

International Economic Integration.

Free Trade Agreements, WTO, Growth of MNE's. The
Free Trade Debate

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Economic Integration

- **Globalisation** about growing economic interdependence of countries as well as the rapid diffusion of technology & information.
- **Economic Integration** about removing barriers to trade, & national government intervention in trade.
 - There has been a range of moves towards enhancing economic integration since the end of the II World War.
 - Supported by economic theory!

The case FOR government intervention

- **Political arguments:**

- “protecting jobs and industries”
- “protecting industries vital for national security”
- as part of a “get tough” policy to open foreign markets
- “strategic” trade policy: protecting infant industries, aiding first-mover advantage, overcoming barriers to entry

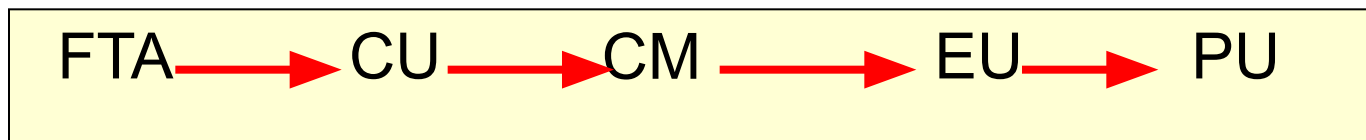
- Economic integration likely to generate gains for participating nations, however these are not necessarily equally distributed. There will be some losers, both individual & organisational.

Barriers to Trade

- Tariff Barriers
 - Official constraints on the import of certain goods.
- Non Tariff Barriers:
 - Indirect measures, that are more difficult to measure than official tariffs.
 - Subsidies
 - Import quotas and “voluntary” export restraints
 - Local content requirements, technical standards.
 - Administrative trade policies (bureaucratic hurdles)
 - US barring Mexican trucks from entering US on safety grounds
 - Access to local Channel and supply chain network

Manifestations of Economic Integration

- Free Trade Areas:
 - Members remove trade barriers between themselves, but maintain independence to negotiate with 3rd party state's re trade. Eg NAFTA
- Customs Unions:
 - Similar to FTA but members must maintain common external commercial arrangements such as common tariff policies. E.g CACM
- Common Markets:
 - Allows free trade & free mobility of production factors; capital, labour & technology. E.g MERCOSUR



Instruments of Global Integration

- GATT:
 - 8 rounds 1947 to 1994.
 - Early stages concerned with removal of tariff barriers, later rounds with non tariff barriers
- WTO (146 members on 4 April 2003. 95% of world trade)
 - Forum for trade agreements
 - Administering trade agreements
 - Settling trade disputes
 - Reviewing national trade policies
 - Combating trade barriers, & anti competitive behaviour such as dumping.

IMF & The World Bank

Established at Bretton Woods New Hampshire in 1944

• IMF Objectives:

- Promote international monetary cooperation
- Expansion of world trade
- Ensure equilibrium between members balance of trade

Achieved
By



- Promoting exchange rate stability
- Prevent competitive devaluations
- Providing emergency stability funds

• World Bank Objectives:

- To raise standards of living in 3rd World countries.
 - Owned and funded by 160 countries.

Achieved
By



- Moving financial resources from 1st to 3rd world by:
 - Lending funded by subscriptions as well as investments and repayments

Key Issues

- The WTO, The IMF and The World Bank:
 - The key organisations concerned with global trade.
- Main Objectives:
 - The WTO:
 - primary focus is to increase world trade by reducing trade barriers and eliminating discrimination.
 - IMF:
 - Maintain monetary (currency) stability
 - World Bank:
 - Fiscal or financial funding systems.

Multinational Enterprises (MNE)

- MNE Vs International Firm:
 - An MNE any firm that with (FDI) Foreign Direct Investment over which it maintains full control as apposed to a firm engaged in international trade but with no FDI.
- History of MNE's:
 - Appeared in Assyria in 2000BC and flourished in the Roman period.
- Today the worlds largest MNE's account for 80% of global industrial output. Largest MNE's are based in EU, US or Japan

Are MNE's Trans-national?

- MNE's no longer have allegiance to a single country?
 - Increasingly difficult to pinpoint country of origin. Shares held and traded globally.
 - However there is also clear evidence that in many cases the MNE maintain a clear national base and culture that determines their governance.
- Competitive Base:
 - MNE's have many advantages mostly of scale and experience over local companies.

The Free Trade Debate

- For:
 - Generally trade theories show the benefit of free trade particularly absolute and comparative advantage.
- Against:
 - Loss of sovereignty
 - Environmental, trade will shift to countries that do not protect the environment.
 - Short term problems for countries in transition.
 - Many of the perceived problems stem from unfair competitive practices that have become associated with the power of the advanced economies

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