
The terms of trade

Chapter 64 – February, 2017

TRADING BLOCS

- ▶ *trading bloc*: group of countries that have signed an agreement to reduce/eliminate
 - ▶ tariffs (tax on imported good)
 - ▶ quotas (physical limit set on imported good)
 - ▶ protectionist barriers
- ▶ 5 types of trading bloc (increasing order of *integration*):
 1. preferential trade areas (PTA): tariffs and trade barriers are *reduced*
 2. free trade areas: all tariffs and quotas are removed
 3. customs unions: free trade *within* union and *common* external tariffs
 4. common markets: customs union & free movement of capital and labor
 5. economic unions: fully integrated countries (i.e., common monetary, fiscal policy)

TRADING BLOCS

ADVANTAGES & DISADVANTAGES

- ▶ *Regional trading blocs vs. global trade agreements (WTO)*
- ▶ Regional agreements may lead to unequal distribution of gains (i.e., developing countries)
- ▶ Regional trade agreements may cover limited range of goods → low economic benefit
- ▶ Trading blocs lessen *national sovereignty*
- ▶ Trading blocs may bring out countries from *international isolation*

TRADING BLOCS

- ▶ European Union: full economic union; free movement of goods, people, and financial capital
- ▶ NAFTA: free trade area, world's largest bloc (in terms of GDP); free trade of goods (except agricultural products)
- ▶ ASEAN:
- ▶ UNASUR