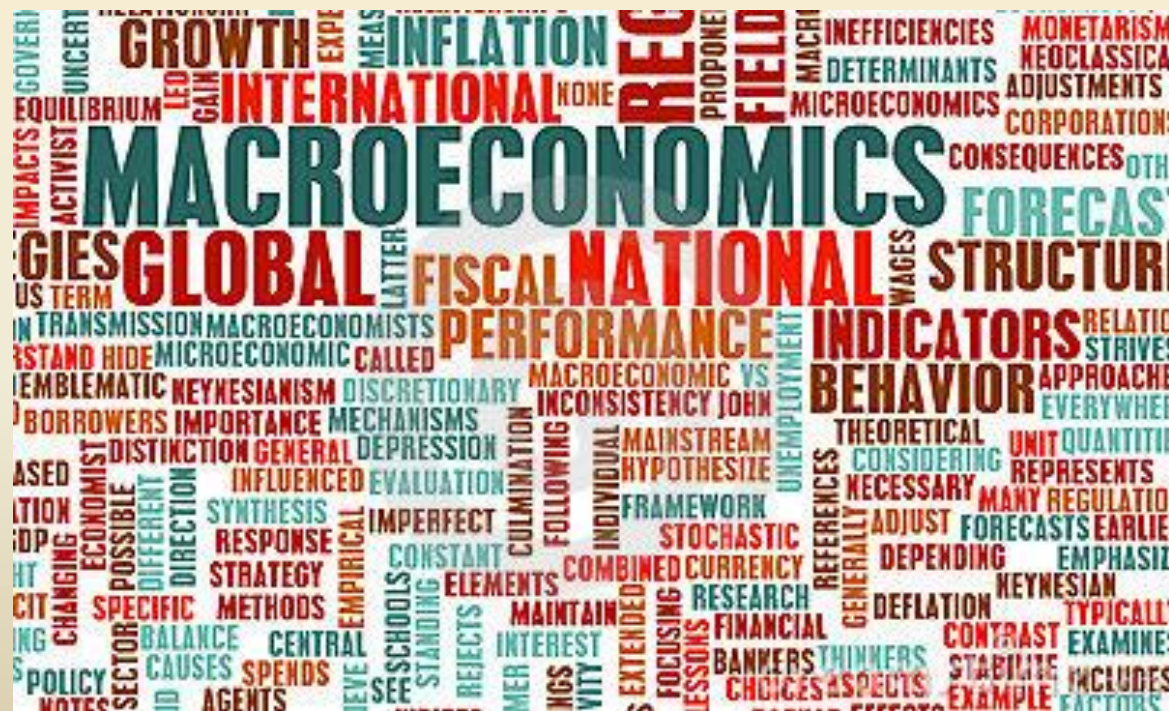


presentation 25

economic integration



Regimes

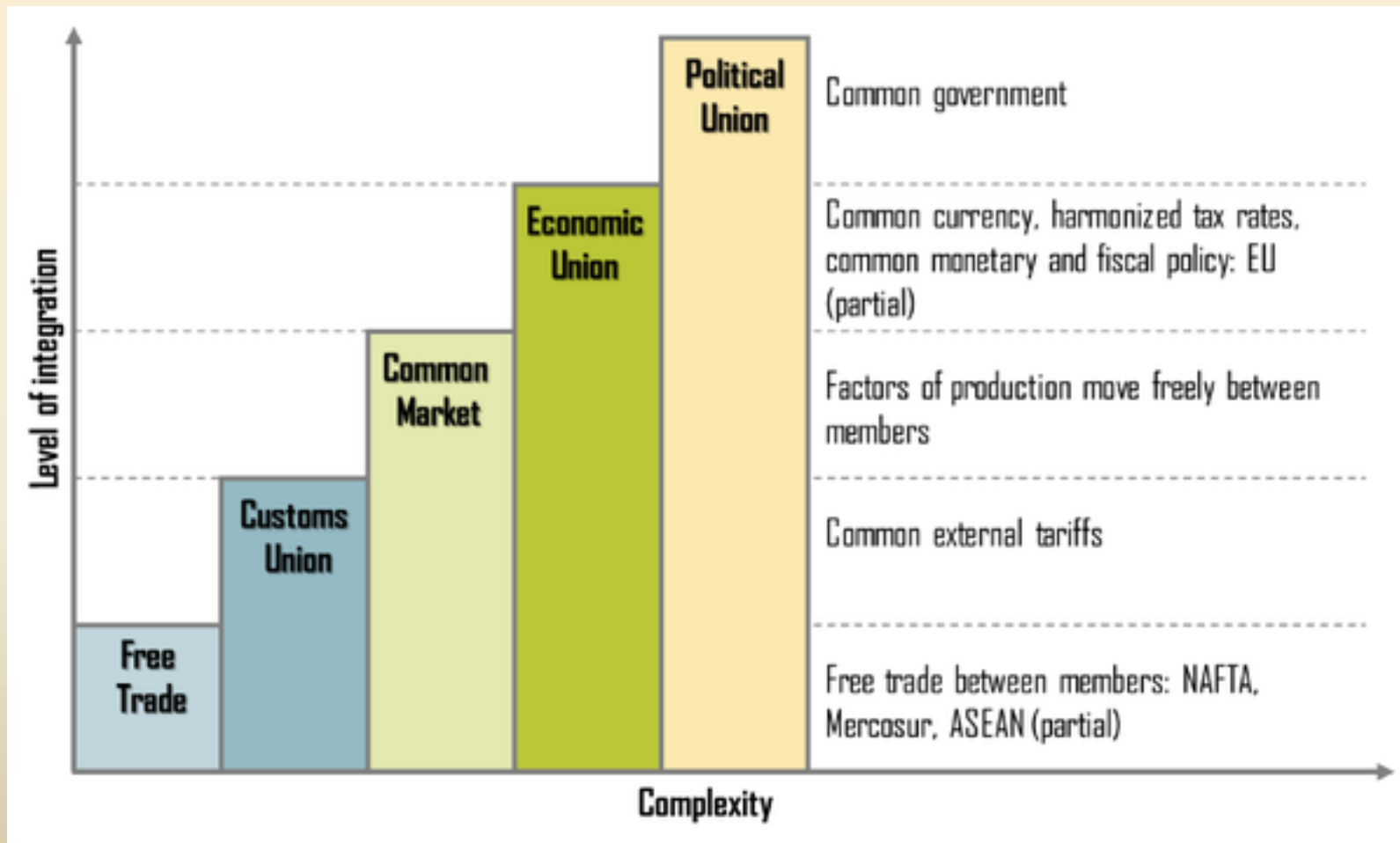
Following Keohane, regimes refer to the set of transactions that are regulated by economic and political international institutions.

A typical trade regime is the World Trade Organization (WTO) and a monetary regime is the International Monetary Fund (IMF).

The effect of these regimes and other local initiatives has been trade integration, which may be viewed as a series of policies aiming at bringing economies closer.

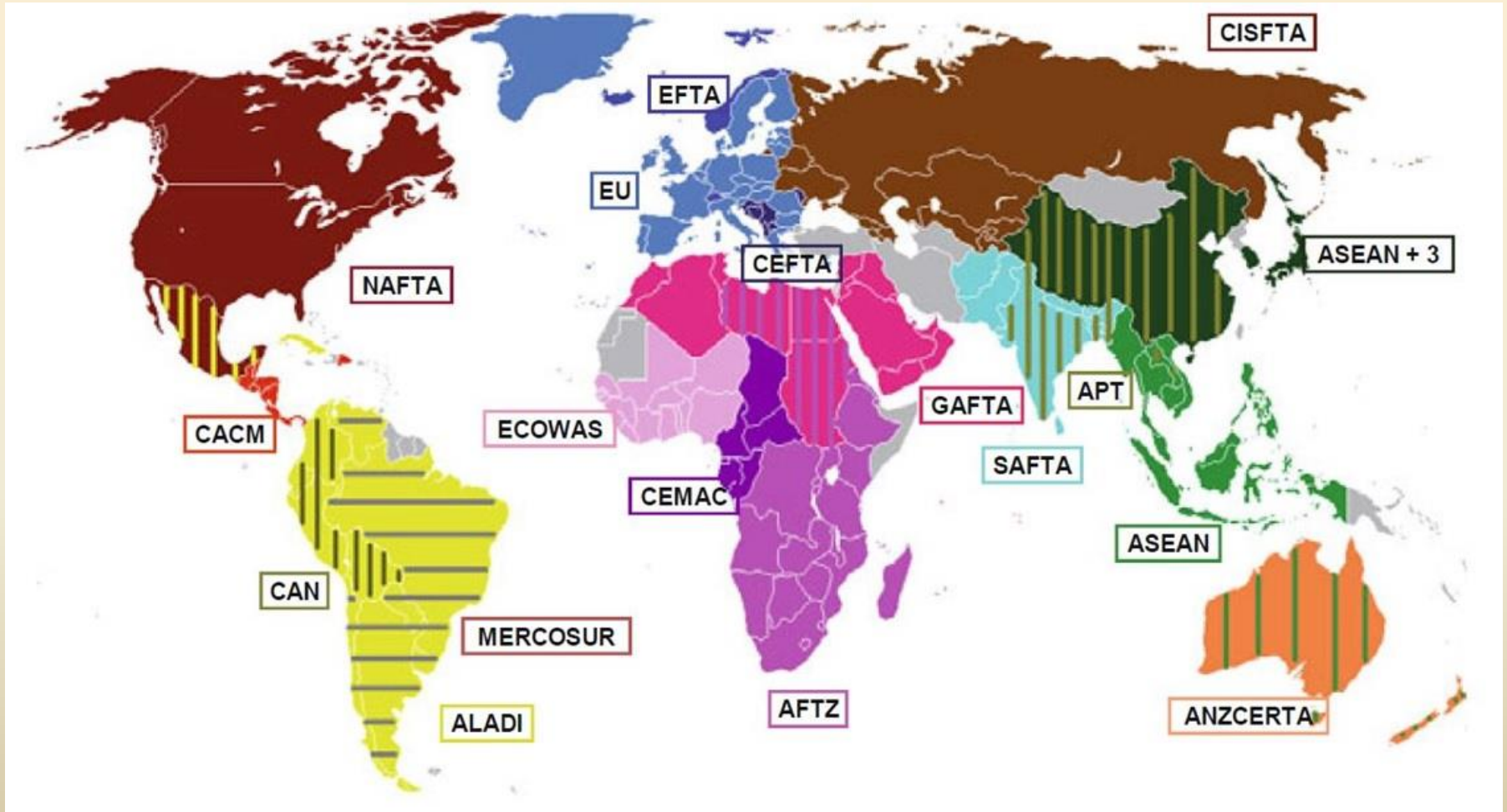
Integration

Economic integration involves a number of stages:



Free trade areas

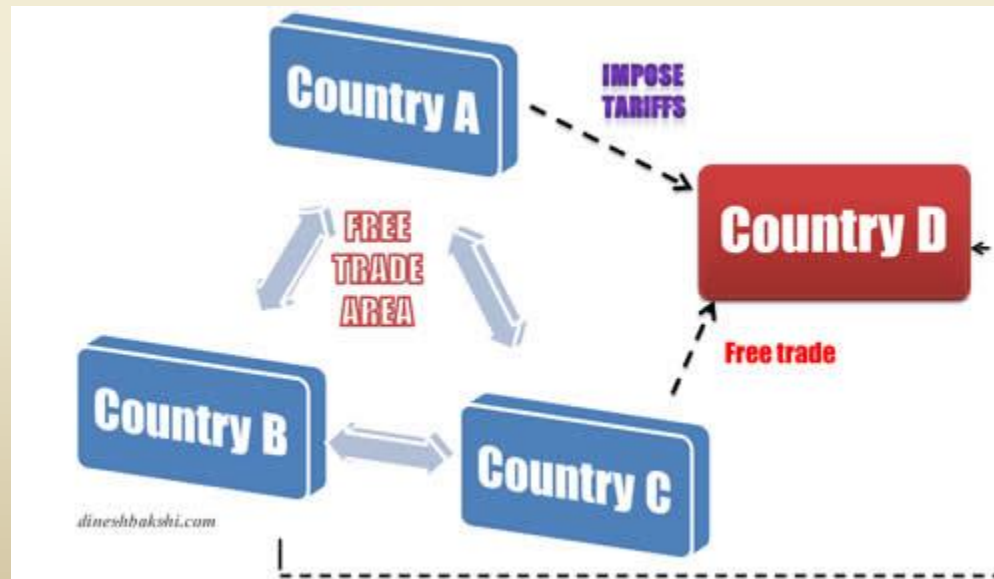
Free trade areas in the world



Customs union

A customs union is the mid-path of a free trade area as NAFTA, and an economic union as the is the EU.

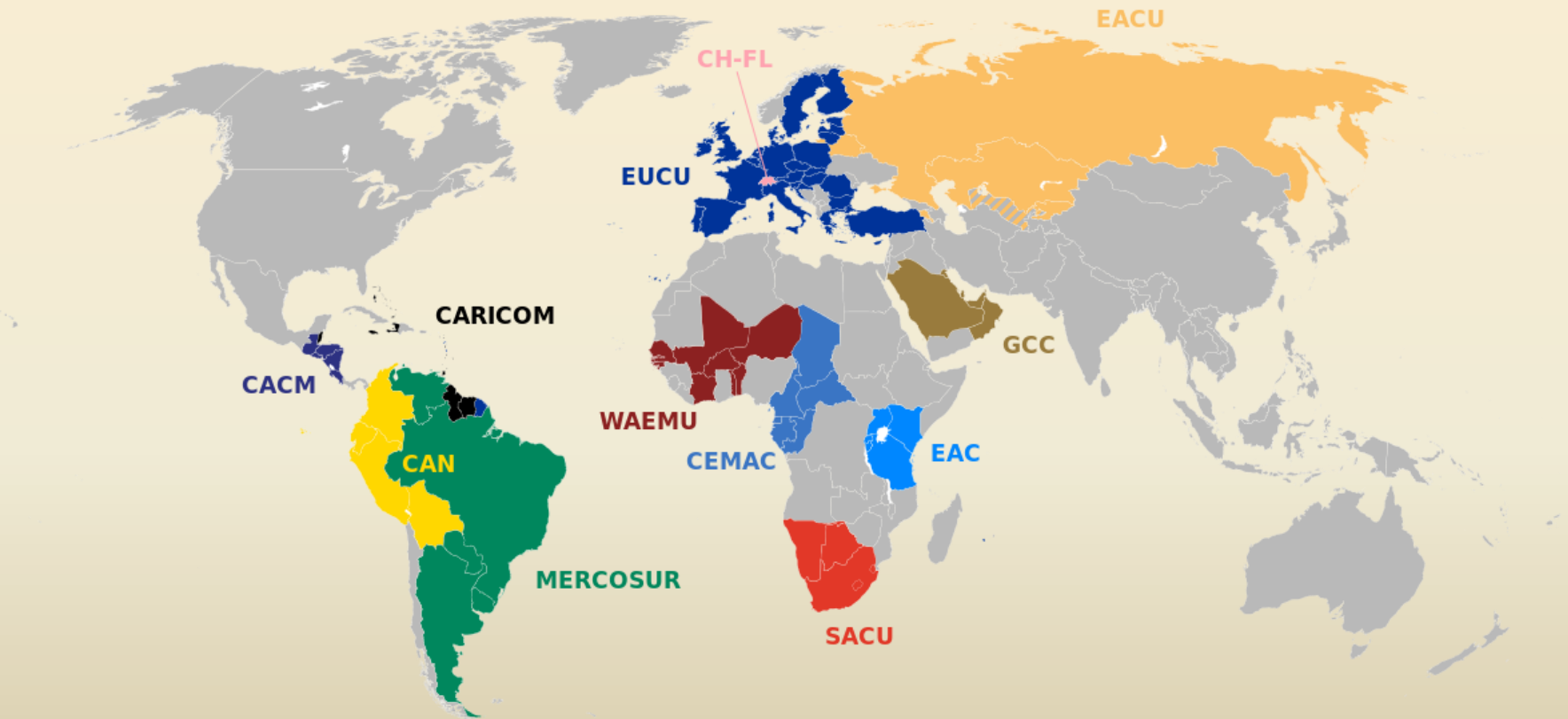
It involves the removal of tariffs on trade for the benefit of producers and consumers belonging to the union, but not to the rest of the world.



As a result of the customs union there is trade creation resulting from the removal of trade barriers, hence an increase in imports which displace home production and an increase in consumption.

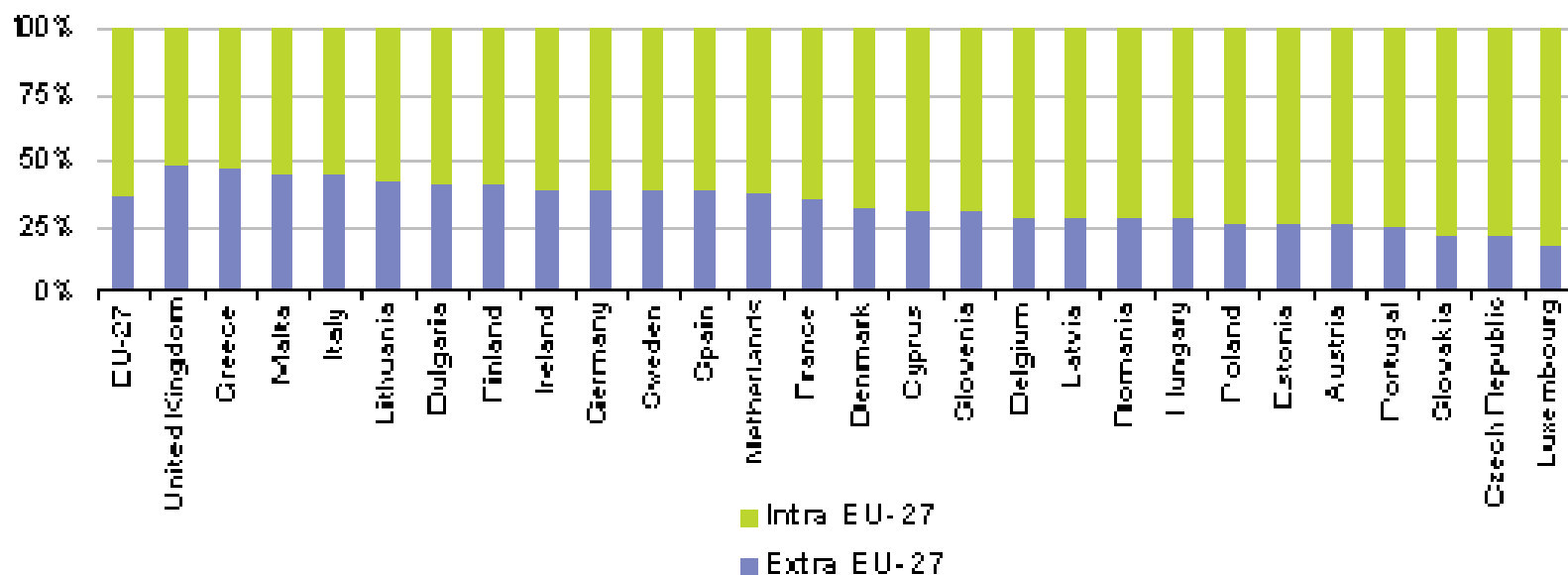
However, there could be trade diversion if trade is shifted from a more efficient economy to a less efficient economy.

Customs unions worldwide



Economic union

In the case of EU, trade creation within the union far exceeded trade diversion with non-EU economies which shows the benefit of the union.



Source: Eurostat (online data code: ext_lt_intratrd)

EU vs EEU



Policies

The states of developed economies aim at the allocation of resources to sectors that can contribute positively to economic growth:

- adding value per unit of labor utilized through training, research and development
- developing core industries with future growth potential
- protecting industries that are vital for the economy

In developing economies, the state supports domestic efforts of industrialization by means of

- trade barriers and other protectionist measures for the creation of businesses with comparative and competitive advantage, even though such policies may stand counter to the purposes of the WTO
- import substitution for the equivalent domestic commodities
- technology transfer.