

MBA 6601, International Business

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Course Learning Outcomes f

o

r Unit

V

Upon completion of this unit, students should be able to:

6.

Discuss and define regional trading groups (e.g., WTO, NAFTA, EU, APEC).

6.1

Distinguish between global, bilateral, and regional integration.

7.

Examine the concepts of gross national product, gross domestic product, and

balance of payments.

Unit Lesson

Gros

s

domestic product

(

GDP

)

is an economic indicator that measures a country’s

total output

,

whereas

gross national product

(

GNP

)

is an economic indicator that

measures a country’s income

rather

than its production. The following

free trade

agreements

may indicate the GDP to indicate how fast the country is growing.

Unit IV’s lesson described governments

’

influence on trade. Their strategies consisted

of assessing taxes or limiting the amount of goods

,

thereby increasing the cost of the

good/service.

The ultimate goal was to encourage their citizens to procure their

domestically produced goods.

To promote free trade and economic integration, neighboring countries joined together

to form

free trade agreements

(FTAs). The purpose of these FTAs was to a

lleviate or

diminish the most common form

s

of trade barriers (tariffs and quotas) and to promote

economic integration. There are three major approaches that led to these FTAs

(Daniels, Radebaugh, & Sullivan, 201

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Global integration: Countries from all over the world cooperate through the

World Trade Organization (WTO)

,

which accounts for over 90% trade.

•

Bilateral integration: Two countries cooperate with each other to reduce tariffs.

•

Regional integration: A group o

f countries located within close proximity

cooperate

,

such as the European Union

Global

I

ntegration

The initial FTA was formed after World War II

,

called

the

General Agreement on

Tariffs and Trade (GATT). GATT was initially formed in 1947

,

with 23 countr

ies to

abolish tariffs and quotas. The main principle of GATT was that each member nation

should open its market equally to every other nation

;

basically

,

any sort of

discrimination was prohibited. Other requirements of GATT included;

•

Members agreed to ap

ply the same product standard to imports as well as

domestically produced goods. For example, a product standard on a pack of

cigarettes is the Surgeon General’s warning; under GATT

,

this same product

standard would be applied to all products to include im

ports.

Reading

Assignment

Chapter 7:

Cross

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National

Cooperation and

Agreements

Suggested Read

ing

See information below.

UNIT

V

STUDY GUIDE

Global and Regional Trading Groups

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Treat bids from foreign countries on a non

-

discriminatory basis.

•

U

se a uniform procedure when assessing duties on

imports

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•

Simplify licensing procedures that permit the importation of foreign goods

(Daniels

et al.

, 201

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The dispute settlement sys

tem was over

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extended because of the enormous problems

with compliance, thus the World Trade Organization (WTO) was created in 1995. The

WTO adopted the principles of GATT but expanded its mission to include services,

investments, intellectual property, sa

nitary measures, plant health, agriculture

,

and

textiles (Daniels

et al.

, 201

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). Currently,

the

WTO has over 159 members

,

to include

the BRIC (Brazil, Russia, India and China) countries

that

w

ere

added in 2012.

Bilateral

I

ntegration

In 1973, the National

Council for U.S.

-

China trade, later renamed U.S.

-

China Business

Council (USCBC)

was formed. USCBC

is a private, nonpartisan organization of nearly

220 American companies that conduct business in China (Baden, 2013). Some of

these companies include Bank of

America, Caterpillar, Gap, Mary Kay

and

Prudential

Financial (U

SCBC

, 2014). From 2004 to 2013, U.S. exports to China increased 255

percent

,

making it the third largest export

-

market for U.S. goods

,

behind Canada (59%

growth) and Mexico (108% growth) as a

result of NAFTA (U

SCBC,

2014).

In 2012, the United

S

tate

s

signed FTAs with South Korea and Columbia to reduce

tariffs and other barriers to trade for industrial and agricultural products (Daniels

et al.

,

201

5

).

Regional

I

ntegration

Regional trade agreem

ents are agreements between two or more countries within a

specified geographical region. Some of the

r

egional FTAs that we are going to discuss

are NAFTA, CARICOM, MERCOSUR, APEC, ASEAN

,

and the EU.

NAFTA

:

The

North American Free Trade Agreement was

signed into law by President

Bill Clinton in 1994. NAFTA includes the United States, Canada

,

and Mexico. Tariffs

between the United States and Mexico were either eliminated immediately or over 5

-

10 annual stages. As opposed to other

r

egional FTA’s, NAFTA h

ad a side agreement

to include (Zarestsky, 2008):

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mproving working conditions

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romoting compliance with and enforcement of labor laws (especially child

labor law

s

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p

romot

ing

agreement principles through cooperation and coordination

, and

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p

romoting

the exchange of information to enhance laws of institutions and

legal systems.

By 2008, all barriers to trade

were

eliminated

,

and companies can set up operation in

any one of the three countries.

CARICOM

:

The

Caribbean Community Common Market organizat

ion was founded by

the Treaty of Chaguaramas in Trinidad in 1973. The purpose of this FTA was to

promote economic integration and economic development (especially in the less

developed countries). Aside from the Common Market, CARICOM formulated policies

o

n health, education, labor, tourism, foreign policy

,

and the environment (Caribbean

Community, 2011). CARICOM currently has 15 member states and five associate

member states (Caribbean Community, 2011).

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MERCOSUR

: MERCOSUR is a trade and economic bloc in S

outh America that was

established in 1995. This trade group consists of Brazil, Argentina, Paraguay,

Uruguay

,

and Venezuela. The purpose of this FTA includes the free movement of

goods, factors of production

,

and the elimination of tariffs and non

-

tariff b

arriers.

MERCOSUR has a collective GDP of $2.9trillion and

is

the world’s fourth

-

largest

trading bloc after the EU, NAFTA

,

and ASEAN (Kionsky, Hanson

,

& Lee, 2012).

MERCOSUR represents over 50% of the Latin population. Brazil is the region’s largest

econo

my with a gross domestic product (GDP) of more than $2.2 trillion in 2012

(Kionsky

et al.

, 2012). The disadvantage to MERCOSUR is they face high rates of

inflation and high external debt.

As of July 2012

,

Venezuela was added as its fifth member

,

and

in

Ju

ne 2012

Paraguay was placed on suspension (Kionsky

et al.

, 2012). The suspension resulted

from Paraguay’s President being impeached and removed from office

;

however

,

Paraguay

’s

suspension

was lifted

when its new president took office

(Kionsky

et al.

,

2012)

.

APEC

:

The

Asia Pacific Economic Cooperation was formed in November 1989 to

promote economic growth in trade and investment in the Asia

-

Pacific community.

APEC currently consists of 21 member countries. When APEC was established,

average trade barriers w

ere

at 16.9%

;

by 2010

,

the trade barriers had been reduced to

5.8% (A

PEC Secretariat

, 2014).

ASEAN

:

The

Association of Southeast Asian Nations

,

ASEAN was formed in August

1967. The purpose of ASEAN was to establish economic cooperation as well as

cooperat

ion in social, cultural, technical

,

and education

realms

(ASEAN

Secretariat

,

2014). ASEAN currently consists of 10 member states.

EU

: The European Union is the largest regional trade group

,

with 28 member nations

from Europe. Currently, the candidate countries are Albania, Iceland, Montenegro,

Serbia, the

f

ormer Yugoslav Republic of Macedonia

,

and Turkey. Turkey initially

applied for membership in 2005. In the suggested reading is an intervi

ew with a

political scientist on Turkey regarding the EU.

The

EU includes the elimination of the remaining barriers to free trade. Although the

official development of the EU was in November 1993, the first steps to abolish

customs duties began in 1959. T

he EU is the only regional trade group that has a

common single currency. Out of the 28 member nations, only 18 member nations use

the Euro.

The European

Union

consists of several governing bodies to include (Daniels

et al.

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European Parliament

that

represents the EU citizens

;

•

Council of the European Union

,

which represents the governments of the

individual member countries

;

•

European Commission

that

represents the interest

s

of the Union

;

•

t

he European Central bank serves as the fiscal agent and ha

ndles all

monetary policies for the EU

;

•

Court of Justice upholds the law and settles legal disputes within the EU

; and

•

Court of Auditors audits the finances of the EU

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