

A-level Geography -Trading Blocs

(a) What is meant by the term trading bloc? [5]

A trading bloc is defined as a group of countries which combined together share trade agreements. There are two types of trade agreements partaken in by the members of these blocs. The first types of agreements are internal free trade agreements which promote trade between member countries by the removal of protectionist. This encourages trade within the bloc by lowering the internal trade costs. The second types are agreements which restrict trade outside of the bloc by imposing protection such as tariffs on foreign trade. These discourage trade with countries outside the bloc as these polices raise the cost of this trade. There are a large number of trading blocs spanning over the different areas of the globe. The two largest in terms of GDP per head in \$ are the EU and NAFTA. The EU is the European Union which is a grouping of the countries of Europe and NAFTA also known as the North American Free Trade Association which is a grouping of the USA, Canada and Mexico. The presence of trading blocs encourage countries to buy good available within the bloc from the bloc's countries due to lower costs and only trade outside of the bloc goods which are not available at a cheaper price within.

(b) Examine the causes and consequences of the emergence of large trading blocs in recent years. [20]

One of the largest aims of a trading bloc is to encourage free trade between a group of countries which before would have had protectionist barriers hindering trade. If a group of countries unite together with preferential trading agreements they will be able to exploit the comparative advantages of each of their nations which will lead to specialisation as countries will tend to produce what they can produce most efficiently and this lead to greater economic growth and a rise in GDP and the standard of living of the affected countries. Therefore the aim of gaining free trade between groups of countries is a major cause for the emergence of large trading blocs.

There are many other reasons though for the emergence of trading blocs other than that of the exploitation of free trade. When a group of countries unites under a trading bloc political and economic stability between these countries is often caused. For example the European union has brought about great political stability between the countries of Europe which are its member states and non member states who to a point agree with the EU polices in an attempt to gain membership themselves. The EU was originally formed with the aim of stabilising the politics of Europe and preventing another war between member states. Therefore it could be said that the world's first large trading bloc was brought about due to this factor alone.

Many smaller countries gain greatly from trading blocs as before they may have only been a small country which was insignificant to the world trade situation of larger powers such as the USA with the aid of a trading bloc it can become part of a larger mass which has political influence of the whole worlds markets. This agglomeration of countries into trade agreements could be seen as responsible for many of the smaller trading blocs such as the UEMOA of West Africa which aim to compete with countries or even other trade agglomerations.

One of the largest causes for the emergence of so many trading blocs across the globe is the factor that countries not in trade blocs join or create others in the aim of countering the world economic power share which is being controlled by member countries of trade agreements. This factor is one of the main reasons for the creation of the world's second largest trade bloc NAFTA. The countries of the north and Central American continent who felt threatened by the great and growing economic power of the EU decided to join together in a pact of trade agreements so they as well could gain the benefits of regional free trade. The EU was the first large trade bloc to emerge but its demonstration of the power a bloc can have has threatened many major economic powers and this threat has lead to the creation of many new trading blocs.

The emergence of trading blocs has had good and bad effects on the world trade and more regional environments of the world. A major good consequence of the emergence of blocs is that much trade has been created by their presence. This though is not without problems as though overall trade for the member countries is increased those outside the

bloc often divert their trade from the area or lose customers from within as members find cheaper alternatives from member leading to damage to external countries economies and overall trade between different regions of the world.

Increased competition is seen as an advantage of free trade agreements within blocs as where countries would have once been safe behind walls of protection they are now exposed to foreign trade which means their industries will have to become efficient and produce at the lowest possible cost or go bankrupt. This will of course lead to an increase in efficiency to a point but problems arise when industries feel protected by the walls of the bloc and feel no need to increase efficiency as the threat from outside is reduced due to protectionism. This of course is a major disadvantage as the aim of world free trade and the extra efficiency and rise in living standards it will cause will be halted by larger regional zones which will act as countries did previous to the creation of trade blocs.

Industries can take advantage of economies of scale over the whole trading bloc due to their markets being expanded by exports. This will lead to greater efficiency but again the full benefit which would be caused by world free trade is prevented by the presence of the trade bloc.

Another strong benefit of the presence of trade blocs is that resource use becomes efficient throughout the area. Where before a country may gain its coal from domestic poor quality coal fields at a higher price with the increased free trade caused by a bloc it may no be able to gain from cheaper coal made in a country in the bloc. The main benefit of this though is in the resource of labour. Due to relaxed laws on working throughout trade areas highly trained workers can quickly be pooled in from another country to work in an industry. This means that countries do not have deficits or surpluses of workers. Another benefit of this in relation to resource allocation is if a country which is less developed has the physical resources to be an efficient producer of a certain good but not the knowledge or expertise to put these resources into practice the importation of foreign labour can allow this country to become prosperous and begin to use resources which were not before used and therefore make resource use more efficient thought the whole area. Again this factor could be more effective in world terms if not blocked by barriers between trade blocs.

Overall trading blocs have recently emerged throughout the world recently for many reasons, many which are orientated around the benefits brought about by free trade and other which are based around other factors such as political stability. These blocs have many advantages and disadvantages. The advantages are as varied as the causes but there are still many based around the presence of free trade. The disadvantages of these blocs are again varied but many are based around the problem that though a trading bloc encourages the advantages of free trade it only does this to a point as they will in the end in my view hinder the progress towards free trade as protectionist barriers between blocs will replace those between countries which before caused problems. In my view though trading blocs are a good thing for world trade and the countries of the world as when full efficiency is reached within them I believe that there will be a move to break the barriers of protection between the blocs and a move towards global free trade which will cause global efficiency and a raise in the worlds living standards.