

## 4.1.5 Trading blocs and the World Trade Organisation (WTO)

- 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
  - Costs and benefits of regional trade agreements
  - Role of the WTO in trade liberalisation
  - Possible conflicts between regional trade agreements and the WTO
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- Trading blocs: groups of countries that agree to reduce or eliminate trade barriers between themselves
  - A trading bloc diagram is a reverse tariff diagram so global supply moves downwards
  - Grubel-Lloyd (GL) index: measures intra industry trade. 1 means all trade is intra-industry so it exports the same quantity of each good it imports while 0 means all trade is inter-industry so it only export or import a good not both.
  - Free trade area: trade barriers are removed but each member can impose trade restrictions on non-members e.g. NAFTA
  - Customs union: a free trade area with a common external tariff e.g. CACM
  - Common market: a customs union with free movement of factors of production between member countries e.g. ASEAN
  - Monetary unions: customs unions with a common currency e.g. the Eurozone
  - Disadvantages of regional trade agreements:
    - Trade diversion: trade may be diverted from low-cost producers outside the bloc to high-cost producers inside
    - Distortion of comparative advantage: trade barriers against non members are like to cause a decrease in specialisation
  - Disadvantages of monetary unions:
    - Transition costs: one-off costs with changing menus and price lists when a new currency is introduced
    - Loss of independent monetary policy
    - Loss of exchange rate flexibility
  - Advantages of regional trade agreements:
    - Trade creation
    - Increase in FDI
    - Increase in economic power compared to other countries
    - Economies of scale from a larger market
    - Enhanced competition
  - Advantages of monetary unions:
    - Elimination of transaction costs
    - Price transparency: easy to compare prices
    - Elimination of currency fluctuations which could encourage investment
  - The role of the WTO in trade liberalisation:
    - 164 members
    - Promotes free trade through negotiations

- Settles trade disputes between member countries
- Challenges for the WTO:
  - Shifting global power
  - Fragmentation of global trading system
  - Complexity of production
- Conflicts between regional trade agreements and the WTO:
  - A common external tariff contradicts the WTO's principles
  - The number of trade agreements has been increasing so they have an important role in promoting world trade
- Types of Brexit deal:
  - Norway: EU membership without influence but with a common external tariff and regulation
  - Switzerland: lower single market access but smaller contributions
  - Canada: some tariffs, fewer obligations
  - Turkey: Customs union only