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Regional Economic Integration

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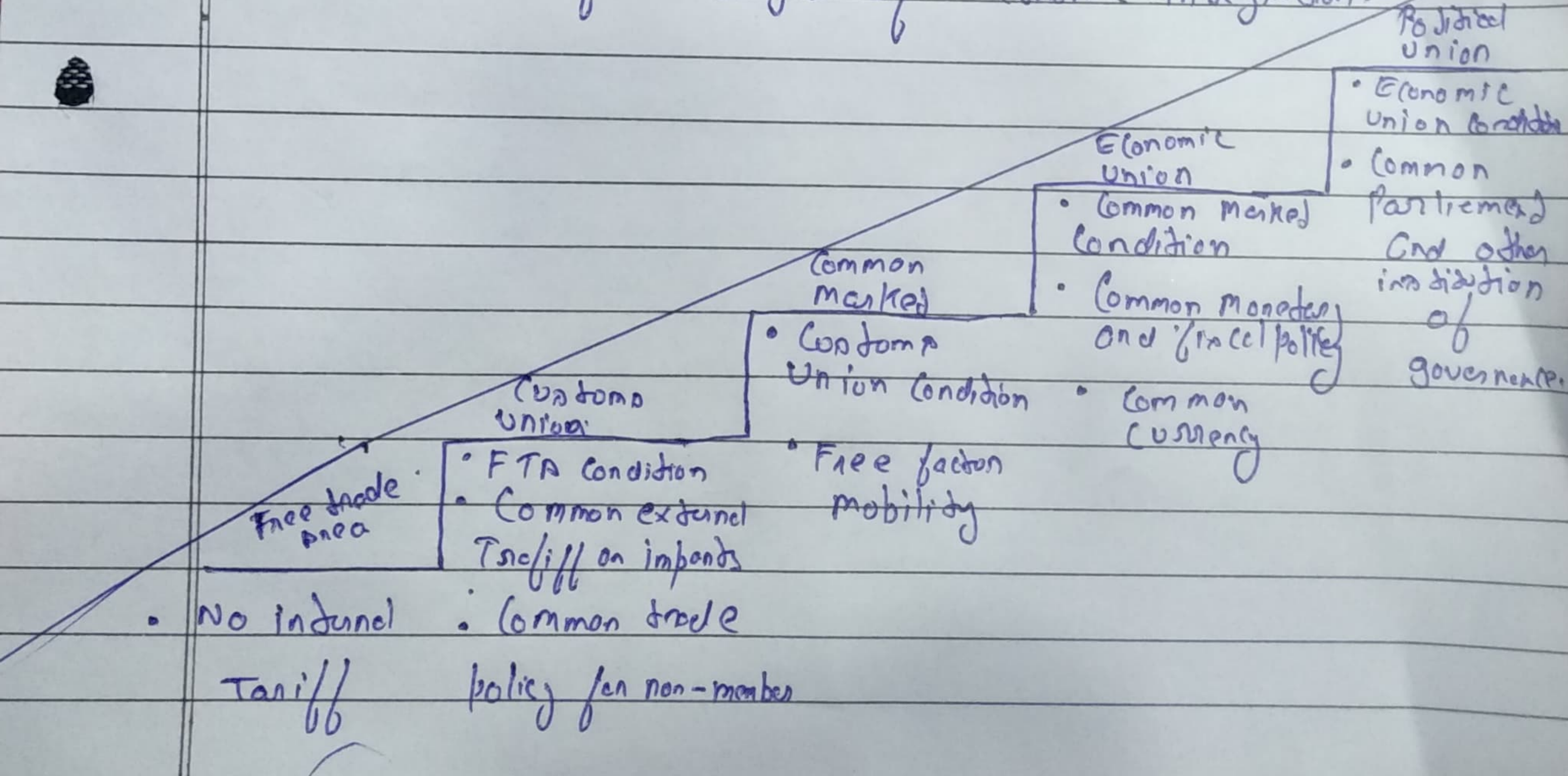
Economic Integration:- Is the unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade taking place among them prior to their integration. The objective of economic integration is to lead to lower prices for distributors and consumers with the goals of increasing the combined economic productivity of the States. Regional economic integration is an attempt to achieve economic gains from the free flow of trade and investment between neighbouring countries.

These are five stages of economic integration.



It is very well said that Regional Economic integration can both create as well as divert trade in future to member countries.

Regional Economic Integration also creates trade between countries by:

(i) Regional economic market can provide a large market as compared to the domestic market. With the widened size of market both internal as well as external economies of scale are possible.

(ii) Large market allows a high degree of sophistication and specialization of product conducive to expansion of industrial development. Moreover the specialization for regional trade would encourage the flow of investment into industries that have a competitive cost advantage.

Gains from international trade increases-

(i) Regional economic integration can facilitate optimum allocation of resources thereby increasing the efficiency in production.

(ii) Better production and enhanced consumption along with rise in real income result in overall growth and development for the member countries.

(iii) Increased competition with in the common market to very benefited for the consumers.

The Regional Economic Integration can Divert Trade as

1) It can create trade barriers against non-member countries.

2) Due to trade barriers trade may get diverted from a non-member country to a member country despite the inefficiency in cost.

3) It can result in employment shift and reduction. Nations may move to cheaper labour markets in member countries, while workers may move to gain access to better job and wages.

4) One new regional laws come into effect member countries may lose their sovereignty.

5) Regional economic integration like European union may create a common currency. This can lead to financial crisis.

6) Regional economic integration can result in Cultural centralisation.

For example :- If China and US establish a trade creation of computers for a price of $ 100 per computer, those that locally produce in China will loss business because they ~~will~~ sell for $ 130 and consumers would rather pay cheaper price.

Trade creation brings with it the benefits of free trade in the form of lower prices.

Trade diversion on the other hand, has the negative impact of shifting the competitive advantage away from ~~the~~ once low cost producer to a high cost producer.

Hence, while Economic integration benefits both the ~~the~~ producers and consumers of members nations, it has a negative impact on other global producers and their exports.

Economic integration is therefore, beneficial for the members but not for the non-members.