

## CHAPTER 26 : Trading bloc

### 1. Trading bloc

: is a group of countries that have signed a regional trade agreement to reduce or eliminate tariffs, quotas, or other protectionist barriers between themselves.

#### 1.1 Free trade area (FTA)

: where member states remove all trade barriers such as tariff, import quotas, between themselves. Eg. NAFTA

#### 1.2 Custom Unions

: is similar to a free trade area, except that the member adopt a common set of barrier against non-member . This means only one set of rules regarding customs duties and rules of origin will apply when a product is shipped from outside the union to any of the member states.

#### 1.3 Common markets

: s much more integrated than free trade arrangements or customs unions. This is because goods, labour, capital can move freely across the member states.

#### 1.4 Single market

: A common market is considered to be the starting point for the creation of a single market. Here, most of trade barrier between members removed. Common laws or policies work to make the movement of goods, services, labour, capital between countries as easy as the movement with each country.

#### 1.5 Economic unions

: is a type of trade bloc involving both custom union and common market. Its aim is normally closer economic, political and culture ties between member states. Where an economic union involves a common currency, it is called an economic and monetary union.

## **2. Factors to consider in trading bloc**

- Where to produce : Where to produce : A company may be able to move to neighbouring country where costs of land , labour or capital are most favorable.
- Where to sell : This can present opportunities or threats
- How to enter market
- Business strategies

## **3. Impact of trading blocs on business**

: Trading blocs are likely to create both opportunities and drawbacks for business.

<b>Opportunities for business</b>	<b>Drawbacks for business</b>
<ol style="list-style-type: none"> <li>1. Freeing regional trade may allow individual members to specialise in the areas their country already has advantages in</li> <li>2. The market for firms' goods and services should increase</li> <li>3. Producers can achieve economies of scale as the trade volume increases</li> <li>4. Resources may be easier to source and labour easier to recruit</li> </ol>	<ol style="list-style-type: none"> <li>1. Trading bloc can lead to trade diversion</li> <li>2. Inefficient producers may be protected from competition.</li> <li>3. The overall benefits may turn out to be small if any agreement limits the goods and services that are traded</li> </ol>