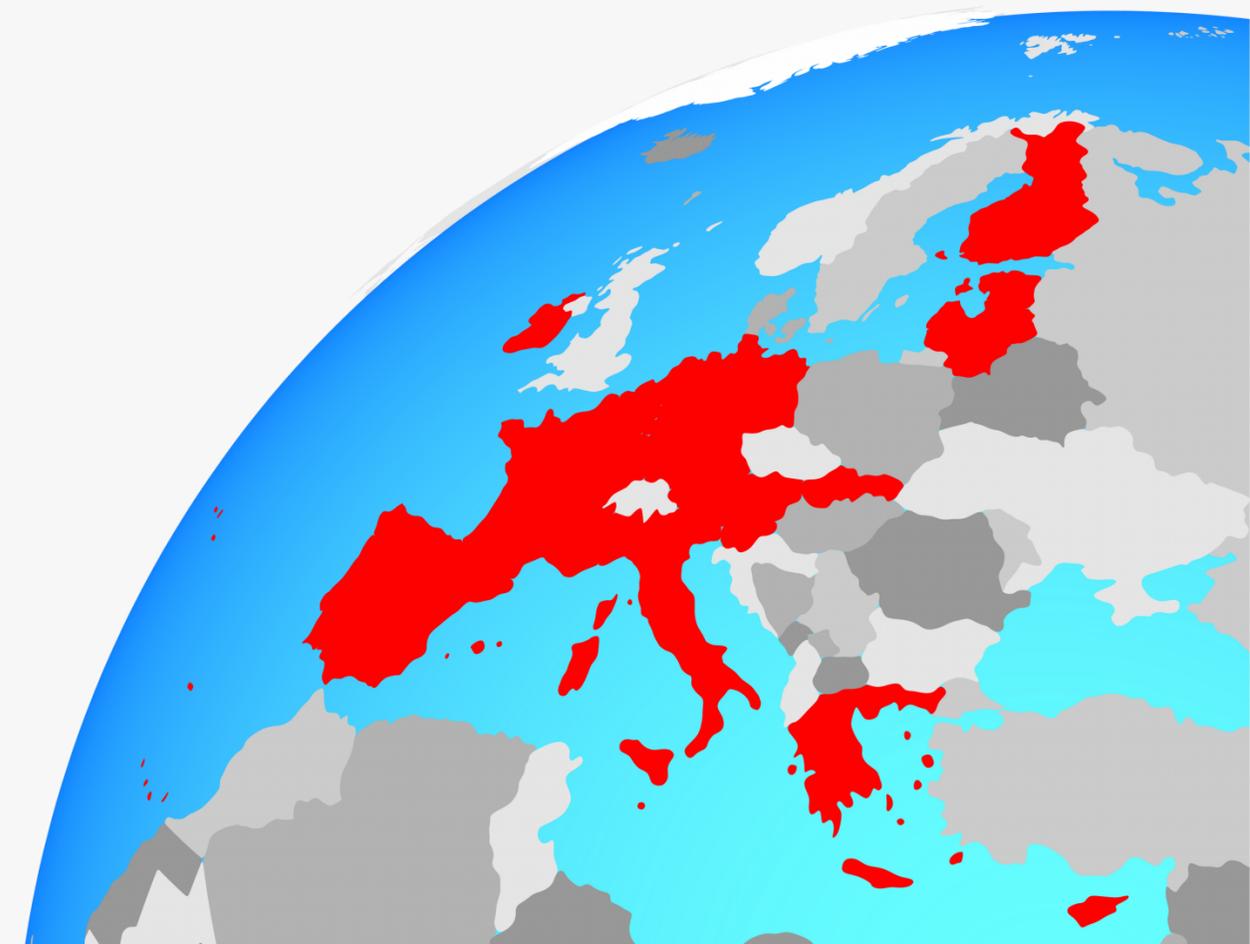
	Free trade (removal of protectionist policies)	Common tariff for external countries	Free movement of the factors of production	Single Currency
Free Trade Area	X	-	-	-
Customs Union	X	X	-	-
Common Market	X	X	X	-
Monetary Union				

Monetary Union

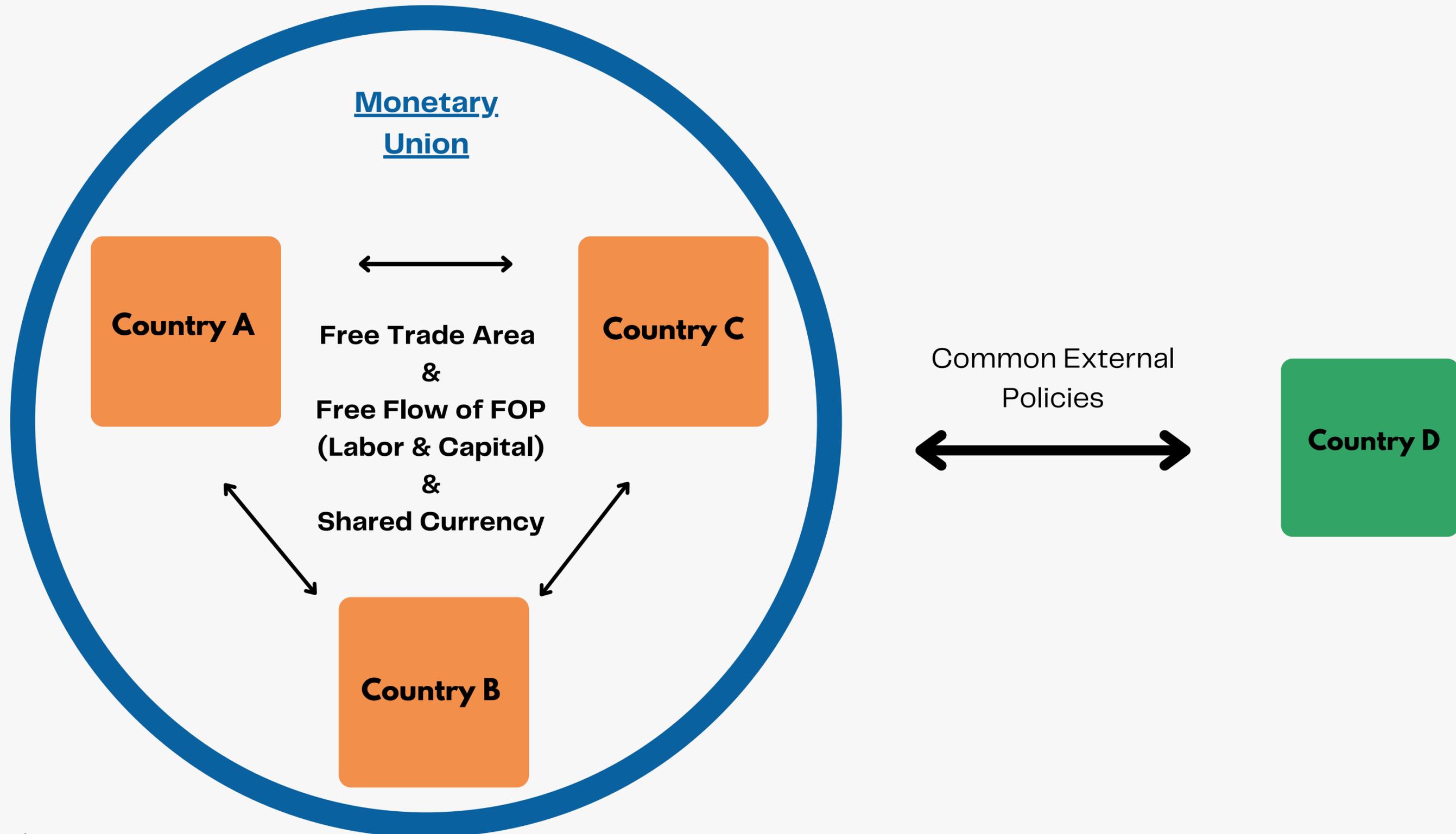
Where two or more countries share the same currency and have a common central bank



Examples: The Euro Zone



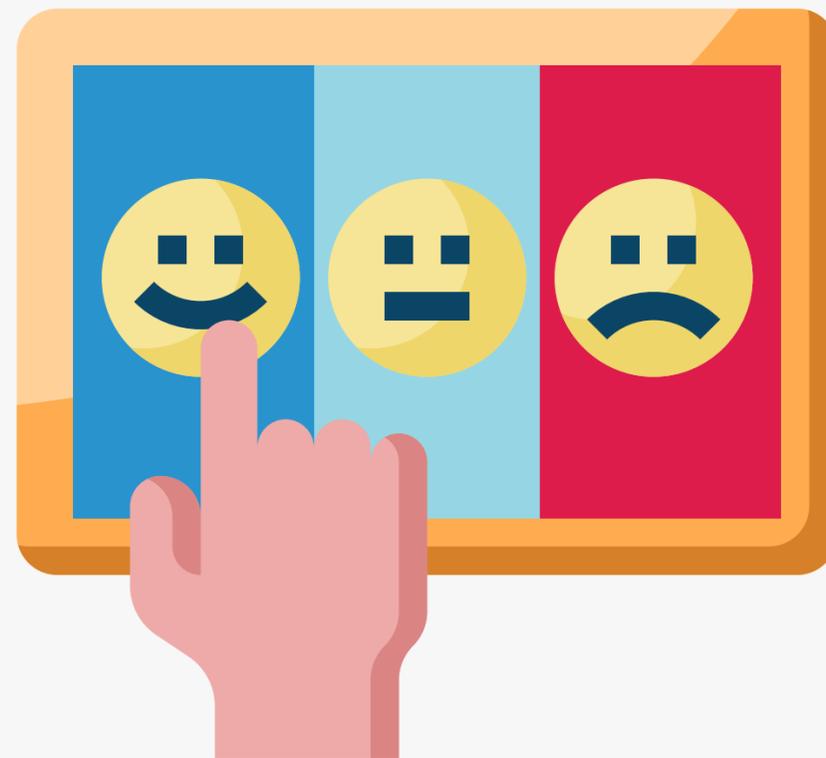
Monetary Union Diagram



Monetary Union

	Free trade (removal of protectionist policies)	Common tariff for external countries	Free movement of the factors of production	Single Currency
Free Trade Area	X	-	-	-
Customs Union	X	X	-	-
Common Market	X	X	X	-
Monetary Union	X	X	X	X

Trading Blocs Evaluation



Trading Blocs Advantages

- Trade creation (**HL only**)
- Greater access to markets offer potential for economies of scale
- Freedom of labour, there are greater employment opportunities
- Membership in a trading bloc may allow for stronger bargaining power in multilateral negotiations
- Greater political stability and cooperation



Trading Blocs Disadvantages



- Trade diversion (**HL only**)
- Loss of sovereignty
 - Countries must cooperate or give up the idea of being fully independent and autonomous. For example, some countries in the EU are not in the Eurozone (shared currency zone) because they want to be able to control their money supply and most likely have some cultural connection to the currency.
- Challenge to multilateral trading negotiation
 - Countries may have social, political, historical, and economic differences that make the development of trading blocs difficult.

Trade Creation and Diversion

(HL ONLY)



Trade Creation

When higher-cost imports are replaced by lower-cost imports due to the formation of a trading bloc or a trade agreement

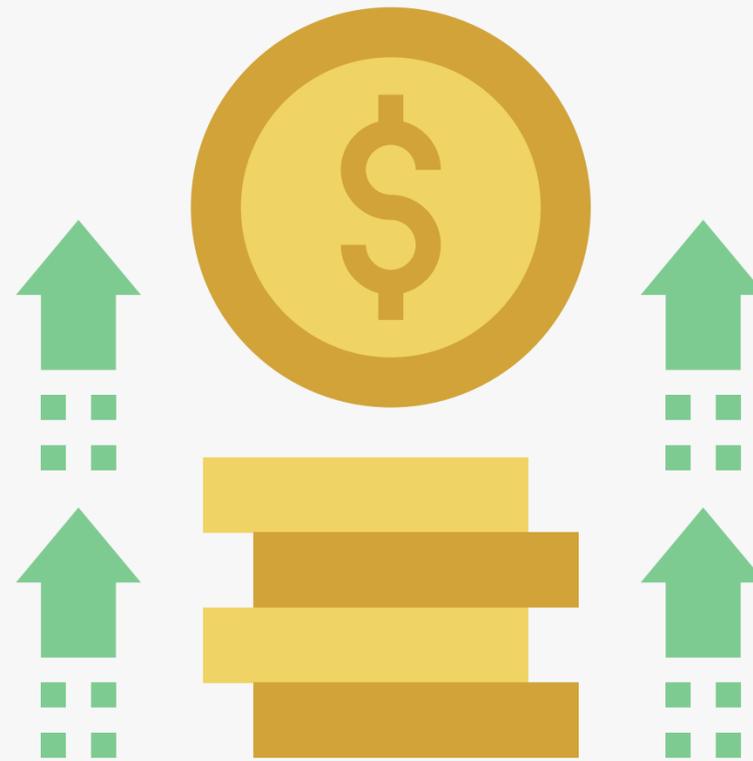


The hope of trading blocs is that domestic industries can lower their production costs thanks to the agreement.

Example: When a country joins the EU, they gain new opportunities for trade at cheaper prices.

Trade Diversion

When lower-cost imports are replaced by higher-cost imports due to the formation of a trading bloc or a trade agreement.



When joining a trading bloc, a country must use the same protectionist policies as other members. Therefore, if a country has received low-cost imports from a country but now must erect trade barriers against them, the cost of the imports increase.

Evaluation of Monetary Unions

(HL ONLY)



Monetary Union Advantages

- Strong relations between countries
- Price stability
- Ease of payment (Exports & Imports)
- No currency exchange fees lead to more competition in business
- Global power and trade

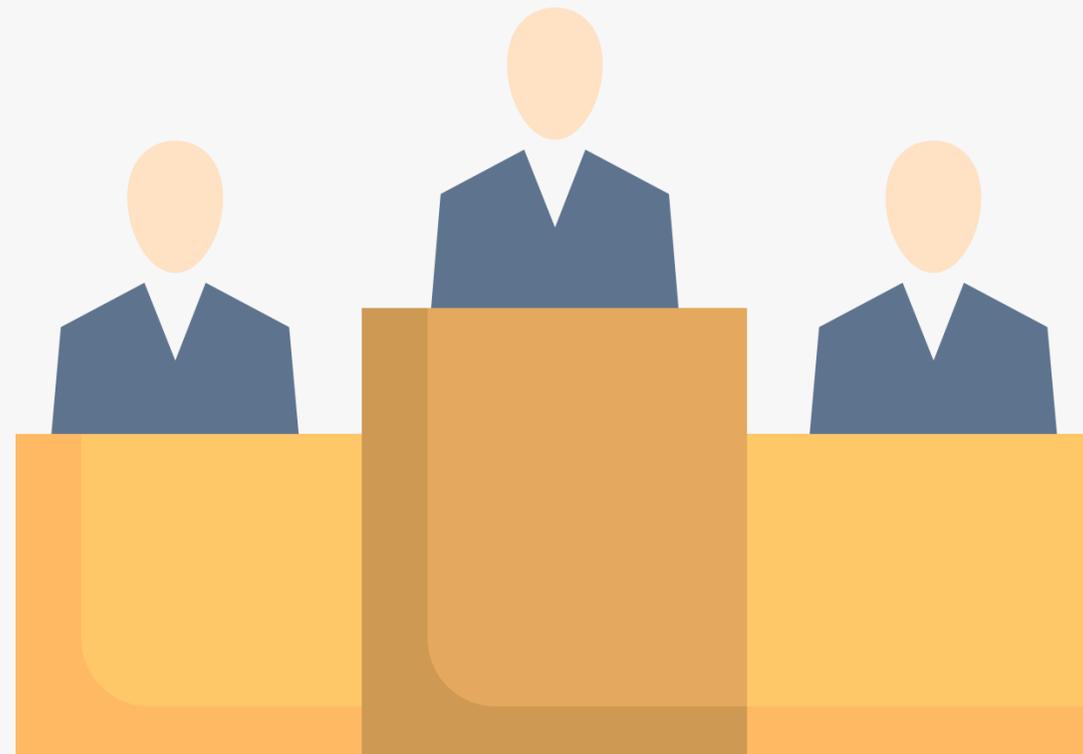


Monetary Union Disadvantages

- Political Issues
- Lack of sovereignty in currency
- Unable to control/use Monetary Policy
- Limitations on Fiscal Policy
- Large cost to transition new countries into the Monetary Union



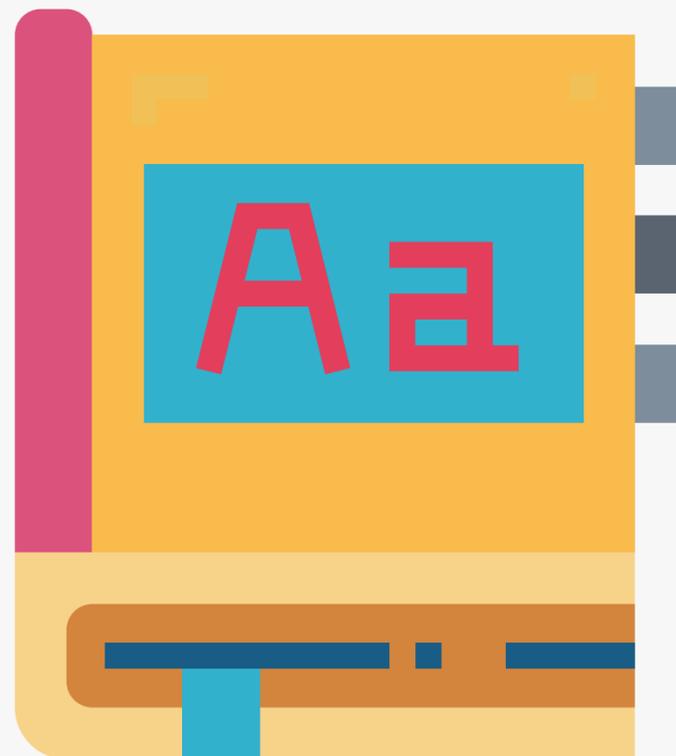
The World Trade Organization



Definition

World Trade Organization (WTO)

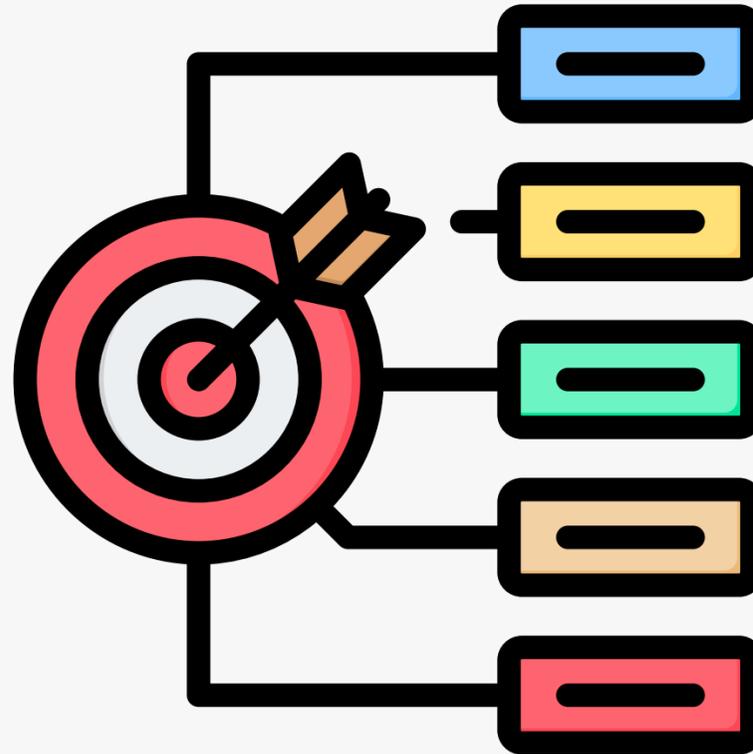
An international body that sets the rules for global trading and resolves disputes between its member countries. It also hosts negotiations concerning the reduction of trade barriers between its member nations.



The WTO

Objective

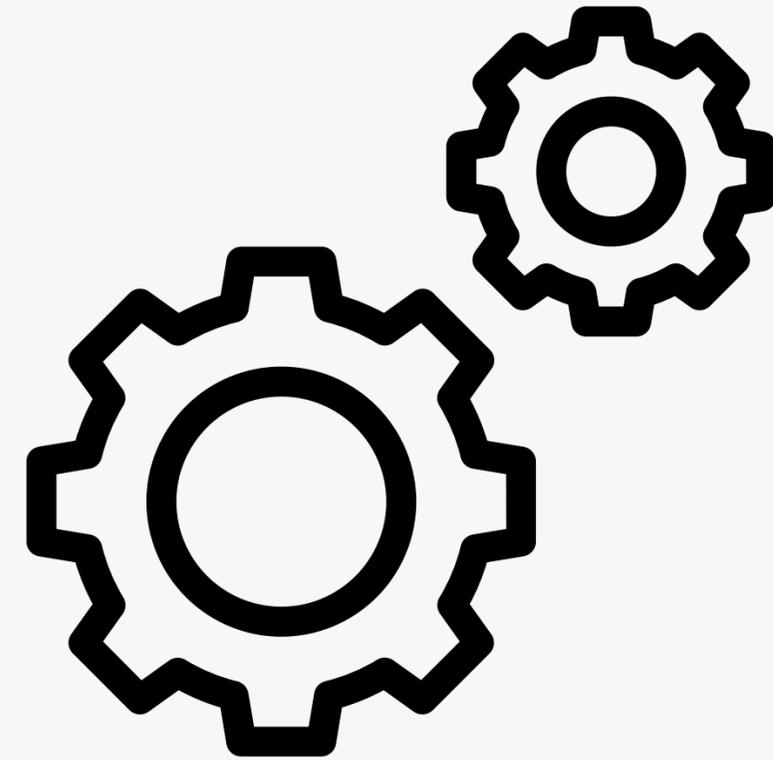
To help trade flow smoothly, freely, and predictably.



The WTO

Functions

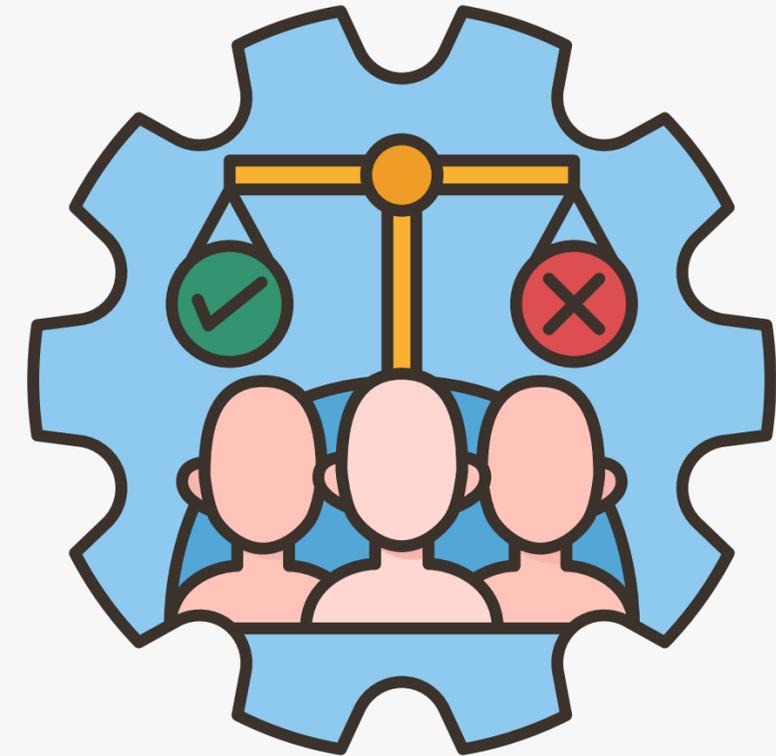
- Administering WTO trade agreements
- Forum for trade negotiations
- Handling trade disputes
- Monitoring trade policies
- Technical assistance and training for developing economies
- Cooperation with other international organizations



The WTO

Principles

- Non-discrimination
- Openness of trade: lowering all trade barriers among nations
- Predictability and transparency
- Promotion of fair competition: this principle attempts to assess the fairness of trade transactions and responses
- Privileging less developed countries: this is aimed at improving equity between more developed countries (MDC) and less developed countries (LDC)
- Protecting the environment



Factors Affecting the Influence of The World Trade Organization

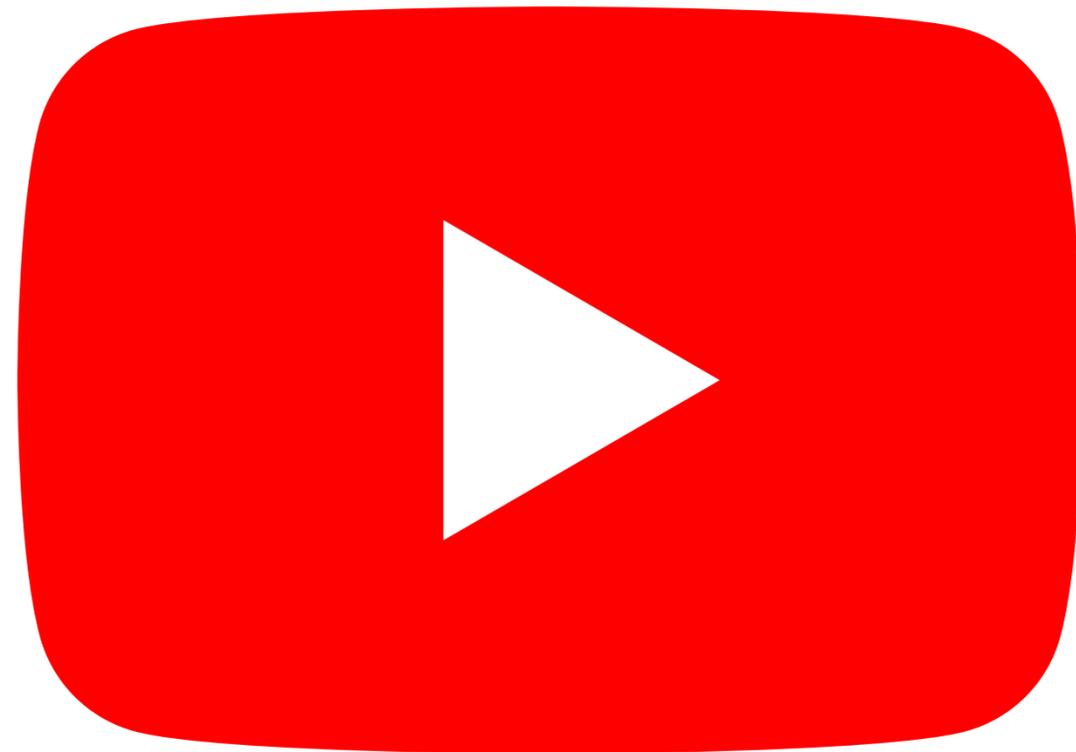


Unequal Bargaining Power

More Developed Countries (MDCs), are able to send delegates and representatives to the WTO regularly leading to them potentially receiving preferential treatment.



World trade leaders like the EU, USA, China, etc. have significantly more power when negotiating.



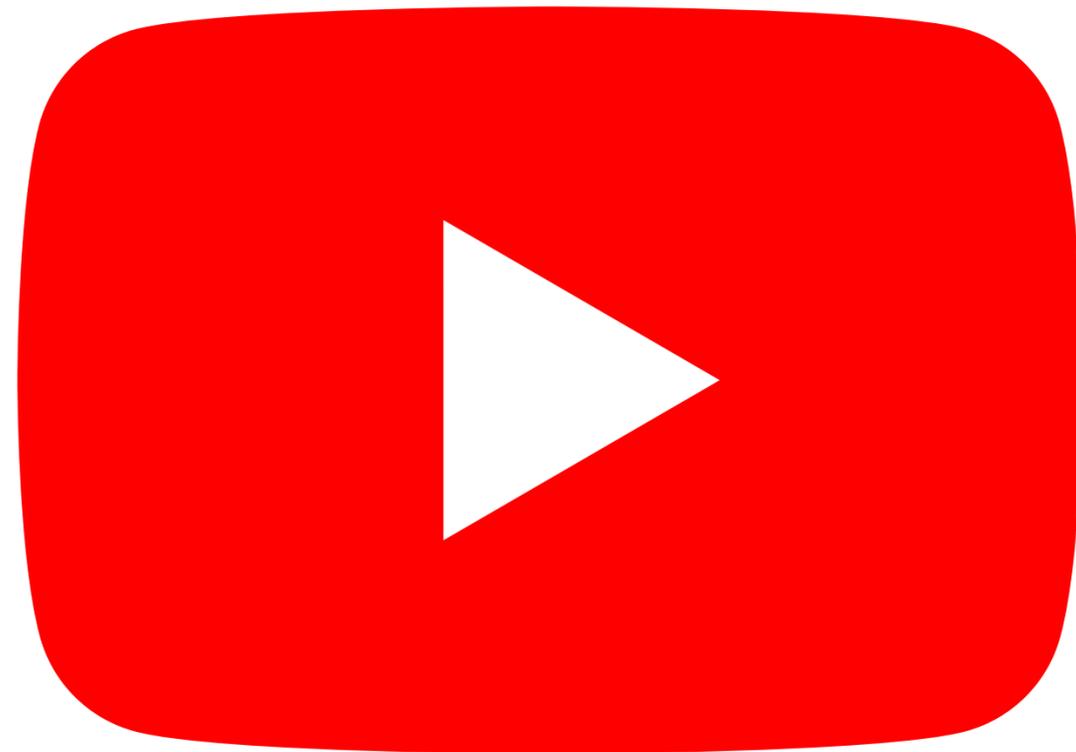
How the US obstructs the World Trade
Organisation - DW News

Disputes Over Primary Products

Disputes over agricultural goods are frequent at the WTO. Developed countries offer large subsidies in agriculture driving down price while developing countries lack subsidies and cannot compete in the international agricultural market.



MCDs also prefer to receive raw materials rather than processed materials, leading to difficulties for countries that are trying to develop as they have little incentive to improve industries to offer processed goods.



Is the WTO still needed? | DW English

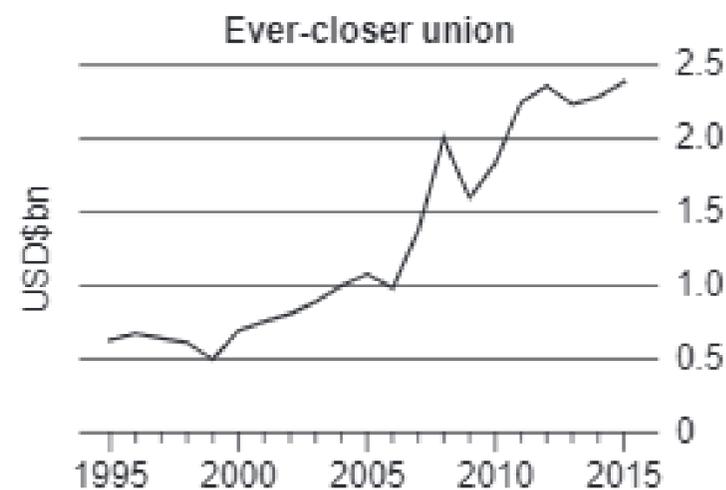
Practice Question



Paper 2

N18/3/ECONO/HP2/ENG/TZ0/XX

Figure 1: Intra-East African Community* trade in goods (USD\$bn)



*Burundi, Kenya, Rwanda, Tanzania and Uganda.
Not including South Sudan, which acceded to the treaty in 2016.

[Source: Text: Paragraphs 1–3 adapted from "Trade in East Africa: Worth Celebrating", © The Economist Newspaper Limited, London (June 9, 2016); paragraphs 4–8 adapted from a paper/article written by Astrid R.N. Haas (and co-authors) with funding from the International Growth Centre.
Graph: IMF, www.eacgermany.org, accessed 3 May 2018]

South Sudan joins the East African Community

- 1 The East African Community (EAC) is the most integrated trading bloc in Africa. In 2005, the members established a customs union, and then in 2010 it became a common market. There are ambitious plans to establish a monetary union by 2024.
- 2 According to a recent report, the region is wealthier and more peaceful as a result of the increased integration. Economic models suggest that bilateral trade between member countries was 213% higher in 2011 than it would have been without the integration. This is despite the fact that progress on fully eliminating trade barriers has been rather slow and there are still a large number of non-tariff barriers.
- 3 Until recently the customs union was made up of Burundi, Kenya, Rwanda, Tanzania and Uganda. Very recently, South Sudan joined the bloc. This presents a tremendous opportunity for South Sudan, which was recently recognized as an independent country.
- 4 South Sudan is one of many developing countries that are dependent on oil exports for the majority of its export revenues and oil prices have been falling due to increased supply of oil in the market. The deteriorating terms of trade have resulted in a worsening of the current account and lower government revenues. Regional economic integration might help South Sudan to diversify its economy.
- 5 Agriculture is one potential area that South Sudan could focus on to diversify its economy. According to some estimates, 70% of land is suitable for agriculture, but less than 4% is currently being cultivated. The large flood plains in the country are suitable for rice production and the hope is that South Sudan can develop a comparative advantage in this essential food.
- 6 South Sudan is landlocked and most of its road network is unpaved. This is just one example of its poor infrastructure. Since infrastructure is an expensive investment, regional cooperation will be vital for improving its road systems. Furthermore, effective transport links to sea ports in Kenya and Tanzania will allow for greater trade and therefore economies of scale.
- 7 In the short term, there will be challenges for South Sudan associated with joining the common market. For example, before Rwanda joined the EAC in 2007, there were lower tariffs on many imported inputs. However, the cost of living for the poor population rose because of trade diversion that occurred after joining the EAC. South Sudan is likely to face the same problem.
- 8 Labour costs in South Sudan are higher than those of other member countries and years of conflict have left the population with low levels of education and skills. This may present a barrier for South Sudan in attracting foreign direct investment, despite being part of the common market.

Paper 2

N18/3/ECONO/HP2/ENG/TZ0/XX

- (a) (i) Define the term *monetary union* indicated in bold in the text (paragraph ❶). [2]
- (ii) Define the term *comparative advantage* indicated in bold in the text (paragraph ❷). [2]
- (b) [Redacted] [4]
- (c) Using a cost diagram, explain how membership in the common market may allow producers in South Sudan to gain economies of scale (paragraph ❸). [4]
- (d) Using information from the text/data and your knowledge of economics, evaluate the likely impact on South Sudan of its membership of the EAC common market. [8]

Mark Scheme

(a) (i) Define the term *monetary union* indicated in bold in the text (paragraph ❶). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that it is a type of economic integration.	
2	<i>Accurate definition.</i>	2
	Where countries share a common currency plus one of the following: <ul style="list-style-type: none"> • member of a common market • have a common central bank. 	

(ii) Define the term *comparative advantage* indicated in bold in the text (paragraph ❷). [2]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>Vague definition.</i>	1
	The idea that one country can produce more efficiently than another country.	
2	<i>Accurate definition.</i>	2
	An explanation that it is when a country can produce a product at a lower opportunity cost than another country.	

Mark Scheme

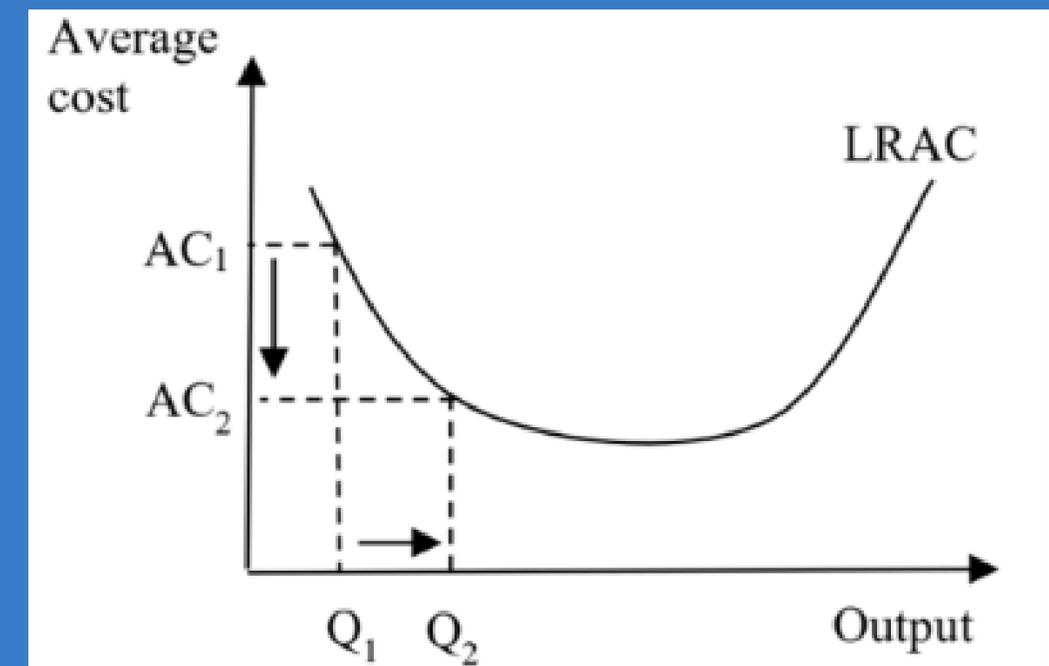
- (c) Using a cost diagram, explain how membership in the common market may allow producers in South Sudan to gain economies of scale (paragraph 6).

[4]

Level		Marks
0	<i>The work does not meet a standard described by the descriptors below.</i>	0
1	<i>There is a correct diagram OR an accurate written response.</i>	1–2
	For drawing a cost diagram showing a LRAC with two points indicating a fall in average costs at a higher level of output. OR For an explanation that as South Sudan has access to a larger market, it will allow its producers to operate at a higher level of output resulting in economies of scale and a fall in LRAC/AC.	
2	<i>There is a correct diagram AND an accurate written response.</i>	3–4
	For drawing a cost diagram showing a LRAC with two points indicating a fall in average costs at a higher level of output. AND For an explanation that as South Sudan has access to a larger market, it will allow its producers to operate at a higher level of output resulting in economies of scale and a fall in LRAC/AC.	

Candidates who incorrectly label diagrams can be awarded a maximum of [3].

For a cost diagram, the vertical axis may be labelled Cost (C) or Average cost (AC) or Long run average cost (LRAC). The horizontal axis may be labelled Quantity (Q) or Output. A title is not necessary.



Mark Scheme

(d) Evaluate the likely impact on South Sudan of its membership of the EAC common market.

[8]

Command term

“Evaluate” requires candidates to make an appraisal by weighing up the strengths and limitations. Opinions and conclusions should be presented clearly and supported with appropriate evidence and sound argument.

Answers *may* include:

- definition of economic integration
- definition of common market.

Advantages/opportunities of economic integration:

- larger export markets, may allow South Sudan producers to gain economies of scale, as noted in part (c). In the market for rice, this may allow South Sudan to develop a comparative advantage (paragraph ⑤)
- larger market may encourage diversification, and reduce South Sudan’s reliance on oil
- further stimulus for foreign direct investment as foreign companies will benefit from the larger market size; however, this may be limited by the low levels of human capital and high production costs (paragraph ⑧)
- opportunities to South Sudan workers who, with free movement of labour, may work in other East African countries
- advantages to South Sudan companies who, with free movement of capital, may invest in other East African countries
- cost of imported factors of production may decrease
- South Sudan can gain from the rapidly growing trade within the trading bloc (graph)
- greater political stability and cooperation, (paragraph ②) may also result in higher levels of investment, leading to economic growth
- trade creation will benefit producers who can import inputs without tariffs (paragraph ⑦)

- greater efficiency as domestic producers will have to compete with lower priced imports from other member countries
- consumers may have access to less expensive imported goods and services. However, this might be limited if trade diversion takes place and the new common external tariff makes some imported products more expensive
- bargaining power of South Sudan in multilateral trade negotiations can improve if it is part of the larger trading bloc
- economic integration can result in greater peace.

Disadvantages/challenges of economic integration:

- trade diversion (paragraph ⑦)
- the role of the WTO might be undermined, since it allows East African Countries to look inwards
- trade becomes more complicated with a series of intra-trading bloc agreements
- unemployment, as less efficient South Sudan companies (with higher labour costs, paragraph ⑧), can’t compete with lower priced imports from other member countries
- any potential new trade agreements with non-members may be restricted by common external tariffs
- the larger the group the more difficult it is to come to agreements.

Any reasonable evaluation.

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