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Forum: Executive Board 2: Finance

Issue: Increasing economic integration as a tool for free trade.

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Position: President Chair

Introduction

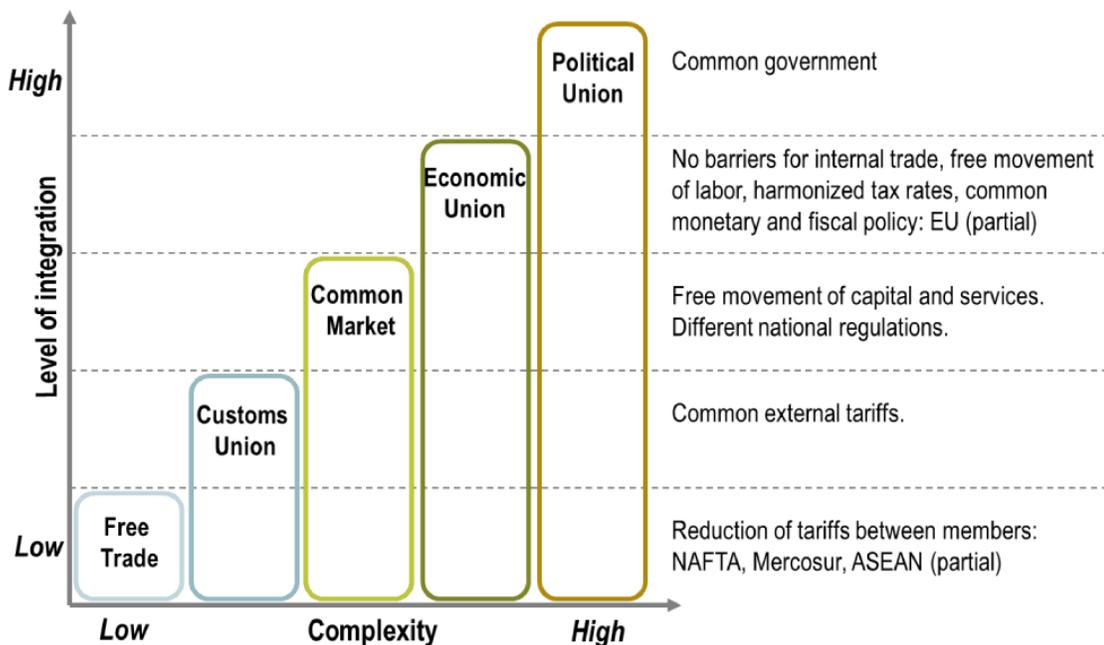
Economic integration is when countries form agreements between them to coordinate policies, lower trade barriers and increase economic links between them. Economic integration is commonly utilized and is vital for trade liberalisation in countries and leads to freer trade.

Trading blocs are crucial to increase economic integration within countries and include the following levels: Free Trade Area, Customs Union, Common Market and Monetary Union (all defined in the following section).

Economic integration enables countries to have easier access to resources that they may not produce locally. This further creates the increase of investments and hence economic growth and development in the country.

Freer trade is a topic the UN and other organizations, like the World Trade Organization (WTO), are trying to enforce actively, as this also leads to a globally more efficient resource allocation and establishes a freer market economy.

This free market economy is supposed to be beneficial for all countries, however most countries do not make great efforts to lower trade barriers and enforce economic integration because of their own economic interests. Therefore, the UN puts this topic to high prominence.





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Definition of Key Terms

Preferential Trade Agreement (PTA): an agreement between two or more countries to lower trade barriers between each other on particular products.

Bilateral Trade Agreement: an agreement between two countries

Multilateral Trade Agreement: an agreement between many countries.

Regional Trade Agreements: agreements between a group of countries that are within a geographical region. (Tragakes)

Trading Bloc: is a group of countries that have agreed to reduce tariff and other barriers to trade for the purpose of encouraging free or freer trade and co- operation between them.

Free Trade Area (FTA): consists of a group of countries that agree to gradually eliminate trade barriers between themselves, and is the most common type of trading bloc.

Customs Union: a group of countries that fulfils the requirements of a free trade area (elimination of trade barriers between members) and in addition to adopting a common policy towards all non-member countries.

Common Market: is a higher degree of economic integration, in which countries that have formed a customs union proceed further to eliminate any remaining barriers to trade between them. They continue to have a common external policy (as in a customs union), and in addition, they agree to eliminate all restrictions on movements of any factors of production within the common market.

Trade Creation: refers to the situation where higher cost products (imported or domestically produced) are replaced by lower cost imports after the formation of a trading bloc.

Trade Diversion: refers to the situation where lower cost imports are replaced by higher cost imports from a member after the formation of the trading bloc.

Monetary Union (Economic Union): involves a far greater degree of integration than a common market, and occurs when the member countries of a common market adopt a common currency and a common central bank responsible for monetary policy. Ex. The European Union (EU) (Tragakes)

Political Union: A larger and consolidated group of nations or states that share a joint government that is internationally acknowledged. (Business Dictionary)

Factors of Production: Inputs used to produce goods and services wanted by people

Background Information

From trade liberalisation to creating a better environment for the completion of specific economic objectives, there are several factors that lead a country to pursue economic integration with other



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countries. These reasons can broadly be classified into four main groups: reactive regionalism, peace and security, efficiency and externalization

Reactive Regionalism: Countries pursue economic integration to defend themselves economically against a certain group with a shared interest. This actually goes against the free trade ideology as economic integration is used to keep states out rather than liberalise all. Even though reactive regionalism was initially pursued to help developing markets and economic deal with larger markets, it does not have this same outlook currently. This factor also goes against the mission of the World Trade Organization.

Peace and Security: This approach is directly correlated with free trade and peace as it aims to increase interdependence between states. Through lowering trade barriers and increasing trade immensely, the countries become dependent on each other on such a level that conflict between the countries would cause all of their economies to be on a downfall. This way peace and security with high economic integration becomes apparent. The most current example to this would be the economic union of the EU.

Efficiency: With economic integration and the increase in trade, domestic consumers of a country are now exposed to even more foreign goods and services and want to buy the cheapest and most high quality goods and services. This forces all producers to produce more efficiently due to competition with a bigger market and hence more quantity of goods and services are produced with a lower price; eliminating any possible domestic monopoly or oligopolies.

Externalization: This approach is seen more rarely and is utilized for political reasons. While most countries in the world are currently operating within a democracy, some were not initially. On the forming of a democratic political system, the country opens itself to imports from other countries and exports to them. The best way to do this is through economic integration and therefore it has been commonly used as a step in this change from either communist or authoritarian governments to the neoliberalist democracy.

Timeline of Major Events

DATE	EVENT
Jan 1, 1929	World Economic Crisis
Jan 24, 1940	Formation of European Organization for Economic Cooperation (OECD)
Jan 24, 1944	Forming of the World Bank
Jan 1, 1945	Creation of the International Monetary Fund (IMF) by the World Bank
Jan 1, 1948	Establishment of the General Agreement for Tariffs and Trade (GATT)
Jan 1, 1952	Establishment of the Nordic Council



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Jan 1, 1960	Founding of the Minority Corporate Counsel Association (MCCA)
Aug 8, 1967	Creation of the Association of South East Asian Nations (ASEAN)
May 26, 1969	Formation of Andean Community of Nations (CAN)
Aug 1, 1973	Establishment of the Caribbean Community (CARICOM)
Jan 2, 1986	Forming of the Rio Group
Jan 3, 1989	Creating the Asia Pacific Economic Cooperation Mechanism
Jan 1, 1991	Establishment of the Southern Common Market
Nov 1, 1993	Formation of the European Union (EU)
Jan 5, 1994	Founding of the North American Free Trade Agreement (NAFTA)
Jan 2, 1995	Creation of the World Trade Organization (WTO)
Apr 1, 1996	Forming of the Andean Community
Jan 6, 2006	Signing of the CAFTA Dominican Republic Central America Free Trade Agreement

Major Countries and Organizations Involved

World Trade Organization (WTO): Determines the rules of trade which should be accepted globally. It aims to make trade more free and run as smoothly as possible. It is the main trade organization in the world and is recognized globally.

North American Free Trade Agreement (NAFTA): It is an organization that aims to reduce trade costs and increase investment within North America to make trade more liberalized.

Caribbean Community (CARICOM): CARICOM promotes and supports a unified Caribbean Community in terms of trade to increase investments within the Caribbean countries.

European Organization for Economic Cooperation (OECD): OECD is a forum in which countries work together to solve common issues (including trading) and promote global policies to people all around the world.

European Union (EU): It is a monetary union formed by some countries in Europe. The countries in the EU have a common central bank and a common currency (the Euro).



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Association of South East Asian Nations (ASEAN): They aim to accelerate economic growth in order to promote equality and partnership within the Southeast Asian Nations.

Previous Attempts to Solve the Issue

All of the organizations in the above section can also be taken as attempts to promote freer trade and increase economic integration within specific groups of countries, however there has been limited efforts to improve economic integration worldwide.

The UN has made limited efforts to resolve this issue and there are unfortunately some resolutions including solutions for this issue. The following are some published resolutions or papers that touch basis to this topic:

- Resolution adopted by the General Assembly: 67/196. International trade and development https://unctad.org/meetings/en/SessionalDocuments/ares67d196_en.pdf
- International Federation of Human Rights (FIDH) meeting at the 38th World Congress in Istanbul, Turkey held 23-27 May 2013 <https://www.fidh.org/en/issues/globalisation-human-rights/business-and-human-rights/resolution-on-transnationals-free-trade-agreements-development-model-and-13772>
- General Assembly Plenary Seventy-Fourth Session, 52ND meeting Taking Up Second Committee Reports, General Assembly Adopts 47 Resolutions, including Texts to Combat Protectionism, Unilateral Economic Measures <https://reliefweb.int/report/world/taking-second-committee-reports-general-assembly-adopts-47-resolutions-including-texts>

Possible Solutions

- Lowering trade barriers
- Increase in the number of FTAs
- Increasing the number of countries that are included in trading blocs.
- Creating more regional FTAs to promote easier logistical trade.
- Establishing more multilateral trade agreements
- Founding additional trading blocs including more MEDCs and LEDCs
- Promoting further trade within the countries of the United Nations.

Useful Links For Further Research

https://www.economicshelp.org/trade2/benefits_free_trade/
<https://www.trade.gov/free-trade-agreements>
<https://www.sciencedirect.com/topics/social-sciences/economic-integration>
<https://www.europarl.europa.eu/factsheets/en/sheet/79/history-of-economic-and-monetary-union>
<https://oxfordre.com/latinamericanhistory/view/10.1093/acrefore/9780199366439.001.0001/acrefore-9780199366439-e-54>

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