A Level Economics Theme 4:
A Global Perspective
2019-20

Course Companion **4**


Trade Blocs

Patterns of Trade

Name: **Tutor group:**

Contents

Specification: 4.1.5 Trading blocs and the World Trade Organisation (WTO)

a) Types of trading blocs (regional trade agreements and bilateral trade agreements):

- Free trade areas,
- Customs unions,
- Common markets,
- Monetary unions: conditions necessary for their success with particular reference to the Eurozone

b) Costs and benefits of regional trade agreements

d) Possible conflicts between regional trade agreements and the WTO

Key terms

Bilateral trade agreement: a trade agreement between two countries to reduce or eliminate tariffs, quotas and other protectionist barriers between themselves.

Multilateral trade agreement: a trade agreement between three or more countries or trading blocs to reduce or eliminate tariffs, quotas and other protectionist barriers between themselves.

Preferential trade agreement: a treaty between two or more countries to lower or abolish some protectionist barriers such as tariffs on trade between members.

Trading bloc: A group of countries which have signed an agreement to reduce or eliminate tariffs, quotas and other protectionist barriers between themselves.

Free trade area: a group of countries between which there is free trade in goods and services but where member countries are allowed to set their own level of tariffs against non-member countries. E.g. USMCA

Customs union: a group of countries between which there is free trade in products and which imposes a common external tariff on imported goods from outside the market.

Single market: a customs union where in addition both labour and capital have freedom of movement within the area and where product standards and laws concerning free movement of goods and services are common between countries.

Fiscal union: a group of countries where a central body has some powers over government borrowing, government spending and setting uniform rates of taxation in member countries.

Monetary union: a group of countries which share a common currency such as the euro.

Trade creation: the switch from purchasing products from a high-cost producer to a low-cost producer.

Trade diversion: the switch from purchasing products from a low-cost producer to a higher cost producer.

The different types of trade bloc

A. **Free trade area**: a group of countries between which there is free trade in goods and services but where member countries are allowed to set their own level of tariffs against non-member countries.

Examples:

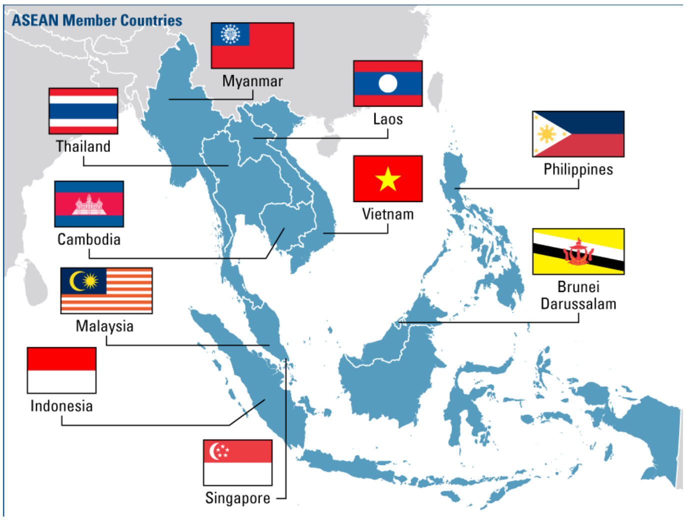
1. United States Mexico Canada Agreement (USMCA)

This has replaced NAFTA (North American Free Trade Agreement)

Free trade in goods except for agricultural products. There is no free movement of labour and no common external tariff.

2. The Association of South East Asian Nations (ASEAN)

ASEAN formed 1992 between Brunei, Indonesia, Malaysia, Philippines, Singapore & Thailand, now also includes: Cambodia, Laos, Myanmar & Vietnam. The ASEAN **free trade area** (AFTA) allows each member to set its own tariff on imports but there are no/minimal tariffs on goods which have an ASEAN 40% content value.



B. **Customs union**: a group of countries between which there is free trade in products and which imposes a common external tariff on imported goods from outside the market.

Examples:

1. Mercosur: a **customs union**, full members are Argentina, Brazil, Paraguay and Uruguay. Venezuela is suspended

2. Andean Community of Nations (CAN): a **customs union,** members: Bolivia, Colombia, Ecuador, and Peru.

3. Union of South American Nations (UNASUR)

- ➢ Union of the Andean Community of Nations (CAN) and Mercosur.
- ➢ Aim to create a single market but little progress made yet.

4. East African Community: A **customs union** with members: Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda.

C. **Single market:** a customs union where in addition both **labour** and **capital** have freedom of movement within the area and where **product standards** and **laws** concerning free movement of goods and services are common between countries.
Free trade in factors of production:
- **Land**: free trade in natural resources e.g. British company can buy land in Paris, French company can own licence to exploit North Sea Oil.
- **Labour**: workers free to work in any member country.
- **Capital**: Capital can flow freely e.g. German firm can borrow money in Paris to set up a factory in Italy.

Example: The European Union (EU)
28 member countries
The EU also has common policies such as the common agricultural policy and common fisheries policy. There are also common institutions such as the European Council, the European Commission and the European Parliament.

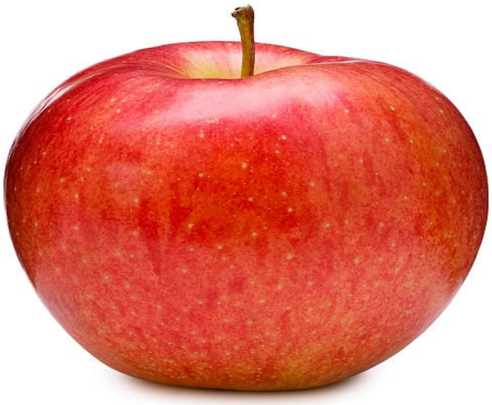
D. **Monetary union:** a group of countries who have a common currency. There is a central bank that controls monetary policy for all member states.
Example: The Eurozone
Note: we will study monetary union later in the course.

Type	Free trade in goods & services	Common external tariff	Free movement of labour and capital	Single currency	Examples
Free Trade Area					USMCA ASEAN
Customs Union					Mercosur East African Community
Single Market					EU
Economic and Monetary Union					Euro-zone

Benefits and costs of the membership of trade blocs

Any trade bloc can bring the advantages of trade creation, but also the problems of trade diversion.

Trade creation
A trading bloc may bring benefits from trade creation, the switch from purchasing products from a high-cost producer to a low-cost producer. For example, on joining the EU Britain buys apples from a low cost producer which is a fellow trading bloc member (e.g. France) rather than a high cost producer (e.g. England). This is because tariffs are removed on apples from France. Trade creation enables specialisation according to comparative advantage



Trade diversion
However, a trading bloc could bring the disadvantage of trade diversion, the switch from purchasing products from a low-cost producer to a higher cost producer. For example, on joining the EU Britain buys butter from a high cost fellow trading bloc member (e.g. France) rather than a low cost producer outside the trading bloc (e.g. New Zealand). This is because tariffs are imposed on butter from New Zealand but are not imposed on butter from France. Trade diversion prevents specialisation according to comparative advantage.

Conclusion
According to economic theory free trade with all countries is beneficial. However, the membership may or may not be beneficial. A trade bloc is only beneficial if the gains of trade creation outweigh the losses from trade diversion.

Benefits and costs of the membership of trade blocs

Benefits of membership of a trade bloc
Trade creation

Specialisation according to comparative advantage

Benefits to consumers of increased competition

Economies of scale

Problems of membership of a trade bloc
Trade diversion

Problems of increased competition for domestic firms

Additional costs and benefits of Customs Unions
What are the advantages of Common External Tariffs?

What are the disadvantages of Common External Tariffs?

Additional costs and benefits of Single Markets
What are the economic advantages of free movement of labour?

What are the economic disadvantages of free movement of labour?

The USMCA trade deal (replacing NAFTA),- BBC 1/10/18

The US and Canada have reached a new trade deal, along with Mexico, to replace the current North American Free Trade Agreement (Nafta). The United States-Mexico-Canada Agreement (USMCA) gives the US greater access to Canada's dairy market and allows extra imports of Canadian cars. US President Donald Trump, who has long sought to change Nafta, said the new deal was "wonderful". The new USMCA is intended to last 16 years and be reviewed every six years. Following the agreement, Mr Trump tweeted that USMCA was a "great deal" for all three countries and solves the "deficiencies and mistakes" in Nafta.

What is in the new deal?
The hundreds of pages contain updated arrangements for Canada's dairy industry and measures aimed at shifting lower-paid car jobs from Mexico.

- On dairy, US farmers will have access to 3.5% of Canada's $16bn-a-year dairy market.
- On cars, Canada and Mexico have a quota of 2.6 million cars they can export to the US as a protection for their car industry if the US imposes a 25% global tariff on car imports. In addition, 40% of car parts of vehicles produced in the USMCA area must be made in areas of North America, paying wages of $16 an hour
- On the lumber (or wood) industry, Canada secured protection from US anti-dumping tariffs through the preservation of a dispute-settlement mechanism.

Effect on trade?
President Trump's objective is to reduce the US trade deficit. The US imports more than it exports and President Trump wants to change that. Judging whether he has won in that sense will need more time. However, many economists don't think trade balances are primarily the outcome of trade policy - instead they reflect government borrowing, private investment and savings decisions and international capital movements.

<u>Questions</u>

1. What are the main features of USMCA trade deal?

2. Explain how the USMCA could help the USA to reduce their large current account deficit

3. Why do some economists believe that President Trump may be unsuccessful in reducing the trade deficit?

The European Union

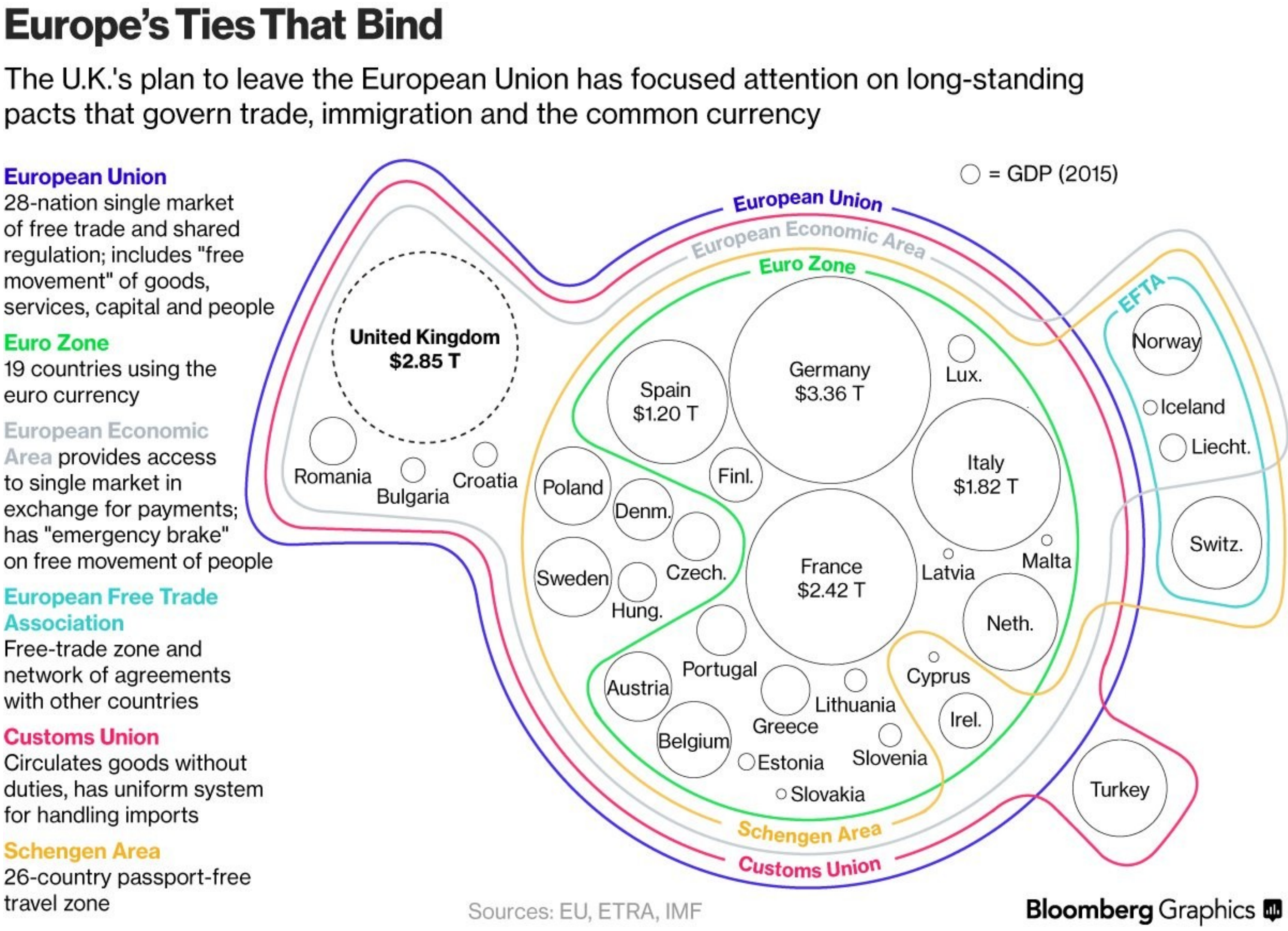
UK and the EU – Trade & Investment

- The EU is the UK's **major trading partner**, accounting for 45% of exports and 53% of imports of goods and services in 2014
- The EU is a major **source of inward investment** into the UK. In 2013, EU countries accounted for £453 billion of the stock of inward Foreign Direct Investment, 46% of the total.
- Over £4 billion worth of **exports** are sold by the UK to EU countries each week
- In 2014, the UK had a **trade deficit** of £62 billion with the European Union

28 European Union Member Nations (in 2015)

	Joined EU	Euro Zone Member?		Joined EU	Euro Zone Member?
Austria	1995	Yes	Italy	1957	Yes
Belgium	1957	Yes	Latvia	2004	Yes
Bulgaria	2007	No	Lithuania	2004	Yes
Croatia	2013	No	Luxembourg	1957	Yes
Cyprus	2004	Yes	Malta	2004	Yes
Czech Republic	2004	No	Netherlands	1957	Yes
Denmark	1973	No (ERMII)	Poland	2004	No
Estonia	2004	Yes	Portugal	1986	Yes
Finland	1995	Yes	Romania	2007	No
France	1957	Yes	Slovakia	2004	Yes
Germany	1957	Yes	Slovenia	2004	Yes
Greece	1981	Yes	Spain	1986	Yes
Hungary	2004	No	Sweden	1995	No
Ireland	1973	Yes	**United Kingdom**	**1973**	**No**

Possible options for the UK after Brexit



<u>Complete the following table:</u>
You can use the information on the following page to help you!

	EEA member (Norwegian model)	EFTA member (Swiss model)	Customs Union (Turkish model)	WTO rules
Free trade in goods				
Free trade in services				
Free movement of people				
Contributions to the EU budget				
Compliance with EU laws				
Independent trade deals				

Norwegian model - Membership of the European Economic Area (EEA)
<u>Advantages</u>
Norway has free access to the Single Market. Norwegian firms can export goods and services to the rest of the EU without facing and trade barriers.
Norway follows independent policies in areas such as agriculture and fishing
Norway can sign independent trade deals with the rest of the world.
<u>Disadvantages</u>
Membership of the European Economic Area (EEA) means Norway has to implement many EU regulations, but has no say over these regulations.
Norway must accept free movement of labour from the EU but with an ‘emergency brake’
Norway contributes to the EU budget to gain access to the Single Market

Swiss model – Membership of the European Free Trade Association (EFTA)
<u>Advantages</u>
Switzerland has free access to the EU market for manufactured goods and some services
Switzerland follows independent policies in areas such as agriculture and fishing
Switzerland can sign independent trade deals with the rest of the world.
<u>Disadvantages</u>
Switzerland does not have free trade in some services (including financial services). This would be a significant disadvantage for the UK as financial services account for a large percentage of exports and GDP
Switzerland contributes to the EU budget but makes a smaller per capita contribution than Norway as they have less access to the Single Market
Switzerland must accept free movement of labour from the EU

Turkish model – Membership of the customs union
<u>Advantages</u>
Turkey has free access to the EU market for manufactured goods
Turkey can follow independent policies in areas such as agriculture and fishing
Turkey does not have to accept free movement of labour
Turkey does not have to contribute to the EU budget
<u>Disadvantages</u>
Turkey does not have free trade in services. This would be a significant disadvantage for the UK as services account for a large percentage of exports and GDP.
Turkey cannot sign independent trade deals with the rest of the world

Bespoke trade deal with the EU (preferred option of the UK government)
<u>Advantages</u>
The UK could sign independent trade deals with the rest of the world
The UK would not have to accept free movement of labour
The UK would not have to contribute to the EU budget
<u>Disadvantages</u>
The EU may not be willing to give the UK free access to the Single Market for some goods and services (such as financial services) which are important to the UK economy.
Negotiating a bespoke trade deal that is unique to the UK is very complicated! (see next page)

The EU single market: How it works and the benefits it offers
FT: Emily Cadman and Gemma Tetlow MARCH 31, 2017

Britain's vote to leave the EU has thrown the country's trading relationship with Europe into doubt. That in turn opens up big questions about the future of the UK economy, which sends almost half of its exports to the bloc.Here the Financial Times considers how the market works and what leaving it might mean. Access to the single market requires acceptance of all four EU freedoms — of movement of goods, capital, services, and people. The single market is predicated on the belief that these four freedoms drive prosperity.

The EU is a customs union. Its members impose common tariffs on imports from non-EU countries and can trade freely with each other. Members automatically benefit from trade deals that the EU strikes with other countries but cannot set their own tariffs.To create a fair internal market, the EU is committed to a common regulatory framework to prevent one company — or country — from gaining competitive advantage by getting rid of regulations.Countries must promise to implement common rules and to recognise each other's standards. This means that companies everywhere in the bloc can then sell their products and services throughout the EU. These policies are designed to both reduce trade costs and open up markets.

Quantifying the impact of the single market
A Treasury paper found that trade in goods was 73 per cent higher between EU member states than would have been the case in a free trade area (where no tariffs but other barriers remain), while trade in services was 16 per cent higher.
An analysis by the OECD of membership of the European Economic Area, found trade in goods was 60 per cent higher than if trading partners simply relied on World Trade Organisation rules.
Trading with the EU post Brexit
In theory, the UK should be able to relatively easily negotiate a free-trade deal with the EU for goods, because it already complies with current regulations and there are no tariffs in force at present. But Neil Williams, chief UK economist at Hermes, said that any deal would probably still take several years to agree "just to end up close to square one".
For the service sector, which accounts for about 80 per cent of the UK economy, the negotiations will be much harder. Most existing trade deals exclude services and the deals with the EU that do include services also require free movement of people and common regulations. Even assuming some sort of free-trade deal is done, other non-tariff barriers could be expected to add costs for business.
Complying with rules of origin
These are an important component to preferential trade deals. They are designed to prevent products from countries not covered by the deal from entering the trading bloc. If only some of the UK's exports are covered by the free-trade deal, companies will have to check individual goods to see whether they are compliant. This is "particularly cumbersome for small and medium enterprises", Rebecca Driver, director of Analytically Driven, said.
Multiple regulatory regimes
Over time, EU rules will diverge from UK rules. UK companies wishing to export to the EU will need to comply with both sets of rules.
Border inspections
On a practical level, without full membership of the single market and mutual recognition of standards, companies will face border inspections. In the era of just-in-time delivery and integrated supply chains where even a day's hold-up can cause problems, this is likely to be of more importance than it was historically. All these factors collectively add up to an increase in barriers to trade with Europe that the victorious Leave campaign hopes would be offset by other benefits of leaving.

Benefits and Costs to the UK of leaving the European Union

This is a very complex issue as the likely effects on the UK economy depend on whether the UK agrees a trade deal with the EU after Brexit and also on the terms of the trade deal. It also depends on whether the UK is able to sign trade deals with other countries in the rest of the world and how favourable those deals are for the UK. The effect also depends on what policies the UK government follows after Brexit on issues such as immigration, taxes, regulations and investment. There is a great deal of uncertainty over all of these issues. The situation is likely to change considerably in the next 12 months.

If you have an essay question asking you the macro-economic effects of the UK leaving the EU then you need to evaluate the likely effects on the macro-economic objectives. You can remember these using the abbreviation ICEBUGS: Inequality, Current account, Environment, Budget deficit, Unemployment, Growth, Stable prices (low inflation)

<u>Exports</u>
If the UK does not sign a trade deal with the EU then this could mean the UK would trade with the EU under the rules of the World Trade Organisation (WTO). This would mean that tariffs are applied to UK exports to the EU. Even if the UK and the EU sign a trade deal, the EU may not give the UK free access to the Single Market for all goods and services (including financial services) Discuss the likely effects on the UK economy:

After leaving the Single Market and the Customs Union the UK can sign trade deals with the rest of the world. Discuss the likely effects on the UK economy:

<u>Foreign Direct Investment</u>
If the UK does not sign a trade deal with the EU this could deter foreign companies from investing in the UK if they face trade barriers when exporting to the Single Market. Discuss the likely effects on the UK economy:

Import prices

If the UK does not sign a trade deal with the EU then this could mean the UK applies tariffs on EU goods. Discuss the likely effects on the UK economy:

After leaving the Customs Union, the UK can reduce tariffs on goods from the rest of the world. Discuss the likely effects on the UK economy:

Regulations

After leaving the Single Market, the UK government could remove regulations in areas such as labour laws or environmental laws. Discuss the likely effects on the UK economy:

Immigration

After leaving the Single Market the UK government could restrict immigration from other EU countries. Discuss the likely effects on the UK economy:

Contributions to the EU budget

After Brexit the UK government could refuse to contribute the EU budget. Discuss the likely effects of Brexit on the government's finances:

Possible conflicts between trade blocs and the World Trade Organisation (WTO)

What are the main aims of the WTO?

Why might trade blocs help to achieve the aims of the WTO?

Why could there be a conflict between the growth in the number and size of trading blocs and the aims of the WTO?

Conclusion/overall evaluation:
The growth of trading blocs may or may not be beneficial. Comparative advantage theory implies that trade should promote growth as resources are allocated more efficiently. Free trade can enhance these benefits through trade creation. However, trade diversion may stifle some potentially beneficial trade. Trading blocs are a second best solution to complete free trade between all countries. Trade blocs only bring benefits if more trade is created than diverted

The effect of trade blocs on the global economy may depend on the following factors:

1. Number and size of trading blocs
Larger trading blocs will have a greater effect on the global economy than smaller ones.

2. Size and extent of protectionism measures
If customs unions impose high trade barriers on countries outside the trading bloc this could be harmful to the global economy

3. Some trading blocs discriminate against poor counries.
Some bilateral agreements signed by the EU developing countries have been criticised for bringing little benefit to poorer countries whilst opening up their markets to increased competition

4. Can reduce isolation of countries
Trading blocs can bring dynamic gains if it reduces the international isolation of countries and brings about improvement in government, law and state institutions

5. Depends on degree of integration in the trading bloc
The potential benefits of a trade bloc are greater if there is a high level of integration. For example, the economic benefits are greater if there is free movement of labour and capital

6. The strengths and weaknesses of the economies within the trading bloc
The EU has experienced significant problems in recent years due to very different economic performance in strong economies such as Germany and weaker economies such as Greece.

The pattern of trade

Specification: 4.1.3 Pattern of trade

a) Factors influencing the pattern of trade between countries and changes in trade flows between countries:

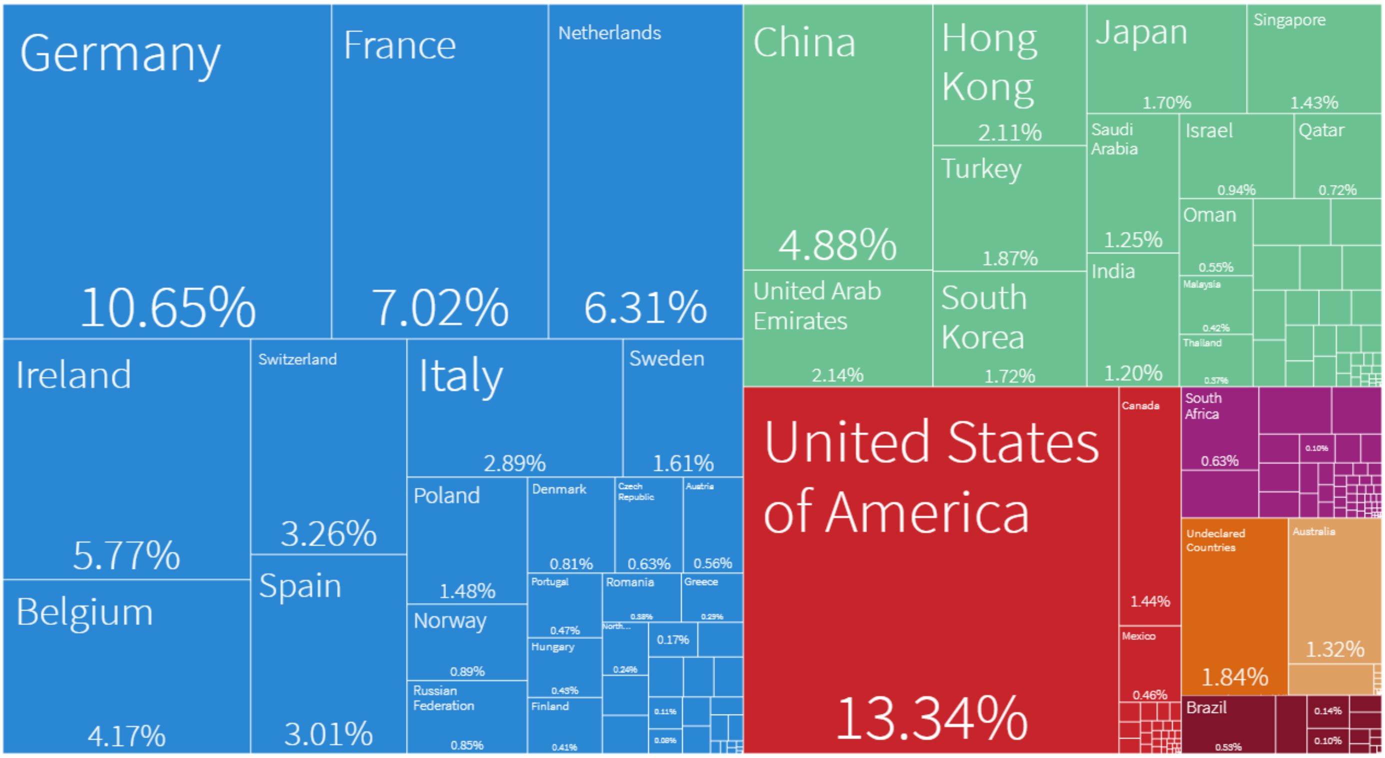
- Comparative advantage,
- Impact of emerging economies,
- Growth of trading blocs and bilateral trading agreements,
- Changes in relative exchange rates

The pattern of trade between countries depends more significantly on comparative advantage than absolute advantage. More developed countries, with bigger stocks of capital and highly skilled labour, might be expected to specialise in high-technology, capital-intensive products, while less developed countries, with relatively plentiful, but less skilled labour might specialise in labour-intensive products. If the pattern of trade matched the pattern of development, the least developed countries might specialise in primary products, while the most developed might trade in services. However, generalisations are dangerous. Developed countries such as Australia produce many primary products and some developing countries depend on tourism.
(Source: adapted from Brian Ellis, International Economics, Phillip Allan Updates)

The global economy has grown continuously since the Second World War. Global growth has been accompanied by a change in the *pattern* of trade, which reflects ongoing changes in the structure of the global economy. These changes include increased membership of trading blocs, changes in comparative advantage including deindustrialisation in many advanced economies, the increased participation of former communist countries, and the industrialisation of NICs such as China and India. (Growth of BRICs and the China effect) and globalisation. Where BRICS have increased production of manufactured goods, it has forced EU and USA based firms to specialise in other sectors such as financial services due to being unable to compete with the lower prices. Now that countries such as the UK, USA and Germany have seen a decrease in the output of manufactured goods, we have become reliant on importing cheap manufactured goods from China, India etc.Many developing countries use cheap labour and take advantage of the relaxed trade regulations allowing them to export their goods at very low, competitive prices.

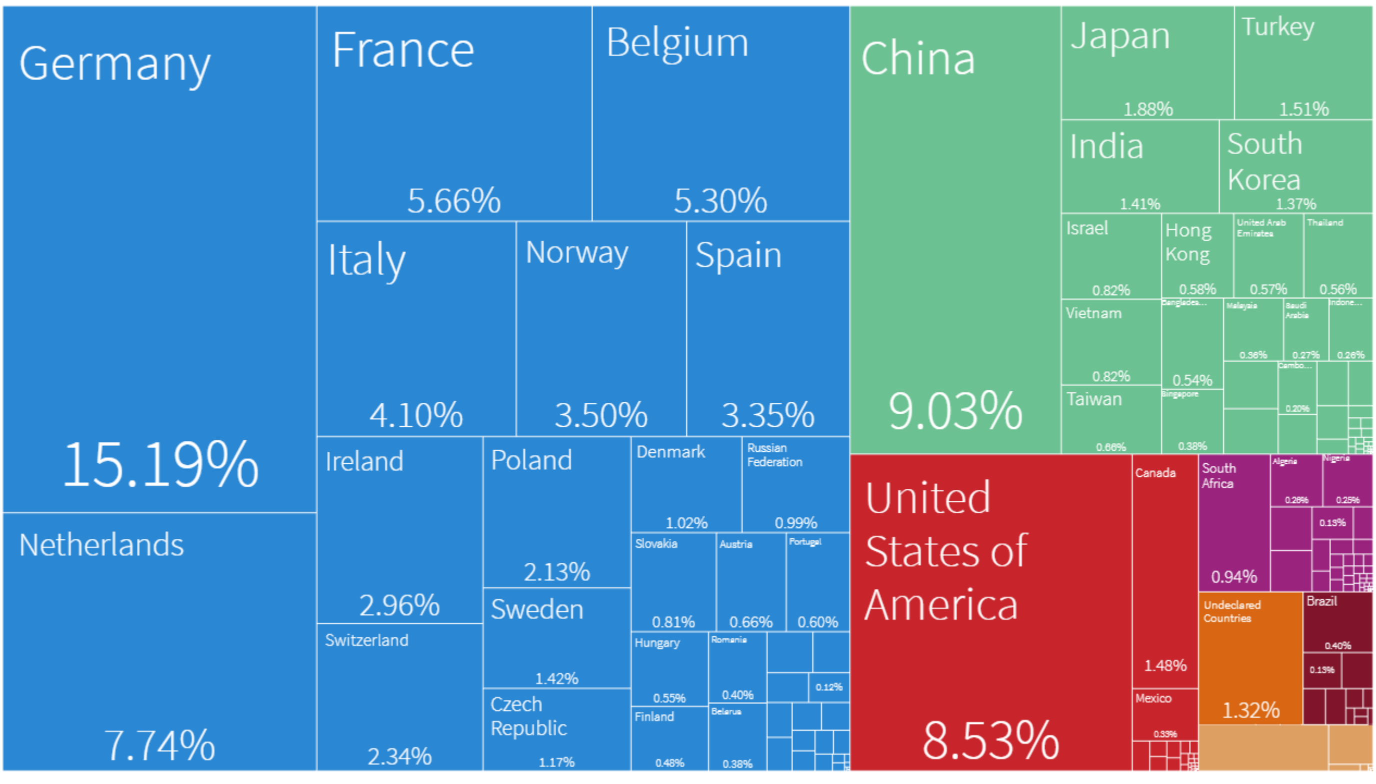
Data for UK exports

Percentage of exports to the EU = 46% (2018)



Data for UK imports

Percentage of imports from the EU = 54% (2018)



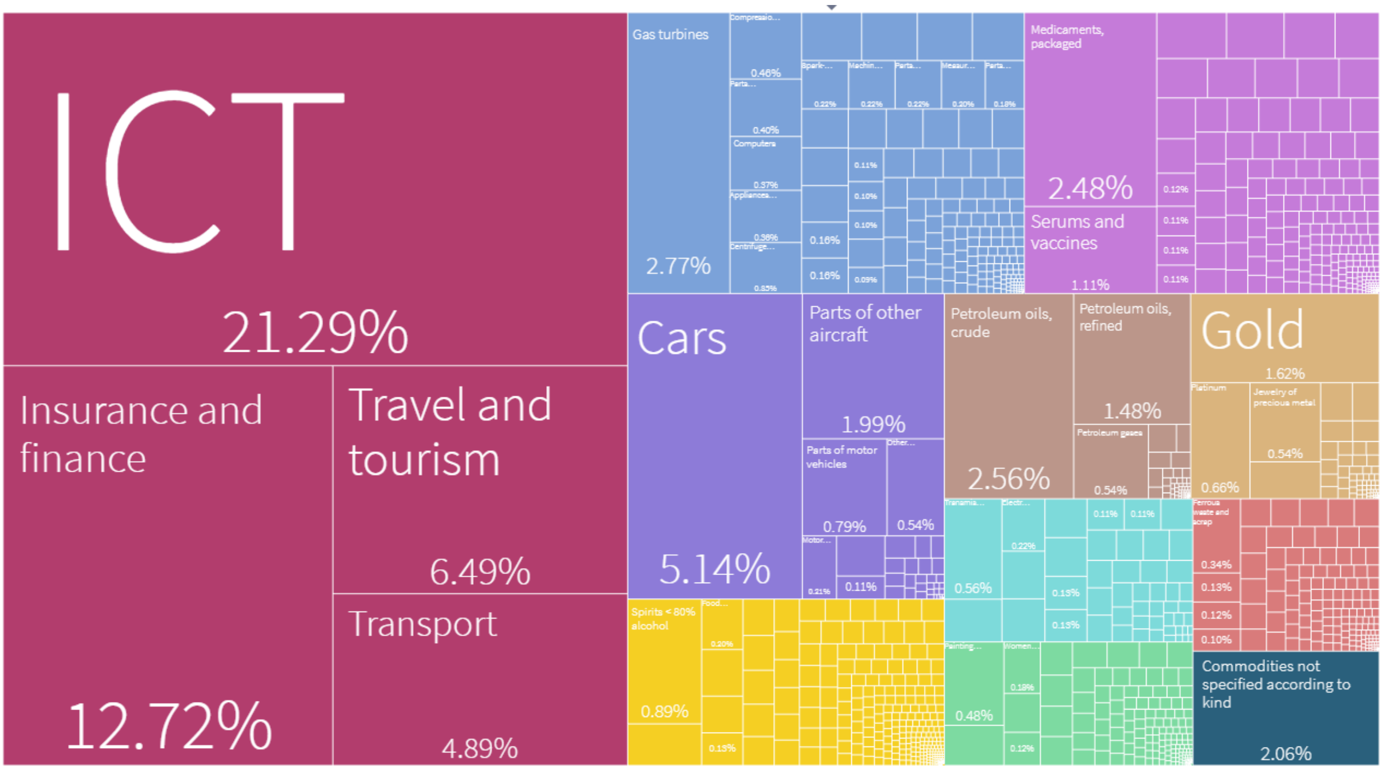
Questions

1. What are the UK's top 5 export markets?

2. Compare the percentage of the UK's exports to:
   - The EU
   - The USA
   - China
   - India

3. Which countries are the top 5 sources of imports for the UK?

4. What are the main categories of products the UK exports?



Changes in the pattern of UK trade since 1955

The pattern of UK trade

Goods vs services

The UK trades in a wide variety of both goods and services. Over time, the pattern of trade for the UK has changed, as Table 9 shows. Over the past 60 years, the UK has increasingly had a comparative advantage in the production and export of services rather than goods. In 1955, for example, the UK exported approximately £15 of goods for every £5 of services. By 2014, this ratio had changed approximately to £15 of for every £10 of services.

Over the same period, foreign trade has increased as a proportion of national income. In 1955, exports of goods and services were 24 per cent of national income. By 2014, this had risen to 31 per cent.

The physical pattern of trade in goods

In the 19th century, the UK used to be the 'workshop of the world'. It imported raw materials and turned them into manufactured goods which it exported. Table 10 shows that this pattern of trade was still true to some extent for the UK 60 years ago in 1955. However, by 1995, the UK has lost much of its competitive advantage in manufactured goods. This is shown by the significant increase in imports in the proportion of manufactured goods to total imports from just 23.2 per cent in 1955 to 82 per cent by 1995. The 1970s and 1980s saw a process of deindustrialisation in the UK with the closure of significant proportions of its manufacturing industry, unable to compete with countries such as Germany and Japan.

The UK today has a significant oil sector due to North Sea oil. The first oil to be extracted commercially was in 1975. Between 1975 and 1985, exports of fuels including oil rose from 4.2 per cent of total exports to 21.5 per cent. Over the same period, imports of fuel as a percentage of total imports fell from 17.5 per cent to 12.8 per cent. North Sea oil is in decline today. By 2014, exports of fuels had fallen to 12.5 per cent of total exports. Oil remains, however, a significant export earner travel, which includes tourism. Far more UK citizens want to take holidays abroad than foreign citizens want to take a holiday in the UK.

Table 9 UK exports and imports of traded goods and services, national income (Gross value added at basic prices)

£ billion

	Exports		Imports		
	Goods	Services	Goods	Services	National Income
1955	3.1	1.0	3.4	1.0	17.6
1965	5.0	1.6	5.3	1.7	33.4
1975	19.5	7.7	22.8	6.0	102.8
1985	78.3	25.7	82.0	17.2	346.8
1995	153.6	59.1	166.6	42.9	703.6
2000	187.9	81.4	222.0	67.4	911.1
2005	212.7	128.9	282.4	94.0	1 189.2
2010	270.8	176.2	368.2	115.9	1 400.7
2014	292.2	207.7	412.1	122.6	1 593.4

Source: adapted from www.ons.gov.uk.

Table 10 Exports and imports by commodity (% of total value)

		1955	1975	1985	1995	2005	2014
Food, beverages and tobacco	Exports	6.0	7.1	6.3	7.3	5.2	6.5
	Imports	36.9	18.0	10.6	9.4	8.4	9.3
Basic materials	Exports	3.9	2.7	2.7	1.9	1.8	2.4
	Imports	29.0	8.4	6.0	3.9	2.4	2.9
Fuels	Exports	4.9	4.2	21.5	6.5	10.6	12.5
	Imports	10.6	17.5	12.8	3.7	9.4	12.6
Total food and raw materials	Exports	14.8	14.0	30.5	15.7	17.5	21.4
	Imports	76.5	43.9	29.4	17.0	20.2	24.8
Semi-manufactured	Exports	36.9	31.2	25.6	28.3	28.0	26.3
	Imports	17.9	23.9	24.8	27.3	22.8	23.3
Finished manufactured	Exports	43.5	51.0	41.2	54.8	53.6	50.5
	Imports	5.3	29.9	44.0	54.7	56.0	50.7
Total manufactured	Exports	80.4	82.2	66.8	83.1	81.6	76.8
	Imports	23.2	53.8	68.8	82.0	78.9	74.1
Unclassified	Exports	4.8	3.8	2.7	1.2	1.3	1.8
	Imports	0.3	2.7	1.8	1.0	1.0	1.2

Source: adapted from www.ons.gov.uk.

The geographical pattern of trade in goods and services

Table 12 shows how the geographical pattern of UK trade has changed over time. In 1955, the UK was still to a great extent following trading patterns established during the Victorian era, for the UK.

The pattern of trade in services

Table 11 shows the composition and change in trade in services since 1975. The data show that the UK has a comparative advantage in financial and insurance services. In 2013, one quarter of total exports of services were financial services. It also shows that the UK has a comparative disadvantage in

Table 11 The composition of trade in services

					£ billion
	1975	1985	1995	2005	2013
Exports					
Transport	3.4	6.1	10.2	18.5	24.2
Travel	1.2	5.4	13.0	16.9	26.2
Financial and insurance	2.9	12.1	7.9	29.9	46.7
Other	-	-	18.8	63.7	107.3
Total	**7.5**	**23.6**	**49.9**	**128.9**	**204.5**
Imports					
Transport	3.3	6.4	10.7	19.8	22.5
Travel	0.9	4.9	15.8	32.8	33.7
Financial and insurance	1.5	4.6	1.6	7.0	8.6
Other	-	-	13.4	34.4	61.5
Total	**5.7**	**15.9**	**41.5**	**94.0**	**126.4**

Source: adapted from www.ons.gov.uk.

buying raw materials from its colonies and ex-colonies in the developing world and selling them manufactured goods. By

Table 12 Trade[1] by area

						Percentage of total
		1955	1975	1995	2005	2013
Europe	Exports	31.9	51.3	60.5	58.9	53.4
	Imports	31.0	53.8	63.3	65.2	62.4
of which EU[2]	Exports	26.8	41.1	49.5	51.9	54.3
	Imports	25.9	45.1	51.0	42.9	40.7
North America	Exports	11.3	12.1	15.6	18.3	19.5
	Imports	19.8	13.5	15.3	11.3	10.5
Other developed countries[3]	Exports	15.3	9.6	5.8	5.3	4.9
	Imports	12.4	8.0	7.0	5.5	3.9
of which Japan	Exports	0.5	1.6	3.0	2.4	1.9
	Imports	0.6	2.8	5.0	2.7	1.8
Rest of the World	Exports	41.5	27.0	19.1	17.5	29.0
	Imports	36.8	24.7	14.4	18.0	23.2
of which China	Exports	-	-	0.5	1.4	3.4
	Imports	-	-	1.0	3.7	6.5

Source: adapted from www.ons.gov.uk.

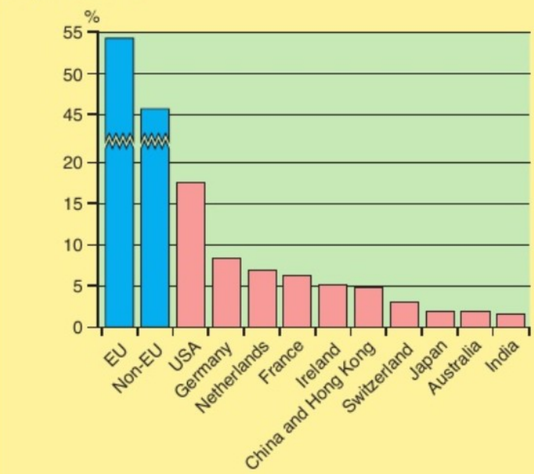
1 1955 and 1975 data are trade in goods only. 1995 and 2004 data are trade in goods and services.
2 Includes all 1995 EU countries in 1955 and 1975 percentages; 2005 and 2013 data are for the EU28 countries.
3 Australia, New Zealand, Japan, South Africa.

2013, UK trade had shifted dramatically. The UK's entry to the European Union in 1973 led to a significant increase in the proportion of exports being sold into Europe and imports being bought from Europe. Low growth in the EU following the 2007-08 financial crisis and policies of fiscal austerity implemented by many countries led to a fall in the proportion of exports going to Europe. Table 12 also shows the rapid increase in imports to the UK from China. Even so, China only accounted for 6.5 per cent of total imports of goods and services in 2013.

Figure 3 shows the UK's 10 largest export trading partners by country in 2013. Four of these are in the EU and six are non-EU. The UK's largest export market by country is the USA with 17.6 per cent of total UK exports in 2013. Exports to the EU, however, were three times as great. If the UK were to leave the European Union, there is a considerable risk that exports to the EU would fall. For every one per cent fall in EU exports, the UK would need to grow its exports to, for example, the USA by three per cent to compensate for this. Given the UK's traditional poor export performance, it is difficult to see how this sort of readjustment in the geographical pattern of UK trade could take place.

Figure 3

The UK's main trading partners; exports of goods and services to individual countries as percentage of total exports, 2013



Source: adapted from www.ons.gov.uk.

1. Read the text and study the data above. Identify four changes in the pattern of UK trade since 1955, explaining possible reasons for each change.

Explain change to pattern of UK trade giving possible reasons	Magnitude of change, short run versus long run, significance/importance, likely impact
Comparative advantage	
Impact of emerging economies	
Growth of trading blocs and bilateral trading agreements	
Changes in relative exchange rates	

Three of Africa's main trading blocs have agreed to form the Tripartite Free Trade Agreement (TFTA). This will create one of the world's largest free trade areas, stretching across 26 countries with a combined GDP of around £1 trillion.

(Source: https://uk.reuters.com/article/uk-africa-trade/mega-african-trade-bloc-paves-way-for-continental-commerce-idUKKBN0OR28M20150611)

Evaluate the effects of the growth of trading blocs such as the TFTA on global trading patterns.

Plan

Define the term 'trade bloc'

Define the term 'patterns of trade'

Explain how trade blocs may create trade between countries

Draw a tariff diagram to show how the removal of tariffs on imports can create trade

Explain how trade blocs may enable more specialisation according to comparative advantage

Explain how trade blocs may cause trade diversion

Explain how trade blocs may prevent specialisation according to comparative advantage

Evaluation

The significance depends on the size of trade blocs. Trade blocs with a large GDP are likely to have a more significant effect on global trade

Do you think the TFTA is likely to have a significant effect on global trade? Justify your answer

The significance of trade blocs depends if they impose trade barriers on goods from outside the trade bloc

Why might customs unions distort the pattern of trade more than free trade areas?

Trade blocs may not have a significant effect on global trading patterns if countries outside the trade bloc have much lower production costs.

Why does the UK import textiles and electrical goods from outside the EU?

	Benefits	Costs
Being in the EU single market	-Independent trade policy -Tariff free trade with the EU -Access to the market for services -Fast negotiation -Can participate in EU programmes voluntarily -No tariffs mean lower costs for businesses -Results in lower prices for consumers -"Soft Brexit" – designed to have a lower overall impact	-Must permit free movement of labour (immigration) -Must make a trade agreement with the EU in order to have access, meaning EU regulations are still applicable -Must still contribute to EU budget -Leaves CAP & CFP (no subsidies and may have worse relations)
Being in the EU customs union	-Control over migration from the EU -No obligation to contribute to EU budget -Tariff free trade with the EU -Fast negotiation -Can participate in EU programmes voluntarily -Reduced administrative barriers to trade	-Limited ability to make independent trade policies -Leaves CAP & CFP -No access to the market for services -May not be possible/likely to be very difficult after Brexit
Canada-style trade agreement	-Control over migration from the EU -Not bound by EU regulations -Can pursue independent trade policy -Ends the jurisdiction of the European Court of Justice -No obligation to contribute to EU budget (£13bn annually – could be spent on public/merit goods e.g. the NHS) -Low/no tariffs on trade with the EU -May be able to participate in EU programmes voluntarily	-Leaves CAP & CFP -May have some tariffs -Limited access to the market for services -Increased administrative trade barriers (e.g. border checks) -Difficult and takes a long time to negotiate -Must meet quality standards to sell within the EU

No deal Brexit	-Complete control over migration -Not bound by EU regulation -Ability to make independent trade policy -No obligation to contribute to EU budget -Ends the jurisdiction of the European Court of Justice -May benefit agricultural exports	-Leaves CAP & CFP -High tariffs and trade barriers = higher business costs and prices -No access to market for services -Transport issues e.g. flights between EU and UK -Huge loss to our trade in exports -UK qualifications may no longer be recognized in the EU -Loss of EU subsidies (£3bn to agriculture) -Uncertainty -Rights to live and work for expats may be reduced -Border controls = delays -Administrative trade barriers -Not able to participate in EU programmes -"Hard Brexit" = greater overall impact