



# Chapter 10 Part 2 -

## International Cooperation Among Nations



# Learning Objectives

**At the end of this chapter, you should be able to:**

**10.1** Explain the importance of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) to international businesses

**10.2** Contrast the different forms of economic integration among cooperating countries

**10.3** Analyze the opportunities for international businesses created by completion of the European Union's internal market

**10.4** Describe the other major trading blocs in today's world economy.

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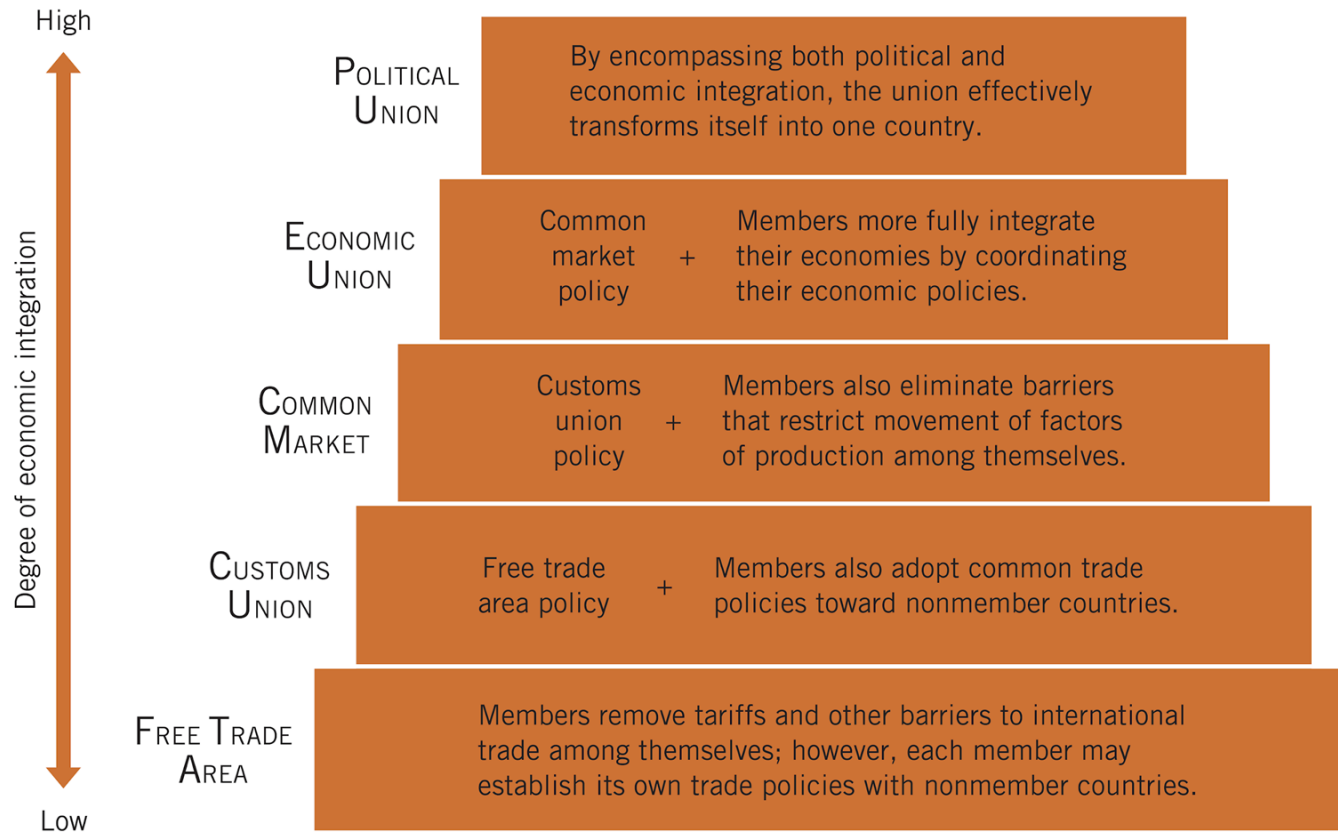
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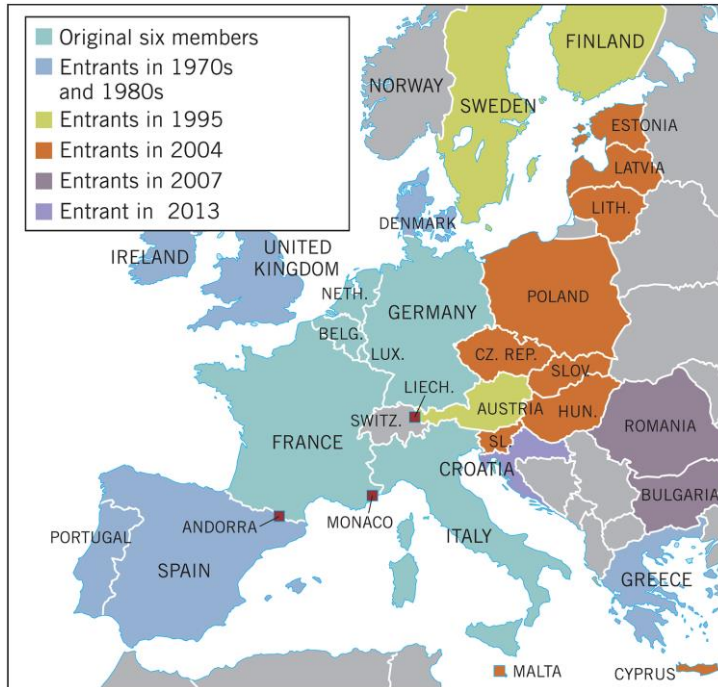
# Regional Economic Integration

Figure 10.2 Forms of Economic Integration



# The European Union (1 of 2)

Map 10.1 The European Union



One of most important regional trading bloc in the world today - EU (27 members)

Combined population of 513 million - one of the world's richest markets, total gross domestic product (GDP) \$17.3 trillion, or about 21% of the world economy

# The European Union (2 of 2)

## Treaty of Rome

- 1957: France, West Germany, Italy, Belgium, the Netherlands, and Luxembourg signed the Treaty of Rome --established the **European Economic Community (EEC)** [SEE MAP 10.1]

## European Community (EC)

- 1970s: the United Kingdom, Denmark, and Ireland joined the EEC
- 1980s: Greece, Portugal, and Spain entered the EC.

## Treaty of Maastricht

- 1993: 12 EC members signed the Treaty of Maastricht—**EC became known as the EU.**
- 1995: Austria, Finland, and Sweden joined the EU.
- 2004: Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia became EU members
- 2007: Bulgaria and Romania joined the EU
- 2013: Croatia joined the EU, bringing its total membership to 28.
- June 2016: British voters chose to withdraw from the EU. Exit in March 2019

Country	Total Population (millions)	Total GDP (billions)*	GDP per Capita*	Year of Entry	Votes in Parliament (2014-2019)
Austria	8.8	417	47,291	1995	18
Belgium	11.4	493	43,324	1957	21
Bulgaria	7.1	57	8,032	2007	17
Croatia	4.1	55	13,295	2013	11
Cyprus	1.2	22	25,233	2004	6
Czech Republic	10.6	216	20,368	2004	21
Denmark	5.8	325	56,308	1973	13
Estonia	1.3	26	19,705	2004	6
Finland	5.5	252	45,703	1995	13
France	67.1	2,583	38,477	1957	74
Germany	82.7	3,677	44,470	1957	96
Greece	10.8	200	18,613	1981	21
Hungary	9.8	139	14,225	2004	21
Ireland	4.8	334	69,331	1973	11
Italy	60.6	1,935	31,953	1957	73
Latvia	1.9	30	15,594	2004	8
Lithuania	2.8	47	16,681	2004	11
Luxembourg	0.6	62	104,103	1957	6
Malta	0.5	13	26,946	2004	6
Netherlands	17.1	826	48,223	1957	26
Poland	38.0	525	13,812	2004	51
Portugal	10.3	218	21,136	1986	21
Romania	19.6	212	10,814	2007	32
Slovakia	5.4	96	17,605	2004	13
Slovenia	2.1	49	23,597	2004	8
Spain	46.6	1,311	28,157	1986	54
Sweden	10.0	538	53,442	1995	20
United Kingdom	<u>66.0</u>	<u>2,622</u>	39,720	1973	<u>73</u>
Total EU27	446.5	14,658	32,829		678
Total EU28	512.5	17,280	33,717		751

Source: Based on data from World Bank, *World Development Indicators* database, accessed August 12, 2018; European Union website, accessed August 12, 2018.

\* In U.S. dollars.

N.B.: EU28 includes the United Kingdom; EU27 excludes the United Kingdom

# Governing the EU

- European Union is a unique institution
- Members are sovereign nations that have ceded certain of their powers to the EU
- *intergovernmental government* because it is a government of national governments - supranational government



# Governing the EU

Five organizations perform its executive, administrative, legislative, and judicial functions

1. The European Council (Brussels, Belgium)
2. The Council of the European Union (Brussels, Belgium)
3. The European Commission (Brussels)
4. The European Parliament (Strasbourg, France)
5. The European Court of Justice (Luxembourg)

# Governing the EU: European Council

- Heads of state or government from each of the member states
- President of the European Council
- President of the European Commission
- Convenes twice every six months
- Shapes the EU's political priorities and policy agendas
- Decisions are usually based on consensus

# Governing the EU: Council of the EU

- Representatives of Member States
- The EU's Most Powerful Decision-Making Body
- Decision-making Rules
  - Unanimous Approval
  - Qualified Majority

# Governing the EU: European Commission

- Proposes Legislation
- Implements Treaty Provisions
- Protects the Interests of the EU
- Wields Broad Implementation Powers
- Administers the EU's Bureaucracy

# Governing the EU: European Parliament

- Currently 751 representatives elected to serve five-year terms
- Seats are allocated in rough proportion to a country's population
- Originally the weakest of EU's governing bodies

- Over the years, Parliament has used its **budgetary powers** to enlarge its influence within the EU's governing institutions.
- Gained additional powers under the Maastricht, Amsterdam, Nice, and Lisbon Treaties

- many Europeans concerned about lack of accountability in EU's programs and lack of democracy in decision-making processes, so role of the European Parliament will expand and power grow over time.

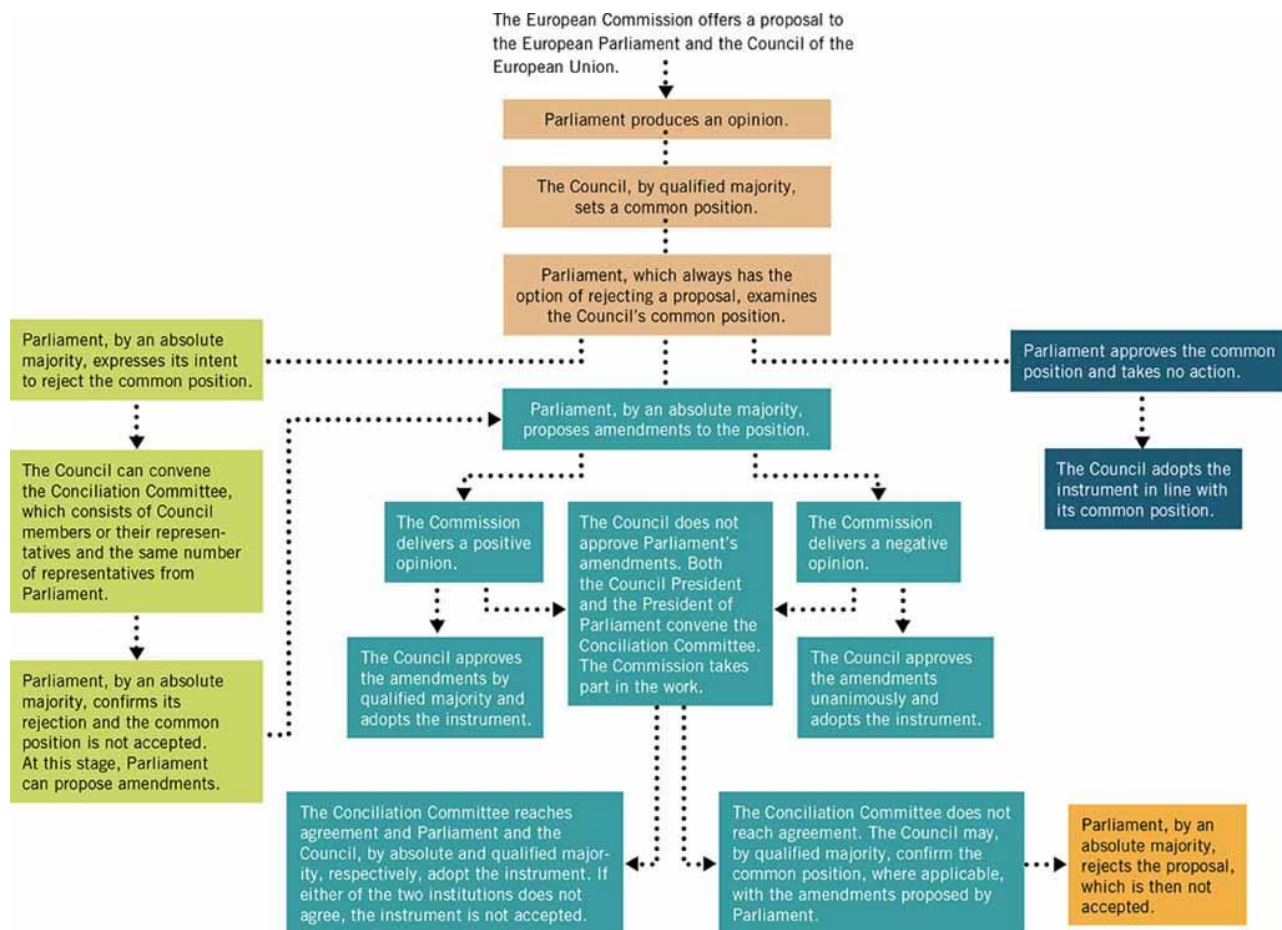
# Governing the EU: European Court of Justice

- Consists of 27 judges - serve 6-year terms
- Interprets EU Law
- Ensures Compliance to EU Regulations and Policies by members

# Governing the EU: Legislative Process

Catch phrase: *“the Commission proposes, the Parliament advises, and the Council disposes.”*

- The Co-Decision Procedure [SEE FIG 10.3]
  - European Parliament
  - Council of the European Union





# The Struggle to Create a Common Market

- **Harmonization**

- **Mutual Recognition**

- *“White Paper”*

- Court’s decision created the concept of **mutual recognition**
- If one member state determines that a product is appropriate for sale, then all other EU members are also obliged to do so under the provisions of the Treaty of Rome

- To establish a common market, each EU member had to agree to change national laws, product standards, and regulations to ensure compatible with other EU members. In practice, member nations moved cautiously because of political pressures from domestic special-interest groups

- relied on a process of **harmonization** to eliminate conflicts
  - process encouraged members to voluntarily adopt common regulations affecting trade in goods and services, as well as the movement of resources

# The Struggle to Create a Common Market

- Harmonization
- Mutual Recognition
- ***“White Paper”***
- **Single European Act**

- In 1985 the European Commission issued White Paper on Completing the Internal Market.
- White Paper called for accelerated progress on ending all trade barriers and restrictions on the free movement of goods, services, capital, and labor among members.
- 1986 the members signed the Single European Act, which took effect on July 1, 1987.

# From Common Market to European Union

- Maastricht Treaty 1991 - amended Treaty of Rome
  - Establish Economic and Monetary Union (EMU)
- EU's Council of Ministers met in Maastricht - December 1991- discuss economic and political future of the EU and reassert Europe on world stage
- Formally **the Treaty on European Union** and informally as **the Maastricht Treaty** came into force on November 1, 1993.
- Creation of the euro reduced exchange rate risks and currency conversion costs of firms doing business in the eurozone.

# From Common Market to European Union

- Treaty for Europe (Treaty of Amsterdam) 1997

- **Treaty of Amsterdam** (aka the Treaty for Europe) was signed in 1997. Its most important components include the following: a strong commitment to attack the EU's high levels of unemployment; a plan to strengthen the European Parliament; and the establishment of a *two-track system*, allowing groups of members to proceed with economic and political integration faster than the EU as a whole.

# From Common Market to European Union

- Treaty of Nice

- **Treaty of Nice** - February 2003
- Continued the integration process by making modest adjustments in the EU's governance arrangements. E.g. reduced the number of areas where unanimity is required for Council approval; yet, more significant steps were needed to reform the EU's decision-making processes.
- EU members established a Constitutional Convention to resolve these conflicts. Unfortunately, the proposed Constitution was defeated in May 2005.

# From Common Market to European Union

- Treaty of Lisbon (Reform Treaty)

- After 2-year “period of reflection,” members agreed to **Treaty of Lisbon** (or the Reform Treaty) adopted many of the governance changes proposed by the Constitutional Convention. Important changes - creating a full-time President of the European Council, a reduction in the size of the European Commission, and strengthening powers of European Parliament. The Treaty Lisbon also granted national legislatures the formal right to voice concerns about proposed EU legislation.

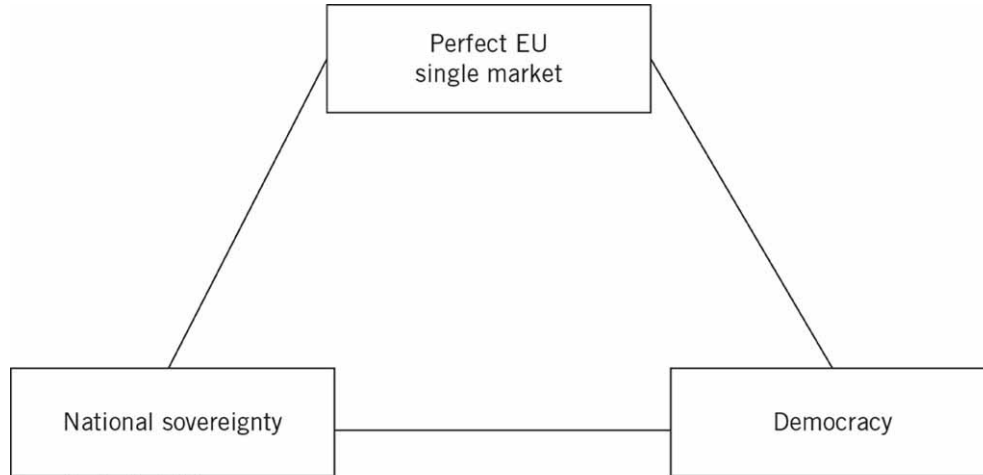
# Future E U Challenges

- Political Conflicts remain
- State Aid to Industry
- Under EU - national governments cannot subsidies to firms that distort competition'
- Govt protect domestic firms from Corporate Takeovers - against EU

- UK against Common Agricultural Policy benefits French farmers to the detriment of British interests. It also compromises the EU's relationships with the United States and the WTO

- Lack of Democracy and Accountability - more power should be given to the European Parliament

# RODRIK'S GLOBALIZATION TRILEMMA



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Rodrik argues that citizens of EU can enjoy any two of the three vertices only, they cannot have all three.

**Option 1:** want perfect market, can agree on one set of rules to accomplices this. But, each member state need to ignore voters wishes - Perfect EU mkt, preserve national sovereignty, sacrificing democracy (voters rights)

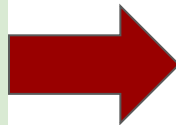
**Option 2:** want a perfect market, European voters collectively vote to establish common rules, members states ignored, democracy preserved (albeit European wide elections) -Perfect single EU-wide market is created

**Option 3:** want to continue allow voters to elect leaders of their countries, voters elect those support other than perfect market, more interested in economic interests, preserve jobs, restrict competition, maintain culture, maintain national sovereignty and democracy



# North American Free Trade Agreement (NAFTA)

- 1994 - to reduce barriers to trade and investment among Canada, Mexico, and the United States.
- Over a 15-year time span, tariff lowered, NTBs reduced, and investment opportunities increased for firms located in the three countries.



- Lower Tariffs
- Reduce NTBs
- Boost Investments

- Benefited all three countries, gains modest in Canada and the United States than most NAFTA advocates expected
- NAFTA's overall impact on the Mexican economy has been dramatic

# United States-Mexico-Canada Agreement

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The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020. The USMCA, which substituted the North America Free Trade Agreement (NAFTA) is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. The Agreement creates more balanced, reciprocal trade supporting high-paying jobs for Americans and grow the North American economy.

Agreement highlights include:

- Creating a more level playing field for American workers, including improved rules of origin for automobiles, trucks, other products, and disciplines on currency manipulation.
- Benefiting American farmers, ranchers, and agribusinesses by modernizing and strengthening food and agriculture trade in North America.
- Supporting a 21st Century economy through new protections for U.S. intellectual property, and ensuring opportunities for trade in U.S. services.
- New chapters covering Digital Trade, Anticorruption, and Good Regulatory Practices, as well as a chapter devoted to ensuring that Small and Medium Sized Enterprises benefit from the Agreement.

To view the full text of the agreement between the United States, Mexico and Canada, click [here](#).

To view the main USMCA webpage, click [here](#).



# Other Free-Trade Agreements in the Americas

- The Caribbean Basin Initiative
- Central America-Dominican Republic Free Trade Agreement
- The Mercosur Accord
- The Andean Community

# Trade Arrangements in the Asia-Pacific Region

- Australia-New Zealand Agreement (ANZCERTA or CER)
  - Association of Southeastern Asian Nations (ASEAN)
  - Asia-Pacific Economic Cooperation (APEC)
  - Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
- (**ANZCERTA** or **CER**) took effect on January 1, 1983.
- Eliminated tariffs and NTBs between the two countries.
- Also fostered cooperation in marketing, investments, tourism, and transportation

# Trade Arrangements in the Asia-Pacific Region

- Association of Southeastern Asian Nations (A S E A N)
  - Established in 1967 to promote regional political and economic cooperation. Its founding members were Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand
  - 1990s - Cambodia, Laos, Myanmar, and Vietnam joined
  - Increased its stature in the world market in 2003 by signing a free trade pact with China, with the first set of tariff cuts commencing in 2004.
- To promote intra-ASEAN trade, members established the **ASEAN Free Trade Area (AFTA)**, in 1993. AFTA members promised to slash their tariffs to 5 percent or less on most manufactured goods by 2003 and on all goods by 2010

# Trade Arrangements in the Asia-Pacific Region

- Asia-Pacific Economic Cooperation Initiative (A P E C)
- Comprehensive and Progressive Agreement for Trans-Pacific Partnership (C P T P P)

**Asia-Pacific Economic Cooperation (APEC)** includes 21 countries from both sides of the Pacific Ocean- founded in 1989 in response to the growing interdependence of the Asia-Pacific economies

- Comprehensive and Progressive Agreement for Trans-Pacific Partnership is a trade agreement among countries in the Pacific (Australia, Brunei, Japan, Malaysia, New Zealand, Singapore, Vietnam, and the Americas (Canada, Chile, Mexico, and Peru) to lower trade barriers. President Trump withdrew US from the Trans-Pacific Partnership Agreement (TPP) in early 2017, these 11 countries chose to revive the TPP in a new form, the CPTPP, in 2018. The CPTPP, which is expected to become operational in 2019.

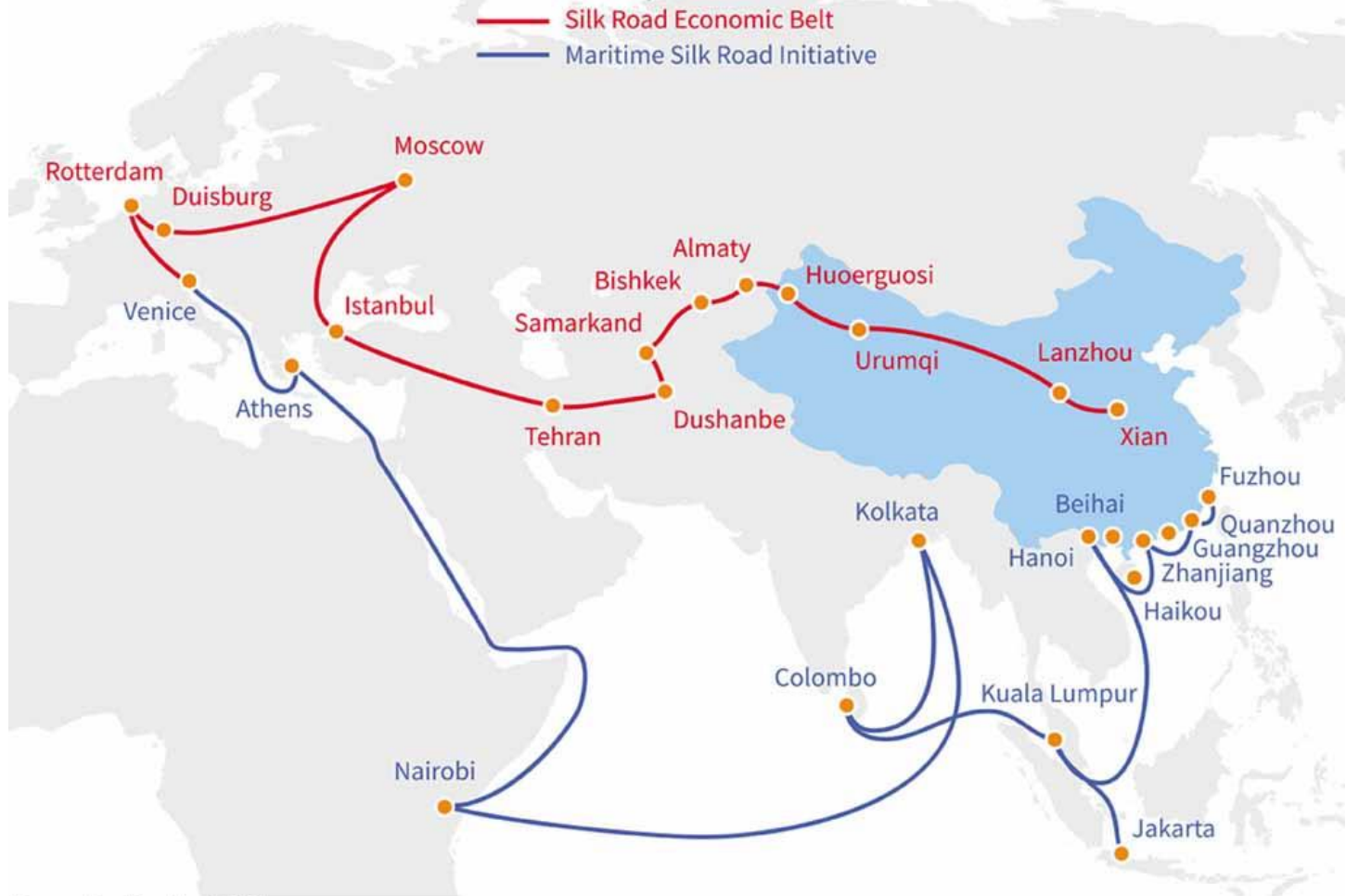




# ASIA PACIFIC ECONOMIC COOPERATION INITIATIVE (APEC)



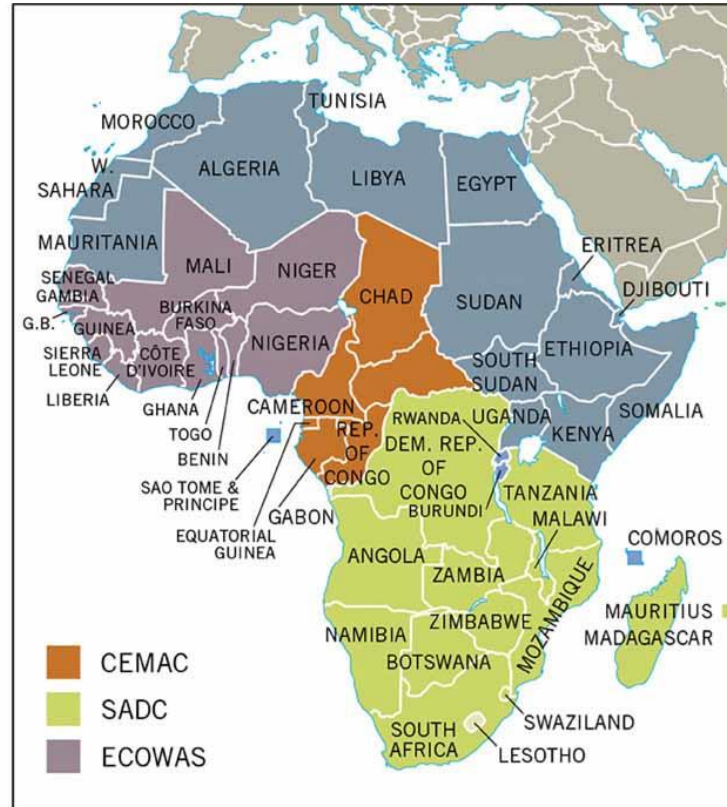
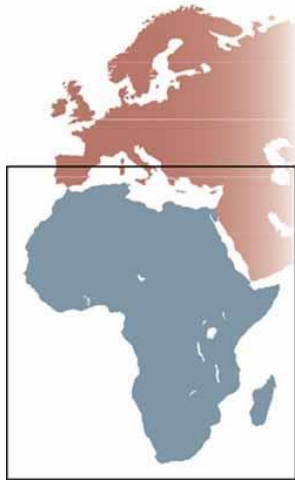
# ONE BELT, ONE ROAD



# African Initiatives

- The Southern African Development Community (SADC)
- The Economic and Monetary Community of Central Africa (CEMAC)
- The Economic Community of West African States (ECOWAS)

# FTA IN AFRICA



Acronym	Full Name/Members
AFTA	ASEAN Free Trade Area Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
ANCOM	Andean Community Bolivia, Colombia, Ecuador, Peru; Associate Members: Argentina, Brazil, Chile, Paraguay, Uruguay
APEC	Asia-Pacific Economic Cooperation Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, South Korea, Taiwan, Thailand, United States, Vietnam
CACM	Central American Common Market Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua
CARICOM	Caribbean Community and Common Market Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago
CEMAC	Economic and Monetary Community of Central Africa Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea, Gabon
CER	Australia–New Zealand Closer Economic Trade Relations Agreement Australia, New Zealand
EAEU	Eurasian Economic Union Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia
ECOWAS	Economic Community of West African States Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo
EFTA	European Free Trade Association Iceland, Liechtenstein, Norway, Switzerland
EU	European Union Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Spain, Sweden, Slovenia, Slovakia, United Kingdom (UK scheduled to leave the EU in 2019)
GCC	Gulf Cooperation Council Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates
MERCOSUR	Southern Common Market Argentina, Brazil, Paraguay, Uruguay, Venezuela; Associate Members: Bolivia, Chile, Colombia, Ecuador, Guyana, Peru, Suriname
NAFTA	North American Free Trade Agreement Canada, Mexico, United States
SADC	Southern African Development Community Angola, Botswana, Democratic Republic of the Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe

# Review Questions (1 of 2)

- What does **most favored nation (MFN)** mean?
- Under what **conditions can WTO members not use MFN** when dealing with one another?
- How does the WTO differ from the GATT?
- What are the **differences between free trade agreements and common markets**?
- Why do free trade areas develop **rules of origin**?

# Review Questions (2 of 2)

- What was the **goal of the Treaty of Rome**?
- Why is an economic union a unique example of regional association?
- What **kind of economic integration is ASEAN**?
- Identify the **goals of ASEAN**.
- What **efforts have South American countries made to regionally integrate** their economies?