

GEB 3373 Homework 7

Gus Lipkin

Chapter 10 Questions

All uncited quotes are from the textbook

1. What does *most favored nation (MFN)* mean?

- **Most favored nation (MFN)** "requires that any preferential treatment granted to one country must be extended to all countries."

2. Under what conditions can WTO members not use MFN when dealing with one another?

1. "To assist poorer countries in their economic development efforts"
2. "The second exemption is for comprehensive trade agreements that promote economic integration, such as the EU and NAFTA"

3. How does the WTO differ from the GATT?

- The GATT agreement is part of the WTO agreement
- "First, the GATT focused on promoting trade in goods, whereas the WTO's mandate is much broader: It is responsible for trade in goods, trade in services, international intellectual property protection, and trade-related investment."
- "Second, the WTO's enforcement powers are much stronger than those possessed by the GATT."

4. How do the various forms of economic integration differ?

- "Regional trading blocs differ significantly in form and function. The characteristic of most importance to international businesses is the extent of economic integration among a bloc's members because it affects exporting and investment opportunities available to firms from member and nonmember countries."
- "A **free trade area** encourages trade among its members by eliminating trade barriers (tariffs, quotas, and other NTBs) among them."
- "A **customs union** combines the elimination of internal trade barriers among its members with the adoption of common external trade policies toward nonmembers"
- "A **common market** is a third step along the path to total economic integration"
- "An **economic union** represents full integration of the economies of two or more countries."
- "A **political union** is the complete political as well as economic integration of two or more countries, thereby effectively making them one country."

5. Why do free trade areas develop rules of origin?

- "Although a free trade area reduces trade barriers among its members, each member is free to establish its own trade policies against nonmembers. As a result, members of free trade areas

are often vulnerable to the problem of **trade deflection** , in which nonmembers reroute (or deflect) their exports to the member nation with the lowest external trade barriers."

6. What was the goal of the Treaty of Rome?

- The goal of the Treaty of Rome was to establish the European Economic Community and called for the creation of "a common market among the six member states"

7. Describe the five major organizations governing the EU.

- "The **European Council** consists of the heads of government or of state of each of the member states, the President of the European Council, and the President of the European Commission."
- "The **Council of the European Union** (previously named the Council of Ministers) is composed of 28 representatives (27 when the UK exits the EU), each selected directly by and responsible to his or her home government."
- "The **European Commission** is composed of 28 people, one from each member state, selected for five-year terms."
- "The **European Parliament** currently comprises 751 representatives elected in national elections to serve five-year terms."
- "The **European Court of Justice** consists of 28 judges (27 after Brexit) who serve six-year terms"

8. What are NAFTA's major provisions?

- "Negotiators from all three countries recognized the political sensitivity of certain issues and industries and chose to compromise on their treatment within NAFTA to ensure the agreement's ratification. For example, because Canada fears being dominated by U.S. media, NAFTA allows Canada to limit foreign investments in its culture industries (publishing, music, television, radio, cable, and film). Similarly, Mexico may restrain foreign investments in its energy sector, and the United States may bar foreign ownership in its airline and broadcasting industries."

9. What is the Caribbean Basin Initiative? What is its goal?

- "In 1983, the United States established the **Caribbean Basin Initiative (CBI)** to facilitate the economic development of the countries of Central America and the Caribbean Sea."

10. What efforts have South American countries made to regionally integrate their economies?

- "The Andean Community resulted from a 1969 agreement to promote free trade among five South American countries—Bolivia, Chile, Colombia, Ecuador, and Peru—to make them more competitive with the continent's larger economies. [...] More importantly, most members adopted protectionist, import substitution policies that hindered trade."