TRADING BLOCS

Trading blocs: Groups of countries situated in the same region that join together and enjoy trade free of tariffs, quotas and other forms of trade barrier. They form a free trade area. It is also common for trading blocs to have a common tariff on imports from non-members.

Different Types of Trading Blocs

Trade Bloc	Explanation
1. Customs unions	With this trading bloc, members have a common external policy towards all other non-members. This means they act as a group in all trade negotiations and agreements with non-members. Moreover, products imported by one member can be resold and transported to other members in the union with no trade restrictions. The EU (European Union) is one of the largest in the world. Another example include SACU (South African Customs Union), which is the oldest existing customs union in the world (since 1910).
2. Economic unions	These are the most developed type of trade blocs. They adopt the arrangements of common markets and customs unions but also aim for even more integration. For example, members are likely to adopt closer economic, political and cultural ties. The Gulf Cooperation Council is an example. The EU is another example.
3. Common unions	In these trading blocs, all restrictions on movements of any factors of are eliminated. Labour and capital are free to cross all borders and move, travel and find employment freely within all member countries. Countries in this bloc have the same trading standards and regulations, making transactions between members easier. Mercosur is an example of this type of bloc with Argentina, Brazil, Paraguay and Uruguay included.
4. Preferential Trading Areas (PTAs)	In this trading bloc, members remove trade barriers on only a restricted amount of goods and services, which means trade restrictions remains for other products.
5. Free trade areas (FTAs)	In this trade bloc, even though members are allowed to impose their own trade restrictions on non-members, trade between each other is completely free of barriers. The USA, Canada and Mexico are part of one called the United States Mexico Canada Agreement (USMCA, previously NAFTA).

Impact of Trading Blocs on Member States

Advantages	Disadvantages
• Abolishing trade barriers will lead to cheaper goods for consumers and more consumer choice and faster economic growth. • Exploiting economies of scale for businesses (lower average costs from increased output) – this is because they have access to larger markets. • Increased competition will mean that domestic firms will have a greater incentive to cut costs, to improve the quality of goods and to innovate to remain competitive. • Increase in FDI for countries since foreign firms will be keen to locate their operations in these countries to get access to a larger and barrier-free market – FDI more than doubled the year Mexico joined NAFTA. • Closer cooperation between members – sharing resources and introducing common standard, laws and customs. • Reduction in cross-border conflict, promotion of peace and achieving substantial social and economic gains. • Countries joining a rich trading bloc can benefit from inward investment and increased trade opportunities. Countries in Eastern Europe have made considerable progress in catching up with average income levels in Western Europe. • Gives small countries a greater say in global trade agreements. The overall benefits will depend on the ability of a country to compete within the region and the level of trade with non-member countries.	• Trading blocs encourage regional trade instead of global free trade. (debate on whether trading blocs result in less free trade or encourage further globalisation is ongoing) • The increased financial cost to national governments (especially if they are richer countries) and therefore the taxpayers. • Firms within a trading bloc may merge and become too powerful, this could result in a regional monopoly that might exploit consumers in the bloc. • Countries could sometime grow reliant on trade within the bloc, this would make them vulnerable to changes in price and demand patterns within the bloc. • Inefficient producers are protected from competition from producers outside of the bloc, as a result consumers might end up paying more for goods and services as the price rises. • As members of a trading bloc standardise trading practices, laws and other customs within their bloc this could lead to a loss of sovereignty, independence and culture of individual member countries. • The increased competition as imports from other member countries increase can lead to some domestic businesses closing down as a result and a loss of jobs. • Increased interdependence on economic performance of other countries in the trading bloc. If one country in the Eurozone goes into recession, it could affect all countries in the Eurozone.

Impact of Trading Bloc on Non-Member States

Countries that do not belong to trading blocs will face common trade barriers when selling goods to any member inside the bloc. They will obviously be at a disadvantage and may be forced to find new markets. However, it is still not clear whether non-members will suffer in the long run.