ZELEK Sebastian 09/12/2013

OIB History-Geography essay

To what extent do Trading Blocs promote globalisation?

The idea of a group of countries that share the same trading policies and tariffs was present since the British Empire and it's trading between colonies and the United Kingdom. But this idea gained popularity shortly after the Second World War, when the United States of America was greatly promoting free trade across the whole globe. Now trading blocks are a very important part of global trade, creating very powerful players on the global market. These Trading Blocs vary with their levels of integration, but all have a common trait: they all take part in the effort of creating links between different countries of the world. These links are mainly economic, but there are also social and political links that are created. But trading blocs aren't the only factors that play a role in the globalisation, and even their will to participate in the globalisation is discussable.

Trading Blocs can be classified in 4 different categories, each depending on their level of integration between each member: we recognise the “Free trade area”, which consists of a removal of trade barriers between countries, “Customs union” which adds in a common external tariff, a “Single market” that permits a free movement of labour and capital in addition to the previous measures, and finally an “Economic union”, which groups up all the measures from the previous types of Trading Blocs, and imposes a common economic policy on it's members. Depending on their type, each trading bloc impacts their members, significantly boosting their economy. By improving the members economy, these trading blocs help in the opening of these countries to world trade, “switching them on” economically. On the other hand, every trading bloc liberates the market only between their members, but countries that are outside that trading bloc are left alone to face the tariffs set up by the countries in the bloc. They are also sometimes faced against a common market, where they compete against subsidised or just stronger economies which leave them no chance to compete, and they come to the countries outside the bloc and manage to destroy entire economical branches of these countries.

One of the most important trading blocs today is the NAFTA, short for the North American Free Trade Agreement, groups up the markets of Canada, USA and Mexico. It is a trading bloc that is classified as a Free trade area, meaning that it linked only by a removal of trade barriers, such as tariffs, making it a bloc who's only goal is economical partnership. Created in 1994, NAFTA began as a coalition regrouping 390 million consumers with a combined GDP of over $7.6 trillion. This agreement planned on complete removal of tariffs on goods qualified as “North American” by the members, setting the deadline to 2008. The effects of this alliance could be seen almost immediately: Canada saw their exports increase by 80% to the USA and 65% to Mexico during a period of 5 years, reaching respectively $271.5 billion and $1.4 billion. Canada also saw rise in incoming investments from USA and Mexico, reaching $147.5 billion in 1998 from USA (up 63% from 1993), and $464 million from Mexico (tripling from 1993). They also saw a creation of over one million jobs since the beginning of NAFTA. Canada hugely benefited by joining NAFTA, letting them expand beyond their limited market. Another huge benefactor of the NAFTA is Mexico, the only odd country in this agreement: the USA and Canada are already developed countries, where as Mexico is a country that is still in development. Still, Mexico's exports to the USA rose 252.5% during the 1990s, opening up their market to the world made Mexican industries more competitive and improved their standards. But Mexico, a still developing country, paid a price for that development: it became dependent on trade with other NAFTA countries, as the majority of the Mexican market switched to an export production: faced with the influx of northern corn, farmers were forced out of alimentary market and switched to crops that were purely destinated for export. The industry also faced a phenomena of “maquiladoras”, factories that import materials or parts to make goods for re-export. These factories were hugely employed by companies as AT&T, General Motors, IBM, ITT, PepsiCo and Xerox. The “maquiladoras” made Mexico a sort of the NAFTA's workshop, encouraging companies from other NAFTA countries to export their industry to Mexico. Even the Mexican government encouraged these companies to come with their industries to Mexico with preferential tariffs and taxation.

Another example of a trading bloc is the European Union, which initially was a common marker, progressively became a deeply integrated economical union. From the beginning in 1956 with the Maastricht Treaty, the EU progressively integrated more and more countries and reinforced the links between the countries that were already in. Their first step towards becoming an economic union was the creation of the Common Agricultural Policy (CAP) in 1962, which aimed to increase EU's agricultural production, improving farmers quality of life and ensuring stable prices. Now, the European Union counts 28 members, with 22 of them connected with the system of a single market and 17 with a common currency: the Euro. But not only they are linked economically, but they developed political links through the European Parliament and multiple other institutions that administrate and enforce the laws imposed on the members. One of the countries that benefited from joining the EU is Ireland. They joined the EU in 1973, with a deeply protected market and a declining population due to strong emigration. All of these were a result of depression that hit the Irish market in the 1930s. Before Ireland joined the EU, Irish companies had only access to their local market, composed of only 3 million people. But in 1973 they found themselves on a market including 300 million people. In addition, the Irish market had the occasion to boom due to a heavy influx of non-EU corporations coming to have access to the EU market. And Ireland encouraged this influx with their very low corporate tax (10%), and heavily targeting healthcare, software and IT sectors in order to persuade them to come to Ireland and have a open gate to the European market. North American investors found exactly what they wanted: companies such as IBM, Intel, Ericsson and Motorola started to come to Ireland. Throughout the whole country unemployment and emigration started dropping once jobs started to appear, and progressively the Irish industry transformed from a small-tech to high-tech. But the European Union is not only the “promised economical land” of Europe. The CAP initially led to massive overproduction and the so-called “butter mountains” and “wine lakes”. Faced with these surplus stores, the members of the EU decided to get rid of these stocks on the world market, at prices considerably lower their cost of production. This provoked crashes of agricultural branches of some industries, mainly situated in third world countries, and made them dependent on imports.

Trading blocs take an important part in the globalisation, but they are not the only factors that influence it. Another very important factors that participate in the globalisation are the TNCs, which fuel the economies of nation states, who facilitate the global economical exchanges, but also participate in political and social globalisation.

We can conclude that trading blocs play an important role in the globalisation, encouraging and helping the economical growth of countries, and opening them up to the global market. But with them imposing common tariffs on exterior countries and economically bullying other countries we can say that instead of promoting fair globalisation and free-trade, they actually encourage it only inside the trading block, but when faced with countries outside the block they set up a politic of regionalism and protectionism.