

International Trade and economic bloc:

- **Trade theories** : Classical- Ricardo- free trade : specialisation ; comparative advantage by labour output
- Modern-Ohlin - resource endowment
- **Trade determinants**: Comparative advantage, supply conditions of capital, labour, land , management
- **Trade Barrier** : distance, tariff barrier , non tariff- barrier quota, state intervention
- **Trade strategies**: -Need for import substitution and export promotion , Prebisch's theory
- **Pattern of the international trade**: with special emphasis on High Performance Asian Economy, South-south trade
- **Regional co-operation**: Economic Bloc- (free trade area, customs union, common market)
- **Reference**: 1.Knox, Agnew, Mccarthy : Geography of World Economy, 2.Debesh Roy : Development Economics, 3.RIS: world trade and development report, 4. Berry, Conkling, Michael : Economic Geography

Economic Blocs:

i) **Definition**- groups of countries that have established special preferential arrangement governing trade and economic/and technological co-operation

•Reference: World Development Report, 2001

•**Logic behind formation of Economic Blocs:**

i) reduced friction of trade,

- ii) exploiting potential of economy of scale,
- iii) multiplier effect through market access,
- iv) comparative advantage,
- v) gaining political power,
- vi) relief from exploitative trade relation between core n periphery,

●**Spatial Impact:**

- i)trade diversion from old source,
- ii) relocation of production by comparative advantage,
- iii) change in regional pattern with emergence of new clusters of economy and polarisation
- iv) labour mobility,
- iii) change in consumption pattern,
- iv) re structuring of core-periphery pattern,
- v) new social and cultural integration

Threat:

- i. potential loss of sovereignty,
- ii)nested satellitazation

World Pattern

- vi)Example: ASEAN : trade and co-operation

BRICS, BIMSTEC,WTO,G20

Trade Blocs

DEFINITION

A trade bloc is a type of intergovernmental agreement, often part of a regional intergovernmental organization, where regional barriers to trade (tariffs and non-tariff barriers) are reduced or eliminated among the participating states.



Free Trade Agreement

Definition

Sovereign nations join together, usually on a regional scale, to create free trade agreements.

Purpose

Free trade agreements are created to lower trade barriers and to stimulate trade between member countries. Member countries belonging to the free trade area trade freely with each other while maintaining trade barriers and tariffs for non-member countries.

List of Free trade agreements

- Asia-Pacific Trade Agreement (**APTA**)
- ASEAN Free Trade Area (**AFTA**)
- ASEAN Plus Three
- ASEAN-Australia-New Zealand Free Trade Area (**AANZFTA**)
- African Free Trade Zone (**AFTZ**)
- Caribbean Community (**CARICOM**)
- Central European Free Trade Agreement (**CEFTA**)
- Dominican Republic – Central America Free Trade Agreement (**DR-CAFTA**)
- North American Free Trade Agreement (**NAFTA**)
- South Asia Free Trade Agreement (**SAFTA**)
- Latin American Integration Association (**ALADI**)
- European Economic Area (**EEA**)
- Commonwealth of Independent States Free Trade Agreement (**CISFTA**)
- Economic Community of West African States (**ECOWAS**)



Impact on international trade

Positive

- FTAs and trade blocs as drivers for liberalization.
- Members obtain preferred access to the markets of other members.
- Reduce trade irritants and restrictions.

Negative

- The problem of trade diversion.
- FTAs and trade blocs only confer economic advantages when they are negotiated with countries which are significant trading partners.
- Increase the complexity of the international trading system
- Raise transaction costs for business.
- Increased costs for the trading blocs or the organizations.

Trade blocs around the world



WHILE the World Trade Organisation (WTO) has always fostered a global multilateral trade, the current global trend in trade is increasingly based on regional trade through regional trade agreements (RTAs) between regional blocs — such as the European Union (EU), the North American Free Trade Agreement (Nafta), the Association of Southeast Asian Nations (Asean) and the Common Market of Eastern and Southern Africa (Comesa).

One of the main objectives of the regional trade agreements is to reduce trade barriers.

Many observers believe that regional trade agreements deepen market integration and complement efforts by the World Trade Organisation to liberalise international markets, while acknowledging that regional trade agreements can open up markets, but others contend that these agreements also distort trade and discriminate against nonmember countries.

Beyond regional trade, there is a growing trend to establish transpacific and transatlantic trade and partnerships mainly based on free trade agreements (FTAs). Such an approach has led to negotiations to establish the Transpacific Trade Partnership (TTP) and the Transatlantic Trade and Investment Partnership (TTIP).

The TTP brings together the US, Japan, Australia and other countries in the Asia-Pacific region and aims at trading based on some of the World Trade Organisation's principles. The TTIP brings together the US and the EU, which are global trading leaders and partners. It is becoming quite clear that, if successful, these partnerships will determine the future of global trade in the coming decades.

Trade between countries or different regional trading blocs has become unequal based on trade policies and regulations around tariff and

nontariff arrangements to determine which products and under which circumstances a country can trade or not with another country. These trade policies, in the case of trade between the South and North, often serve the interests of developed countries.

In 2013, the US and the EU started negotiating a trade and investment partnership, which will lead to the establishment of the TTIP. If concluded, the TTIP will be the largest ever achieved free trade and investment agreement. It will represent 50% of the world's gross domestic product (GDP) and a third of global trade. This will determine the future of global trade and economic interactions.

The question is, what are the implications of TTP and the TTIP for the rest of the world?

With the growing economic interactions between the emerging economies, particularly the Brazil, Russia, India, China, SA (Brics) countries and the number of free trade agreements and regional trade agreements, which are under way, it can be argued that the TTIP aims at competing against the influence of other global economic partnerships, but more precisely China's position in the world trade system. In 2012, China had become the world's largest exporter and second largest importer.

China is aiming for a greater Asian integration through the Regional Comprehensive Economic Partnership (RCEP). In addition China hopes for the success of the China-Japan-Korea free trade agreement by counting more on its free trade agreement with Korea to attract Japan, which is leaning towards the TTP. There are negotiations between China and the US to enable China to join the TTP. However, this is unlikely to happen as the US aims at countering China's economic influence in Asia and reap trade advantages with China's neighbours and trading partners in the region.

China is heavily supporting the ASEAN-led RCEP. Embracing a comprehensive regional economic integration, development and political co-operation agenda is one of the key objectives of the RCEP. The RCEP aims at going beyond single trade deals. China wants to confirm its regional leadership role in Asia, hence driving the RCEP, which will bring developed and developing Asian countries together to strengthen regional institutions.

On the other hand, China has developed trade partnerships with other emerging economies such as India, Brazil, Russia and SA against the EU and the US. However, during the financial crisis in the eurozone, China and the EU strengthened their trade relations with important European exports flowing to China and Chinese investments channelled to Europe to enable capital flows, job creation and economic recovery.

According to Chinese officials, the US did not appreciate such close relation between it and the EU. Hence the TTIP negotiations, as the US wants to maintain its footprint and strategic alliance with the EU.

With the TTIP, European countries will be more aligned with the American rules of the game, which aim at protecting their multinationals' interests rather than being ruled by European policies. The TTIP aims at fostering trade and investment integration between its member countries by eliminating market protection and tariff barriers. But the issue of the harmonisation of policies and regulations remains a thorny one, which could jeopardise the EU-US negotiations.

While the Doha round of trade negotiations aims at lowering tariff barriers, it has become an arena to defend self-interests between developed and developing countries, with the former wanting to achieve their trade interests and the latter wanting their voices to be taken into account during the negotiations process. This has led to failures at the Doha meetings to find consensus on trade negotiations, which aim at,

among other things, free trade, eliminating trade subsidies (especially on agricultural products) and reducing tariffs and nontariff barriers.

The TTP was expected to come into being by the end of 2014, but negotiations still have a long way to go. Germany has already expressed concern about the negotiations with the US wanting to drive its economic interests based on US policies and regulations.

Regulation mechanisms and transparency issues, which may arise within the TTIP, also seem to be a concern for Germany. Besides, it would not like to lose its economic dominance within the EU.

Where does Africa fit in this? The recent trade negotiations to establish TTIP and TTP are likely to shape the way countries trade with one another. African countries have strong economic ties with the EU and the US. The TTIP is likely to reduce trade between African countries and the EU, which remains an important market for African exports. Forty percent of African exports are directed to the EU and US. African exports to those markets will face competition due to more trade occurring between the TTIP member countries.

Therefore, intra-African trade and increasing trade with other large trading economies like China and India becomes crucial for Africa's global trade position. Partnering with other large trading economies could enable the establishment of strong institutions, which are important for international trade negotiations.

The regional trade integration dynamic, which is under way in Africa, should be consolidated to enable fairer trade negotiations with their global trading partners, particularly the EU and US under the Doha round of negotiations. Since 2011, a common market protocol has been elaborated to deepen and strengthen functional integration. Trade facilitation and negotiations as part of the development strategies enable

regional trade and investment policy development in the East African Community (EAC) and international trade negotiations. Negotiations are taking place to establish a free trade area between the EAC, the Southern African Development Community and Comesa.

Besides, African countries should think about taking a common decision through the different regional economic communities regarding economic partnership agreements even though they are based on bilateral trade agreements between the EU and African countries. If concluded the economic partnerships will raise concern among Africa's other trading partners, particularly the US, China, India and Brazil.

Africa's limited participation in meetings related to international trade negotiations, aid for trade and the elaboration of trade policies vis-à-vis the continent through international and multilateral organisations like the WTO does not enable Africa's positioning in the global trade system. Africa's effective participation in global trade negotiations under the WTO should be fostered to have a more balanced multilateral trade, which takes into account their interests. However, to play an effective and important role in global trade negotiations, the formulation and implementation of trade policies and strategies to improve Africa's contribution remains essential.

