

Regional Market Characteristics and Preferential Trade Agreements



Dr Inda Sukati
Faculty of Management
Universiti Teknologi Malaysia

Chapter 3

Introduction

- This chapter looks at:
 - Global trade organizations
 - Four types of agreements
 - Individual countries and their preferential trade agreements



GATT

- General Agreement on Tariffs and Trade
 - Treaty among nations to promote trade among members established in 1947
 - Handled trade disputes
 - Lacked enforcement power
 - Replaced by World Trade Organization in 1995

The World Trade Organization

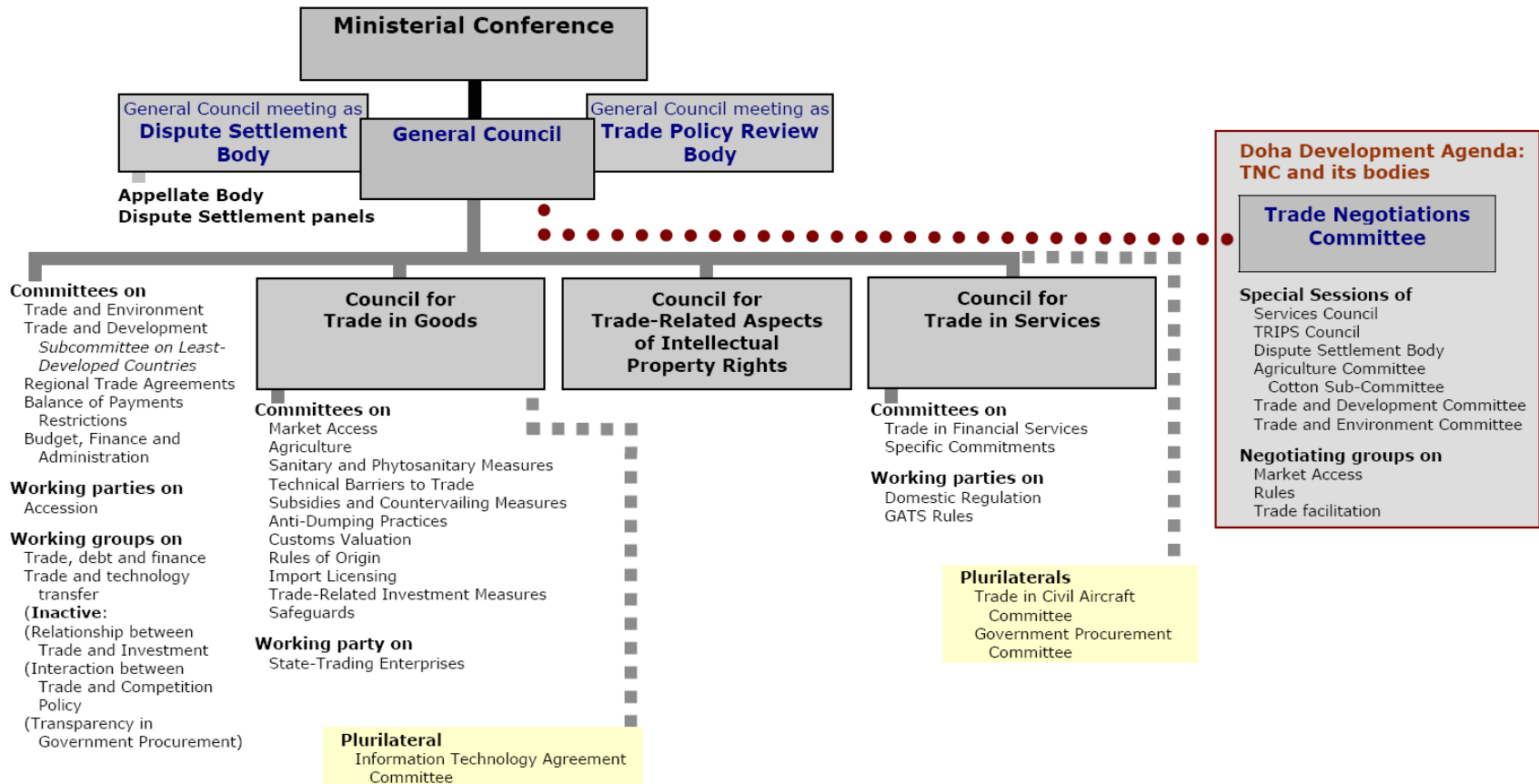
- Forum for trade-related negotiations among 150 members
 - Based in Geneva
 - Serves as dispute mediator through DSB
 - Has enforcement power and can impose sanctions



WTO Structure

WTO structure

All WTO members may participate in all councils, committees, etc, except Appellate Body, Dispute Settlement panels, and plurilateral committees.



Preferential Trade Agreements

- Many countries seek to lower barriers to trade within their regions
- PTAs give partners special treatment and may discriminate against others
- Over 150 PTAs have been notified to the WTO

Free Trade Area



- Two or more countries agree to abolish tariffs and other barriers to trade amongst themselves
- Countries continue independent trade policies with countries outside agreement
- **Rules of origin** requirements restrict transshipment of goods from the country with the lowest tariff to another

Customs Union

- Evolution of Free Trade Area
- Includes the elimination of internal barriers to trade (as in FTA)
- **AND** establishes common external barriers to trade
- Examples: The EU and Turkey, the Andean Community, Mercosur, CARICOM, Central American Integration System (SICA)



Common Market

- Includes the elimination of internal barriers to trade (as in free trade area)
- **AND** establishes common external barriers to trade (as in customs union)
- **AND** allows for the free movement of factors of production, such as labor, capital, and information

Economic Union

- Includes the elimination of internal barriers to trade (as in free trade area)
- **AND** establishes common external barriers to trade (as in customs union)
- **AND** allows for the free movement of factors of production, such as labor, capital, and information (as in common market)
- **AND** coordinates and harmonizes economic and social policy within the union

Economic Union

**European
Union Flag**



- Full evolution of economic union
 - creation of unified central bank
 - use of single currency
 - common policies on issues such as agriculture, social policy, transport, competition, mergers, taxation
 - requires extensive political unity
 - would lead to a central government in time

North America—NAFTA

- Canada, United States, Mexico
- NAFTA established free trade area
 - All three nations pledge to promote economic growth through tariff reductions and expanded trade and investment
 - No common external tariffs
 - Restrictions on labor and other movements remain

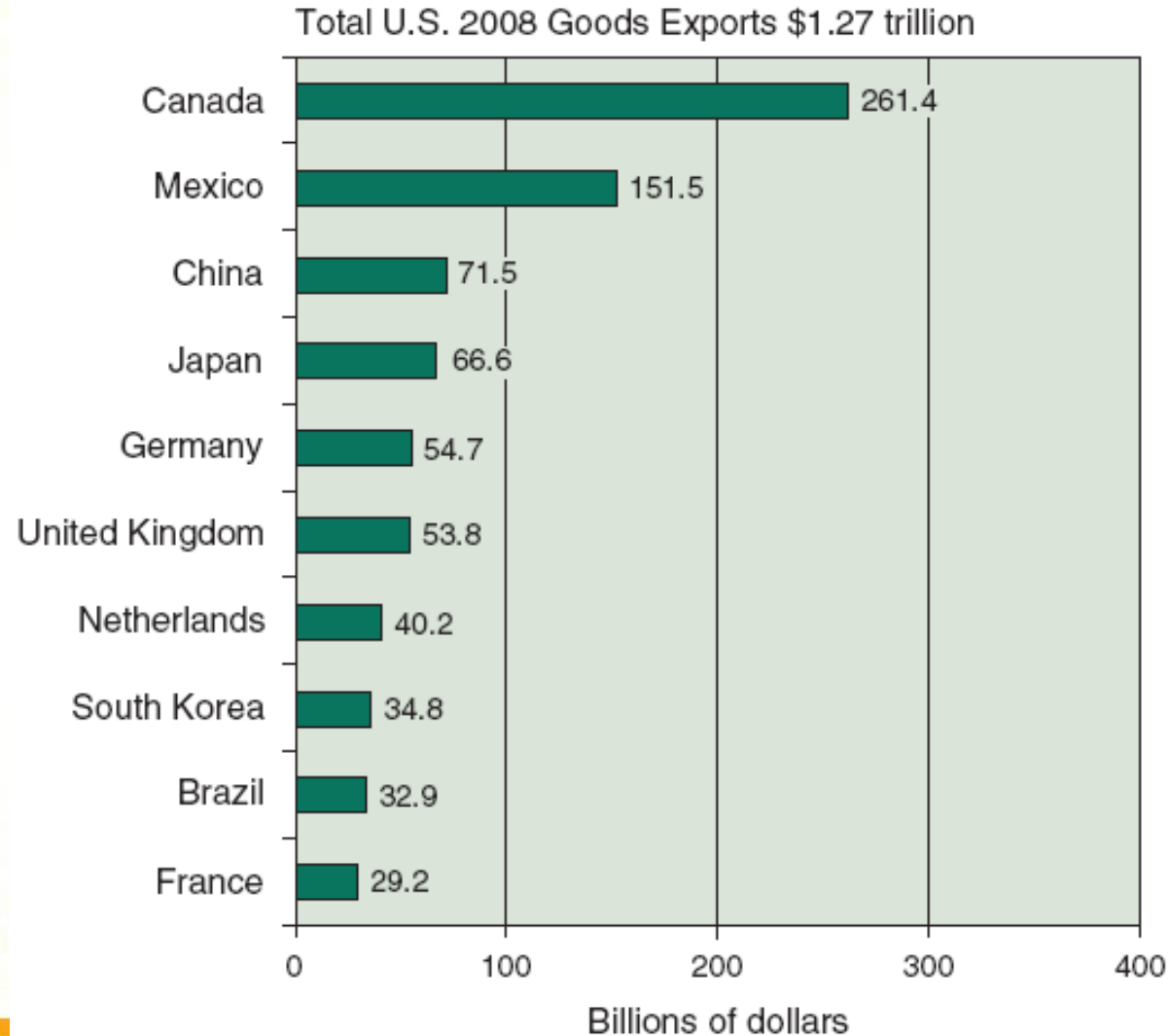


NAFTA Income and Population

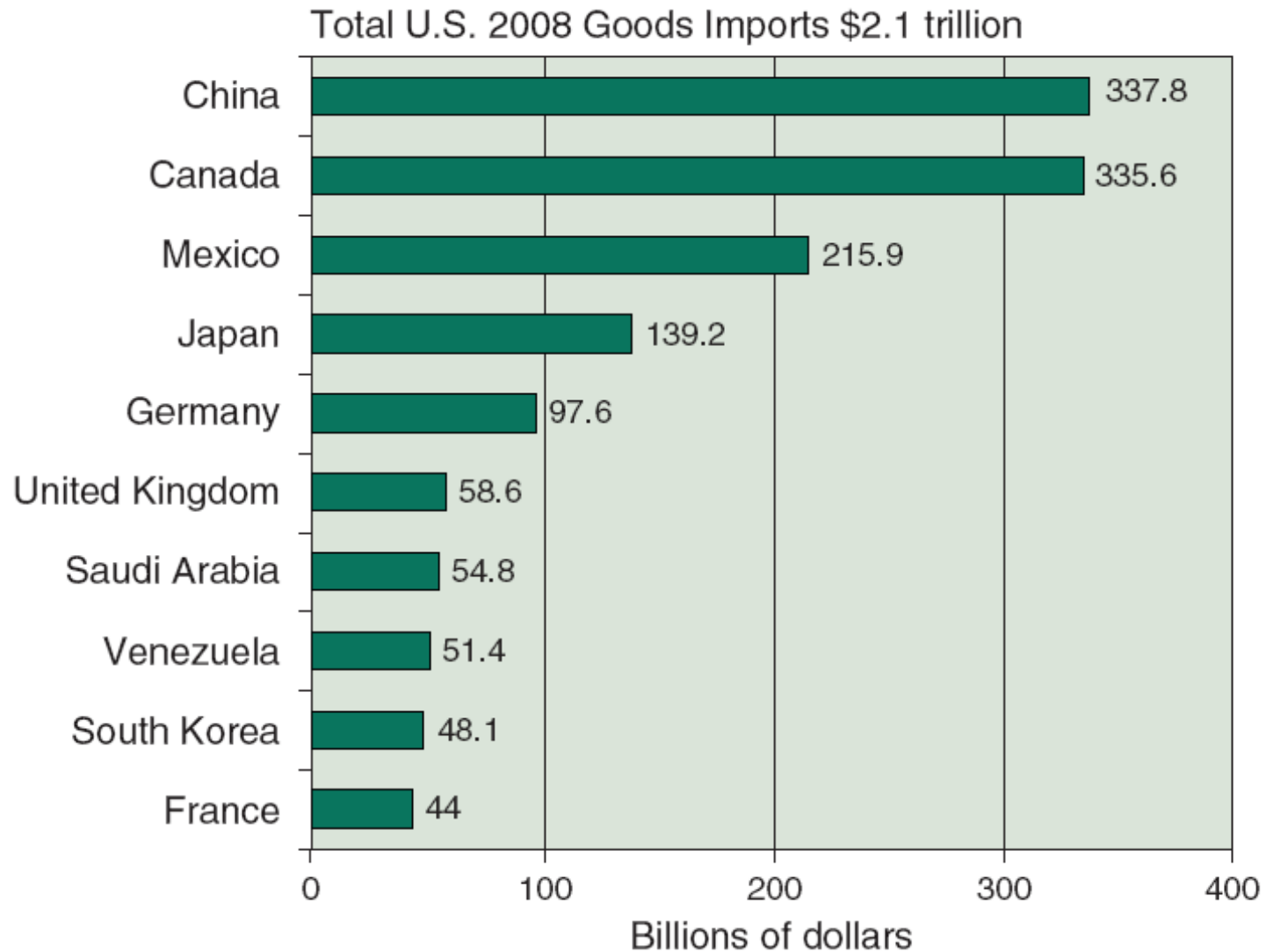
TABLE 3-4 NAFTA Income and Population

	2006 GNI (in millions)	2006 Population (in thousands)	2006 GNI per Capita
United States	\$13,386,875	299,398	\$44,710
Canada	1,196,626	32,649	36,650
Mexico	815,841	104,221	7,830
<i>Total/Mean GNI per capita</i>	\$15,399,342	436,268	\$35,298*

U.S. Goods Exports in 2008



U.S. Goods Imports in 2008



Latin America: SICA, Andean Community, Mercosur, CARICOM

- Includes the Caribbean, Central, and South America
- History of no growth, inflation, debt, and protectionism has given way to free markets, open economies, and deregulation
- Some concern for further growth with the rise of left-leaning politicians

Central American Integration System (SICA)

- El Salvador, Honduras, Guatemala, Nicaragua, Costa Rica, and Panama
- Moving towards a common market
- Common External Tariff of 0 to 15%
- Retains tariffs on goods also produced in importing country



Andean Community

- Bolivia, Colombia, Ecuador, Peru, Venezuela
- Customs Union
 - Abolished foreign exchange, financial and fiscal incentives, and export subsidies
 - Established common external tariffs



Common Market of the South (MERCOSUR)

- Argentina, Brazil, Paraguay, Uruguay, Venezuela
- Customs union, seeks to become common market
 - Internal tariffs eliminated
 - Established common external tariffs up to 20%
 - In time, factors of production will move freely through member countries
- Chile, Colombia, Ecuador, Peru, Bolivia
 - Associate members
 - Participate in free trade area but not customs union

MERCOSUR

TABLE 3-7 Mercosur Income and Population

	2006 GNI (in millions)	2006 Population (in thousands)	2006 GNI per Capita
Argentina	\$201,347	39,134	\$5,150
Bolivia*	10,293	9,354	1,100
Brazil	892,639	189,323	4,710
Chile*	111,869	16,433	6,810
Ecuador*	38,481	13,202	2,910
Paraguay	6,016	8,461	1,410
Peru*	82,201	27,589	2,980
Uruguay	17,591	3,314	5,310
Venezuela	163,959	27,021	6,070
<i>Total/Mean GNI per capita**</i>	\$1,524,396	333,831	\$4,050**

*Indicates mean

Caribbean Community and Common Market (CARICOM)

TABLE 3-8 CARICOM Income and Population

	2006 GNI (in millions)	2006 Population (in thousands)	2006 GNI per Capita
Antigua and Barbuda	929	84	11,050
Bahamas	4,684	327	15,100
Barbados	na	293	na
Belize	1,114	298	3,740
Dominica	262	72	3,670
Grenada	397	108	3,750
Guyana	849	739	1,150
Haiti	4,044	9,446	430
Jamaica	9,504	2,667	3,560
Montserrat	na	na	na
St. Kitts and Nevis	326	48	6,980
St. Lucia	684	166	4,180
St. Vincent and Grenadines	403	120	3,400
Suriname	1,918	455	4,210
Trinidad and Tobago	16,612	1,328	12,500
<i>Total/Mean GNP per capita</i>	33,788	15,006	2,293* ^a

CARICOM



Asia-Pacific: The Association of Southeast Asian Nations (ASEAN)

- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
- Trading partners U.S., EU, China
- Geographically close; historically divided
- “ASEAN plus six” (Japan, China, Korea, Australia, New Zealand, India) working towards an economic community

ASEAN

TABLE 3-9 ASEAN Income and Population

	2006 GNI (in millions)	2006 Population (in thousands)	2006 GNI per Capita
Brunei	na	366	na
Cambodia	\$6,990	14,197	\$490
Indonesia	315,845	223,042	1,420
Laos	2,279	5,792	390
Malaysia	146,754	26,114	5,620
Myanmar	na	48,379	na
Philippines	120,190	86,264	1,390
Singapore	128,816	4,484	28,730
Thailand	193,734	63,444	3,050
Vietnam	58,506	84,108	700
Total/Mean GNI per capita	\$770,756^a	544,155	\$1,561^{*, a}

Singapore

- World's 2nd largest container port
- 2nd highest standard of living in the region behind Japan
- 4.2 million people
- 93% literacy rate
- Over 3,000 companies
- Crime is nearly nonexistent



The European Union (EU)

- Initially began with the 1958 Treaty of Rome
- Objective is to harmonize national laws and regulations so that goods, services, people, and money could flow freely across national boundaries
- 1991 Maastricht Treaty set stage for transition to an economic union with a central bank and single currency (the Euro)

European Union

- 27 countries
- 491 million people
- Combined GNI of \$14.7 trillion
- Euro currency, 1999
- Harmonization of laws and regulations



The Middle East

- Afghanistan, Bahrain, Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates, Yemen
 - Primarily Arab, some Persian and Jews
 - 95% Muslim, 5% Christian and Jewish
 - 34.7 million people, 24 million in Saudi Arabia
 - 25% of world's oil in Saudi Arabia
 - Strong impact of world economic crisis on Dubai

Gulf Cooperation Council

TABLE 3-12 GCC Income and Population

	2006 GNI (in millions)	2006 Population (in thousands)	2006 GNI per Capita
Bahrain	\$10,288	739	\$14,370
Kuwait	55,255	2,599	22,470
Oman	22,994	2,546	9,070
Qatar	na	821	na
Saudi Arabia	331,041	23,679	13,980
United Arab Emirates	102,693	4,248	23,770
<i>Total/Mean GNI per capita</i>	\$434,169 ^a	34,757	\$12,777* ^a

- Established in 1981 by 6 countries with 45% of world's oil
- These countries are attempting to diversify industries



Africa

- 54 nations over three distinct areas
 - Republic of South Africa
 - North Africa
 - Black Africa or sub-Saharan Africa
- Regional agreements
 - Economic Community of West African States
 - East African Cooperation
 - South African Development Community

Exercises

1. What is a 'preferential trade agreement'?
2. How is a free trade area formed?
3. What are the most important trading arrangements in Latin America?
4. Who were the original members of ASEAN?
5. What countries comprise the Middle East?

Answers

1. A preferential trade agreement is a mechanism that confers special treatment on select trading partners. By favoring certain countries, such agreements frequently discriminate against others.
2. A free trade area (FTA) is formed when two or more countries agree to eliminate tariffs and other barriers that restrict trade
3. Important trading arrangements include:
 - Central American Integration System (SICA)
 - Andean Community
 - The Common Market of the South (Mercosur)
 - The Caribbean Community and Common Market (CARICOM).

Answers

4. The original six members of ASEAN were:

- Brunei
- Indonesia
- Malaysia
- the Philippines
- Singapore
- Thailand

Answers

5. The Middle East includes 16 countries:

- Afghanistan
- Cyprus
- Bahrain
- Egypt
- Iran
- Iraq
- Israel
- Jordan
- Kuwait
- Lebanon
- Oman
- Qatar
- Saudi Arabia
- Syria
- The United Arab Emirates
- Yemen