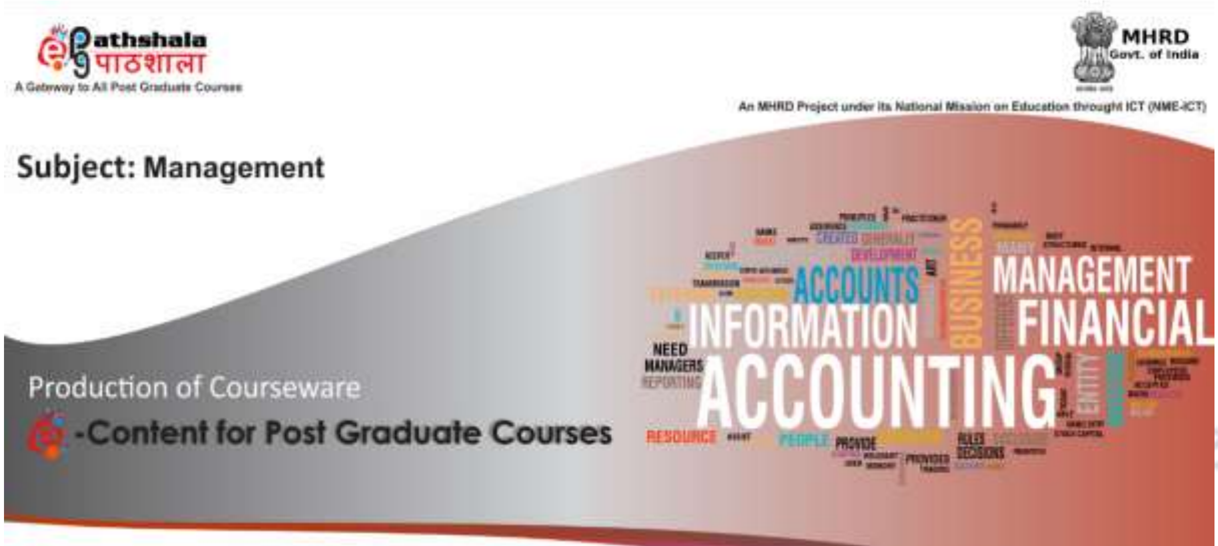


Paper: 08, International Business Operations

Module: 28, Popular Trading Blocs: NAFTA, EU, ASEAN, APEC & OPEC

Principal Investigator	Prof. S P Bansal Vice Chancellor Maharaja Agrasen University, Baddi
Co-Principal Investigator	Prof YoginderVerma Pro–Vice Chancellor Central University of Himachal Pradesh. Kangra. H.P.
Paper Coordinator	Dr. Shafali Nagpal Bhagat Phool Singh Mahila Vishvidlaya, Khanpur, Sonepat
Content Writer	Dr. Vishal Kumar School of Management, Maharaja Agrasen University, Baddi (H.P.)

Items	Description of Module
Subject Name	Management
Paper Name	International Business Operations
Module Title	**Popular Trading Blocs: NAFTA, EU, ASEAN, APEC & OPEC**
Module Id	Module no-28
Pre- Requisites	Basic knowledge about Trade Blocs
Objectives	▪ To study the functioning of popularTrading Blocs ▪ To study the types of trade blocs
Keywords	Trade blocs, Trading blocs, NAFTA, EU, APEC & OPEC

QUADRANT-I

Module 28: Popular Trading Blocs: NAFTA, EU, ASEAN, APEC & OPEC
1. Learning Objective
2. Introduction
3. The North American Free Trade Agreement (NAFTA)
4. The European Union (EU)
5. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC)
6. The Organization of the Petroleum Exporting Countries (OPEC)
7. Summary

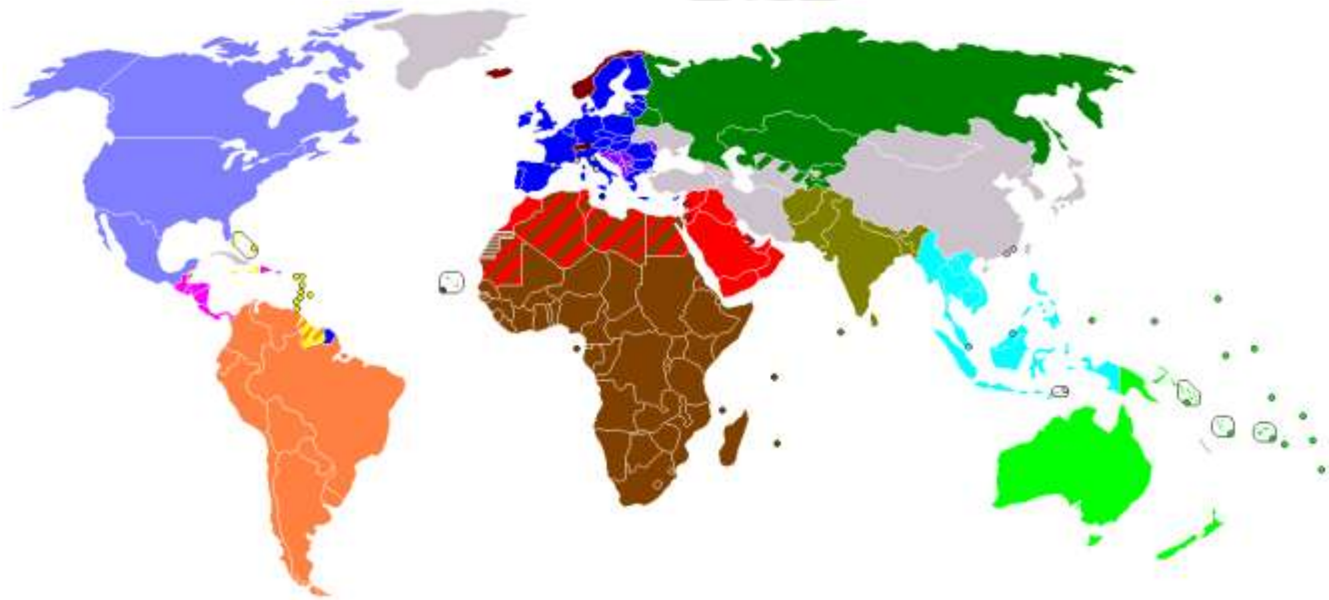
1. Learning Objective

After completing this module, you will be able to:

i. Understand the functioning of Trading blocs
ii. Understand about NAFTA
iii. Know the effects of EU
iv. Understand about ASEAN and APEC
v. Know the working of OPEC

POPULAR TRADING BLOCS: NAFTA, EU, ASEAN, APEC & OPEC

2. Introduction: Trade blocs are free trade zones designed to encourage trade activities across nations. The formation of trade blocs involves a number of agreements on tariff, trade and tax. The activities of trade blocs have huge importance in the economic and political scenarios of the contemporary world. Over the years trading blocs have played a major role in regulating the trend and pattern of international trade. Regional trade blocs protect the interests of the member countries. The primary aim of trade block activities is to create a favorable economic framework for promotion of cross border trade among the member countries. Different regional blocs have come up in the period of economic liberalization in various parts of the world. A particular country may be a member of more than one regional trading block. However, in order to do away with overlapping, such nations are normally put within the most dynamic trade block.



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For better understanding, some of the trade blocs are explained as below:

3. The North American Free Trade Agreement (NAFTA)

The North American Free Trade Agreement (NAFTA) came into effect on January 1, 1994. It was initiated by the government of President George Bush, but it was concluded by the Clinton Administration. It is fundamentally a trade and investment agreement created with a view to reduce barriers in the flow of goods, services and people among these three countries. The argument covers goods and services that are either produced in North America or that meet certain local content requirements. For example, a German company manufacturing its products in North America and meeting these standards will qualify for the same benefits as any American company. The agreement eliminated most barriers to trade and investment among the United States, Canada and Mexico. For some categories of goods - certain agricultural goods, for example - NAFTA promised to phase out restrictions on trade over a few years, but most goods and services were to be freely bought and sold across the three countries' borders from the start. Likewise, virtually all investments - financial investments as well as investments in fixed assets such as factories, mines, or farms (foreign direct investment) - were freed from cross-border restrictions.

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The areas covered by the agreement are:

- Tariff reduction
- Freer movement of professionals among the three countries
- Financial and direct investment matters
- Consumer safety
- Specific issues relating to protection of labour
- Specific issues relating to protection of the natural environment

The Objectives of NAFTA are:

1. Protection for investment in the sense that no investment can be expropriated without full compensation.
2. The creation of a special fund for worker retraining and financial support in industries adversely affected by the passage of NAFTA.
3. The creation of US-Mexico border environmental commission that could spend up to $8 billion to address water and air pollution and clean up toxic waste dumps.
4. Substantial tariff reductions over a ten-year period. For example, the US will eliminate tariffs on automobile assembled in Mexico and Mexico will reduce its tariffs on US-built cars and trucks.
5. Lowering barriers for easier movement of goods across borders.
6. More access to financial services. For example, NAFTA will dismantle Mexico's ban on US banks and brokerage services. Also, US banks will be allowed up to 25% of the Mexican market and brokerage up to 30% of the Mexican market.
7. The creation of North American Development Bank to assist m environmental cleanups and to provide trade adjustment assistance to communities adversely affected by NAFTA.
8. The creation of special offices to investigate environmental abuses and labor abuses are based in Canada and the US respectively. Both the offices can impose fines/trade restrictions for countries or industries that fail to enforce their own laws.

Thus, NAFTA is an attempt to move the economies of North America towards a scenario whereby a company that is based in anyone of the three countries can freely conduct its business across all three borders, as long as certain basic standards are met. The long-term objective of the agreement is to bring into its fold, the countries of North and South America.

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Supporters of NAFTA have argued that both firm owners and workers in all three countries can gain from the removal of trade and investment barriers. For example, the argument goes U.S. firms that produce more efficiently than their Mexican counterparts, will have larger markets, gain more profits, generate more jobs, and pay higher wages. The prime examples would include information technology firms, bio-tech firms, larger retailers, and other U.S. corporations that have an advantage because of skilled U.S. labour or because of experience in organization and marketing. On the other hand, Mexican firms that can produce at low cost because of low Mexican wages will be able to expand into the U.S. market.

Critics of the agreement have focused on problems resulting from extreme differences among the member countries in living standards, wages, unionization, environmental laws, and social legislation. The options that NAFTA creates for business firms put them at a great advantage in their dealings with workers and communities. For example, U.S. unions are weakened because firms can more easily shut down domestic operations and substitute operations in Mexico. With the government suppressing independent unions in Mexico, organization of workers in all three countries is undermined.

An additional and important aspect of NAFTA is that it creates legal mechanisms for firms based in one country to contest legislation in the other countries when it might interfere with their "right" to carry out their business. Thus, U.S. firms operating in Mexico have challenged stricter environmental regulations won by the Mexican environmental movement. In Canada, the government rescinded a public-health law restricting trade in toxic PCBs as the result of a challenge by a U.S. firm; Canada also paid $10 million to the complaining firm, in compensation for "losses" it suffered under the law. These examples illustrate the way in which NAFTA, by giving priority to the "rights" of business, has undermined the ability of governments to regulate the operation of their economies in an independent, democratic manner.

4. The European Union (EU)

The European Union (EU) forms the world's largest single market. From its beginnings in 1951 as the six-member European Coal and Steel Community, the association has grown both geographically (now including 15 countries in Central and Western Europe, with plans to expand into Eastern Europe) and especially in its degree of unity. Eleven of the EU's members now share a common currency (the Euro), and all national border controls on goods, capital, and people were abolished between member countries in 1993.

http://www.ecgassociation.eu/portals/0/Images/EU%20Affairs/Eu-flag-vector-material2.jpeg

Open trade within the EU poses less of a threat for wages and labour standards than NAFTA or the WTO. Even the poorer member countries, such as Spain, Portugal, and Greece, are fairly wealthy and have strong unions and decent labour protections. Moreover, most EU countries, including top economic powers like France, Germany Italy, and the United Kingdom, are ruled by parties (whether "socialist," social democratic or labour) with roots in the working-class movement. This relationship has grown increasingly distant in recent years; still, from the perspective of labour, the EU represents a kind of best-case scenario for freeing trade. The results are nonetheless, cautionary.

The main thrust of the EU, like other trade organizations, has been trade. Labour standards were never fully integrated into the core agenda of the EU. In 1989, 11 of the then-12 EU countries signed the "Charter of the Fundamental Social Rights of Workers," more widely known as the "Social Charter." (Only the United Kingdom refused to sign.) Though the "Social Charter" did not have any binding mechanism - it is described in public communications as "a political instrument containing 'moral obligations' " - many hoped it would provide the basis for "upward harmonization," that is, pressure on European countries with weaker labour protections to lift their standards to match those of member nations with stronger regulations.

Since trade openness was never directly linked to social and labour standards and the "Social Charter" never mandated concrete actions from corporations, European business leaders have kept "Social Europe" from gaining any momentum simply by ignoring it. Although European anti-discrimination rules have forced countries like Britain to adopt the same retirement age for men and women, and regional funds are dispersed each year to bring up the general living standards of the poorest nations, the social dimension of the EU has never been more than an appendage for buying off opposition. As a result, business moved production, investment, and employment in Europe toward countries with low standards, such as Ireland and Portugal.

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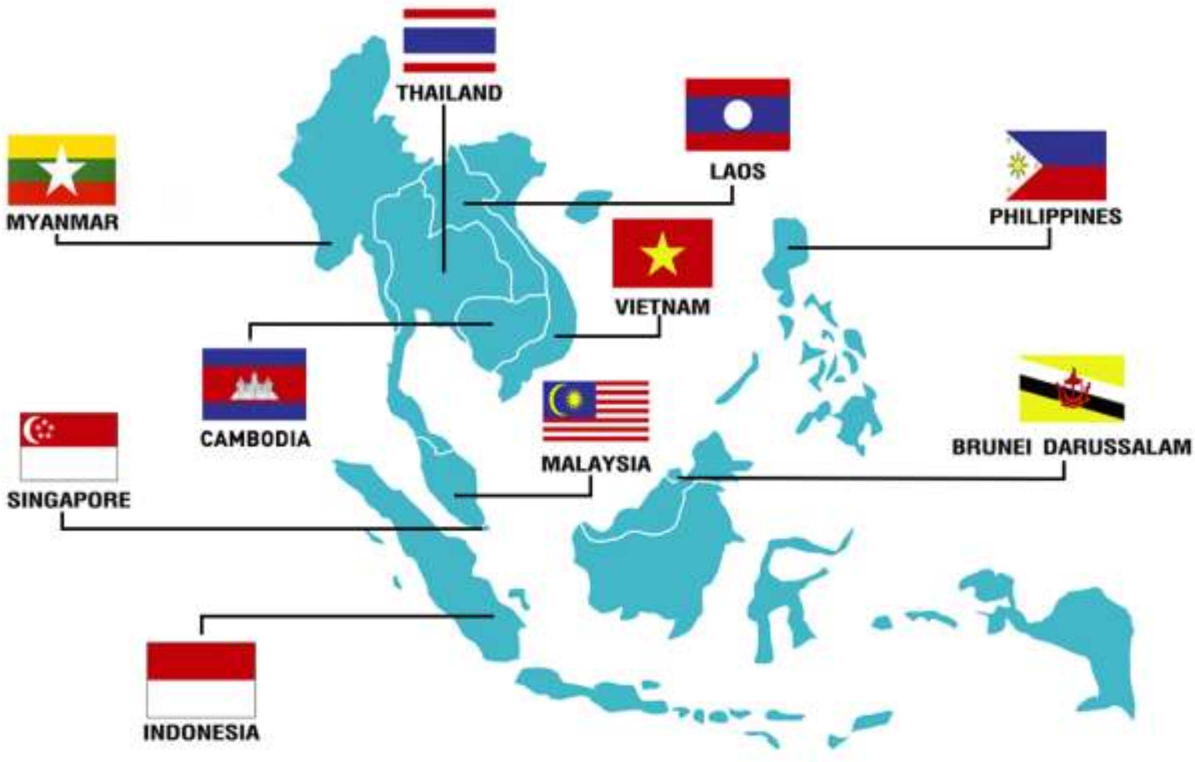
The EU also exemplifies how regional trading blocs indirectly break down trade regulations with countries outside the bloc. Many Europeans may have hoped that the EU would insulate Europe from competition with countries that lacked social, labour, and environmental standards. While the EU has a common external tariff, each member can maintain its own non-tariff trade barriers. EU rules requiring openness between member countries, however, made it easy to circumvent any EU country's national trade restrictions.

5. The Association of Southeast Asian Nations (ASEAN) and Asia-Pacific Economic Cooperation (APEC)

The Association of Southeast Asian Nations (ASEAN) was founded in 1967. The organisation sought to promote "regional security" for its five original members i.e Indonesia, Malaysia, Philippines, Singapore, and Thailand. After 1975, it focused on counteracting the spread of communism following the defeat of the U.S. military in Vietnam. Beginning in the 1980s, and especially since the collapse of the Soviet Union, the ASEAN agenda turned from fighting communism to "accelerating economic growth" through cooperation and trade liberalization. At the same time, the organization added the remaining countries of Southeast Asia to its member list. Today ASEAN oversees a cohesive geographical region with a population of nearly 500 million, which is about twice that of the United States, and combined output of nearly $750 billion, which is about one-tenth that of the United States.



http://www.asiaeducation.edu.au/images/default-source/logos/all_country_flags_with_names_asean.jpg?sfvrsn=2

ASEAN has pushed for member countries to open up to international trade and capital. While Singapore grew rapidly beginning in the 1960s, and Indonesia, Malaysia, and Thailand grew quickly beginning in the 1970s, high levels of Japanese foreign direct investment pushed the growth rates of these Southeast Asian economies to near double-digit levels in the late 1980s. Still, in the 1990s, increased competition from other developing countries and regional trading partnerships (such as NAFTA and the EU) threatened the stability of these export economies. In 1992, ASEAN adopted its own "free trade" agreement. AFTA, the ASEAN Free Trade Area, lowered tariffs among member nations, and promoted intra-regional trade which now stands at about 25% of the exports of these nations, about twice the level in the early 1970s. In response to the Asian economic crisis, ASEAN member nations agreed at their 1998 summit to further open up their economies, especially their manufacturing sectors, to foreign investment. Ignoring the calls of grassroots movements for controls or taxes on international capital movements, the summit implemented plans allowing 100% foreign ownership of enterprises in member countries, duty-free imports of capital goods, and a minimum for corporate tax breaks of three years.

The ASEAN tradition of "non-intervention" in the internal political affairs of its member states meant that the organization turned a blind eye to the repression of prodemocracy movements in Myanmar, Indonesia, Cambodia, and other countries in the region. Nor has ASEAN insisted that member nations meet International Labour Organization (ILO) core labour conventions. Member states have failed to sign and even denounced conventions recognizing the freedom of workers to organize trade unions, abolishing child and forced labour, and outlawing discrimination in employment. At times, they have brutally attacked trade union movements. ASEAN has also failed to intervene in regional environmental problems, witnessed by its inability in 1999 to fashion an effective regional response to Indonesia's uncontrolled forest fires. ASEAN reaction to the December 1999 WTO conference was no different. Leaders of ASEAN nations objected to U.S. calls to include core labour standards as part of trade agreements, insisting that they were an attempt to protect U.S. jobs. And secretary-general of ASEAN, complained that the United States and other rich countries had not lived up to the new WTO textile agreement that would allow ASEAN garment exporters greater access to First World markets.

http://globalasiablog.com/files/2014/06/aean-1bu6pjw.gif

It is China's entry into the WTO, however, that most threatens ASEAN interests. China has already replaced Southeast Asia as the favorite location of Japanese foreign direct investment, and Chinese exporters of toys, textiles, and other low-wage manufactured products have put ASEAN exporters under pressure. Unfortunately, the most likely ASEAN response to Chinese competition will be to further liberalize its own rules on foreign direct investment.

Long before this year's WTO conference, ASEAN member states recognized that their economic interests went well beyond the boundaries of Southeast Asia. In late 1980s, Prime Minister Mahathir Mohammed of Malaysia called for the formation of a pan-Asian regional economic bloc to include, along with the ASEAN countries, Japan, China, Korea, Taiwan, and Hong Kong, the largest investors in Southeast Asia. Mahathir's proposal was met with stiff opposition from the West. At the United States' insistence, the Asia-Pacific Economic Cooperation forum was formed instead.

Asia-Pacific Economic Cooperation (APEC) consists of 21 members, consisting of Chile, China, Hong Kong, Taiwan, Mexico, Papua New Guinea, Peru, Russia, and Vietnam to its 12 founding members. Unlike ASEAN, APEC members do not form a cohesive region other than bordering on the Pacific. APEC has no formal criteria for membership, but actual or promised trade liberalization is a defacto condition for entry. While commitments made by APEC members are formally voluntary and non-binding, APEC pressures governments to remove trade and investment restrictions faster than they would follow their own agenda. APEC is heavily influenced by large corporations, going so far as to adopt as its official slogan for 1996, "APEC means business."

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While not an official trading bloc, APEC's push for lower tariffs has proceeded further and faster than the WTO's free-trade agenda. APEC is calling for free trade among APEC nations by 2010 for "developed nations" and 2020 for "developing nations." In addition, APEC pushes labour market policies guaranteed to impose hardships on workers. For instance, in response to the Asian economic crisis, APEC counseled member countries to "maintain flexibility in domestic labour markets," advice sure to mean lower wages and more layoffs for workers already suffering from the effects of the Asian economic crisis. And while pledging to promote "environmentally sustainable development," APEC has done little to combat the depletion of national resources and deforestation, especially in developing nations. APEC has also insisted that member economies harmonize food and product safety standards which means high standards are likely to be replaced by the lowest common denominator.

6. The Organization of the Petroleum Exporting Countries (OPEC)

The Organization of the Petroleum Exporting Countries (OPEC) is a permanent intergovernmental organization, currently consisting of 12 oil producing and exporting countries, spread across three continents America, Asia and Africa. The members are Algeria, Angola, Ecuador, the Islamic Republic of Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates & Venezuela.

These countries have a population of more than 415 million and for nearly all of them, oil is the main marketable commodity and foreign exchange earner. Thus, for these countries, oil is the vital key to development – economic, social and political. Their oil revenues are used not only to expand their economic and industrial base, but also to provide their people with jobs, education, health care and a decent standard of living.

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The organization's principal objectives are:

1. To co-ordinate and unify the petroleum policies of the Member Countries and to determine the best means for safeguarding their individual and collective interests;

2. To seek ways and means of ensuring the stabilization of prices in international oil markets, with a view to eliminating harmful and unnecessary fluctuations; and

3. To provide an efficient economic and regular supply of petroleum to consuming nations and a fair return on capital to those investing in the petroleum industry.

When was OPEC formed?

OPEC was formed at a meeting held on September 14, 1960 in Baghdad, Iraq, by five Founder Members: Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. OPEC was registered with the United Nations Secretariat on November 6, 1962 (UN Resolution No 6363).

Who are OPEC member Countries?

The OPEC Statute stipulates that: "any country with a substantial net export of crude petroleum, which has fundamentally similar interests to those of Member Countries, may become a Full Member of the Organization, if accepted by a majority of three-fourths of Full Members, including the concurring votes of all Founder Members". The Statute further distinguishes between three categories of membership: Founder Member, Full Member and Associate Member.

Founder Members of the Organization are those countries which were represented at OPEC's first Conference, held in Baghdad, Iraq, in September 1960, and which signed the original agreement establishing OPEC. Full Members are the Founder Members, plus those countries whose applications for Membership have been accepted by the Conference.

Associate Members are the countries which do not qualify for full membership, but which are nevertheless admitted under such special conditions as may be prescribed by the Conference.

OPEC Member Countries

Country	Joined OPEC	Location
Algeria	1969	Africa
Angola	2007	Africa
Ecuador	Rejoined 2007	South America
IR Iran *	1960	Middle East
Iraq *	1960	Middle East

Kuwait *	1960	Middle East
Libya	1962	Africa
Nigeria	1971	Africa
Qatar	1961	Middle East
Saudi Arabia *	1960	Middle East
United Arab Emirates	1967	Middle East
Venezuela*	1960	South America

* founder Members

Ecuador joined OPEC in 1973, suspended its membership from Dec. 1992-Oct. 2007

Functioning of OPEC

Representatives of OPEC Member Countries (Heads of Delegation) meet at the OPEC Conference to coordinate and unify their petroleum policies in order to promote stability and harmony in the oil market. They are supported in this by the OPEC Secretariat, directed by the Board of Governors and run by the Secretary General, and by various bodies including the Economic Commission and the Ministerial Monitoring Committee.

The Member Countries consider the current situation and forecasts of market fundamentals, such as economic growth rates and petroleum demand and supply scenarios. They then consider what, if any, changes they might make in their petroleum policies. For example, in previous Conferences the Member Countries have decided variously to raise or lower their collective oil production in order to maintain stable prices and steady supplies to consumers in the short, medium and longer term.

7. Summary: In this module we have learnt about various popular trading blocs. The trading blocs discussed here are NAFTA, EU, ASEAN, APEC & OPEC. All these trade blocks have huge importance in the economic and political scenarios of the contemporary world. Over the years these trading blocs have played a major role in regulating the trend and pattern of international trade. Regional trade blocs protect the interests of the member countries. The primary aim of these trading blocs' activities is to create a favorable economic framework for promotion of cross border trade among the member countries. Different regional blocs have come up in the period of economic liberalization in various parts of the world. A particular country may be a member of more than one regional trading block. However, in order to do away with overlapping, such nations are normally put within the most dynamic trade block.