

UWTSD MBA HKBM7009
(UWMBA-30013-2024-1-SS)

Global Business Challenges (6-1)

Regional Economic Integration and Trade Agreements

Che Cheong POON
15 February 2025; Saturday 13:00 to 15:30pm

Top trading partners of the United States

From January to November 2024, the value of goods traded between the US and the world reached \$4.88 trillion, with \$2.98 trillion in exports and \$1.90 trillion in imports.

	Country	Exports	Imports	Total trade
	Mexico	\$309bn	\$467bn	\$776bn
	Canada	\$322bn	\$377bn	\$700bn
	China	\$131bn	\$401bn	\$532bn
	Germany	\$70bn	\$147bn	\$217bn
	Japan	\$73bn	\$136bn	\$209bn
	South Korea	\$60bn	\$121bn	\$181bn
	Taiwan	\$39bn	\$106bn	\$145bn
	Vietnam	\$12bn	\$125bn	\$137bn
	United Kingdom	\$72bn	\$62bn	\$135bn
	India	\$39bn	\$80bn	\$119bn
	Netherlands	\$82bn	\$32bn	\$114bn
	Ireland	\$15bn	\$96bn	\$111bn
	Italy	\$30bn	\$70bn	\$100bn
	France	\$40bn	\$55bn	\$95bn
	Brazil	\$45bn	\$39bn	\$84bn
	Rest of the world	\$558bn	\$670bn	\$1228bn



FACT SHEETS

FACT SHEET: PRESIDENT DONALD J. TRUMP IMPOSES TARIFFS ON IMPORTS FROM CANADA, MEXICO AND CHINA

February 1, 2025

While trade accounts for 67% of Canada's GDP, 73% of Mexico's GDP, and 37% of China's GDP, it accounts for only 24% of U.S. GDP. However, in 2023 the U.S. trade deficit in goods was the world's largest at over \$1 trillion. Besides, Mexico, Canada and China account for more than 40 percent of total goods traded with the United States.

United States-Mexico-Canada Agreement

The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020. The USMCA, which substituted the North America Free Trade Agreement (NAFTA) is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. The Agreement creates more balanced, reciprocal trade supporting high-paying jobs for Americans and grow the North American economy.

However, President Trump signed documents to charge Mexico and Canada a 25% Tariff on ALL products coming into the United States. The United States has postponed planned 25 percent tariffs on Canadian and Mexican imports by a month, following 11th-hour calls between President Donald Trump and leaders from Canada and Mexico on 3 February 2025.

The future of the USMCA

What's next for US trade relations with
Canada and Mexico?

<https://www.piie.com/microsites/2025/future-usmca>

Since 2020, the last year of President Donald Trump's first term in office, the often-quarrelsome trade relations among the three major countries of North America have been governed by the United States-Mexico-Canada trade agreement (USMCA). The pact must be renewed in 2026, but Trump has threatened withdrawing and imposing tariffs on Canada and Mexico, leaving the future of relations with two of the most important US trading partners uncertain.

US tariff on China (15%+10%=25%):

The additional 10 percent tariffs on Chinese goods took effect on 4 February 2025, attracting retaliatory measures from Beijing. Chinese goods have already been subjected to previous tariffs starting in Trump's first term between 2017 and 2021.

Trade Blocs

What will be the effect on global business environment if there is a change in regional economic integration arrangement?

What trade agreement does Hong Kong have?

(1) Regional integration can lead to substantial economic gains; however, regional integration does not allow countries to:

- A. Improve market efficiency
- B. narrow the gap between the rich and the poor
- C. Reap other non-economic benefits, such as peace and security
- D. Share the costs of public goods or large infrastructure projects

(2) Which of the following regional integration is CEPA belong to?

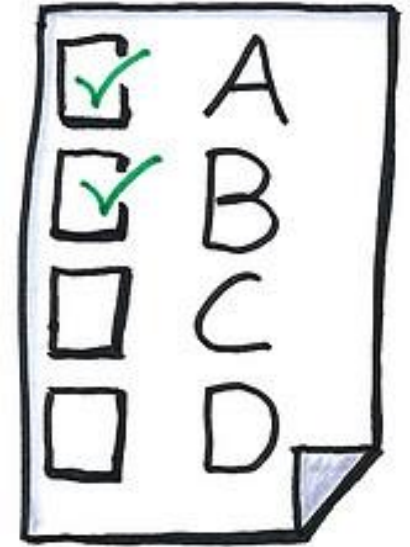
- A. Preferential Trading Arrangement
- B. Free Trade Area
- C. Customs Union
- D. Common Market

(3) Which of the following is not one of the great paradoxes of globalization?

- A. Inequality in income distribution
- B. Poverty
- C. Trade imbalance
- D. Less currencies than ever before in history

(4) Which of the following country is not a member of the APEC?

- A. Australia
- B. Canada
- C. Hong Kong
- D. UK



Lecture Agenda :

- Some basics
- Major regional trading groups
- Regional economic integration Theory
- Regional Economic Integration Implications for Global Business

Some Basics



SOURCE: The World Bank.

- Regional economic integration occurs when countries come together to form a **trading bloc** where barriers to trade are reduced or eliminated among the participating countries or regions.
- Global expansion is a business growth strategy that involves entering new markets abroad. When carefully planned, it can increase profits, reduce risk, and help business grow fast. As the world is more interconnected than ever before, even the smallest of companies can now take their business global.
- Borders are not boundaries for business.

Regionalism in the World



USMCA= The United States-Mexico-Canada Agreement

FTAA=Free Trade Area of the Americas ;

CARICOM=Caribbean Community; EU=European Union; CEFTA=Central European Free Trade Agreement

MERCOSUR=South American Common Market; APEC=Asia-Pacific Economic Cooperation;

AFTA=ASEAN(Association of Southeast Asian Nations) Free Trade Area ;

COMESA=The Common Market for Eastern and Southern Africa

Free Trade Area

There are two distinguishing characteristics of a free trade area.

- The first characteristic is the liberalization of trade regulation for members.
- Second, the removal of trade barriers placed against members. This includes the removal of tariffs, quotas, and various non-tariff barriers, or a pledge to remove such trade barriers by a date certain in the future.

Freedom to trade in Hong Kong

All goods imported and exported from free trade zones and free ports in Hong Kong are exempted from customs control and do not have any barriers to trade. There is also no limit on foreign investment, which attracts foreign investors from around the world to invest in Hong Kong.

Products can be imported and exported from Hong Kong without paying tariffs and involve only simple documentation. Hong Kong does not impose tariff quotas, value-added tax (VAT), goods and service tax (GST), or customs fees on imports and exports as free ports.

However, excise duty is imposed on four types of commodities: [hydrocarbon oil](#), [liquors](#), [methyl alcohol](#), and [tobacco](#), regardless of whether they are locally manufactured or imported.

Goods imported or exported to Hong Kong do not usually require licenses, but businesses may need licenses to meet the obligations of trading partners, public health or safety and security reasons.

Hong Kong's Free Trade Agreements (FTAs)

Hong Kong has been actively seeking to expand its FTA network to secure favorable conditions for Hong Kong's goods and services to enter the Mainland and international markets.

So far, Hong Kong has signed eight FTAs, respectively with the Mainland of China (June 2003), New Zealand (March 2010), the Member States of the European Free Trade Association (EFTA) (June 2011), Chile (September 2012), Macao (October 2017), the Association of Southeast Asian Nations (ASEAN) (November 2017), Georgia (June 2018) and Australia (March 2019). The FTA negotiations between Hong Kong and Peru commenced in January 2023 and were concluded in July 2024

Sources: <https://www.tid.gov.hk/english/ita/fta/index.html>

<https://www.info.gov.hk/gia/general/202411/16/P2024111600021.htm>

Economies	FTAs
Mainland China	• <u>Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)</u>
New Zealand	• <u>Hong Kong, China - New Zealand Closer Economic Partnership Agreement</u>
EFTA	• <u>FTA between Hong Kong, China and the Member States of the European Free Trade Association</u>
Chile	• <u>FTA between Hong Kong, China and Chile</u>
Macao	• <u>Hong Kong and Macao Closer Economic Partnership Arrangement (HK-Macao CEPA)</u>
ASEAN	• <u>Hong Kong, China - ASEAN FTA</u>
Georgia	• <u>Hong Kong, China - Georgia FTA</u>
Australia	• <u>FTA between Hong Kong, China and Australia</u>

Customs Union

- A customs union adds a third characteristic to the two characteristics of a free trade area, namely **the imposition of a common tariff on nonmember countries**.
- This means that the member countries of a customs union pledge to liberalize trade regulations, remove trade barriers placed against members, in addition to agreeing to impose a common tariff against nonmember countries.
- For example, all members of a customs union might agree to have a ten percent tariff against nonmember countries, while previously each country had different and unique tariff levels.
- Imposition of a common tariff implies a convergence of trade policy across member countries and, through such trade policy convergence, a pooling of national sovereignty.

Common Market

- A common market encompasses all characteristic of a free trade area and of a customs union, while adding **mobility of factors of production** as a fourth distinguishing characteristic.
- Included is mobility of capital, labor, and technology.
- Mobility of labor requires that the member countries develop a common visa policy and a common position on residency.
- Additionally, the member countries will develop common policies to harmonize standards, have mutual recognition or acceptance of each other's standards, or agree on minimum standards.

Economic Union

- An economic union brings a fifth distinguishing characteristic to the fourth characteristic discussed in the previous paragraphs.
- That characteristic is to seek economic integration through harmonizing fiscal and monetary policies, creating a common currency, and establishing a super-national governing authority.
- For example, a super-national governing authority is the European Parliament established by the European Union countries.

Political Union

- A political union is the ultimate step along the regional economic integration path.
- A political union brings full economic and political unification to members of an economic union.
- The question whether there will be a United States of Europe sometime in the tomorrow's beyond, is an example of a situation of an economic union (i.e., the European Union) maturing toward full economic and political unification (not likely to occur anytime soon).

Major Regional Trading Groups

**European Free Trade
Association**

**Central European Free
Trade Agreement**

**North American Free
Trade Agreement (became
USMCA in 2020)**

**Association of Southeast
Asian Nations**

**Customs Union
MERCOSUR**

**Common Market
Caribbean Community and
Common Market
Central American Common
Market**

**Economic Integration
European Union**

Greater Economic Integration

China's Free Trade Agreements (As of January 2024)

[China-Belarus Service and Investment Agreement](#)
[China-Serbia FTA](#)
[China-Ecuador FTA](#)
[China-Nicaragua FTA](#)
[Regional Comprehensive Economic Partnership \(RCEP\)](#)
[China-Cambodia FTA](#)
[China-Mauritius FTA](#)
[China-Maldives FTA](#)
[China-Georgia FTA](#)
[China-Australia FTA](#)
[China-Korea FTA](#)
[China-Switzerland FTA](#)

[China-Iceland FTA](#)
[China-Costa Rica FTA](#)
[China-Peru FTA](#)
[China-Singapore FTA \(including upgrade\)](#)
[China-New Zealand FTA \(including upgrade\)](#)
[China-Chile FTA \(including upgrade\)](#)
[China-Pakistan FTA \(including second phase\)](#)
[China-ASEAN FTA \(including upgrade\)](#)
[Mainland and Hong Kong Closer Economic and Partnership Arrangement](#)
[Mainland and Macao Closer Economic and Partnership Arrangement](#)

Effects of regional economic integration

- **Static effects**—shifting of resources from inefficient to efficient companies as trade barriers fall
 - Develop when either of two conditions occurs
 - trade creation—comparative advantage is the cause of production shifts which allows consumers access to more goods at lower prices
 - trade diversion—trade shifts to member countries, even if nonmember company is more efficient
- **Dynamic effects**—overall growth in the market and the impact on a company of expanding production and achieving greater economies of scale
 - Occur when trade barriers fall and the size of the market increases
 - Leads to increased efficiency due to increased competition

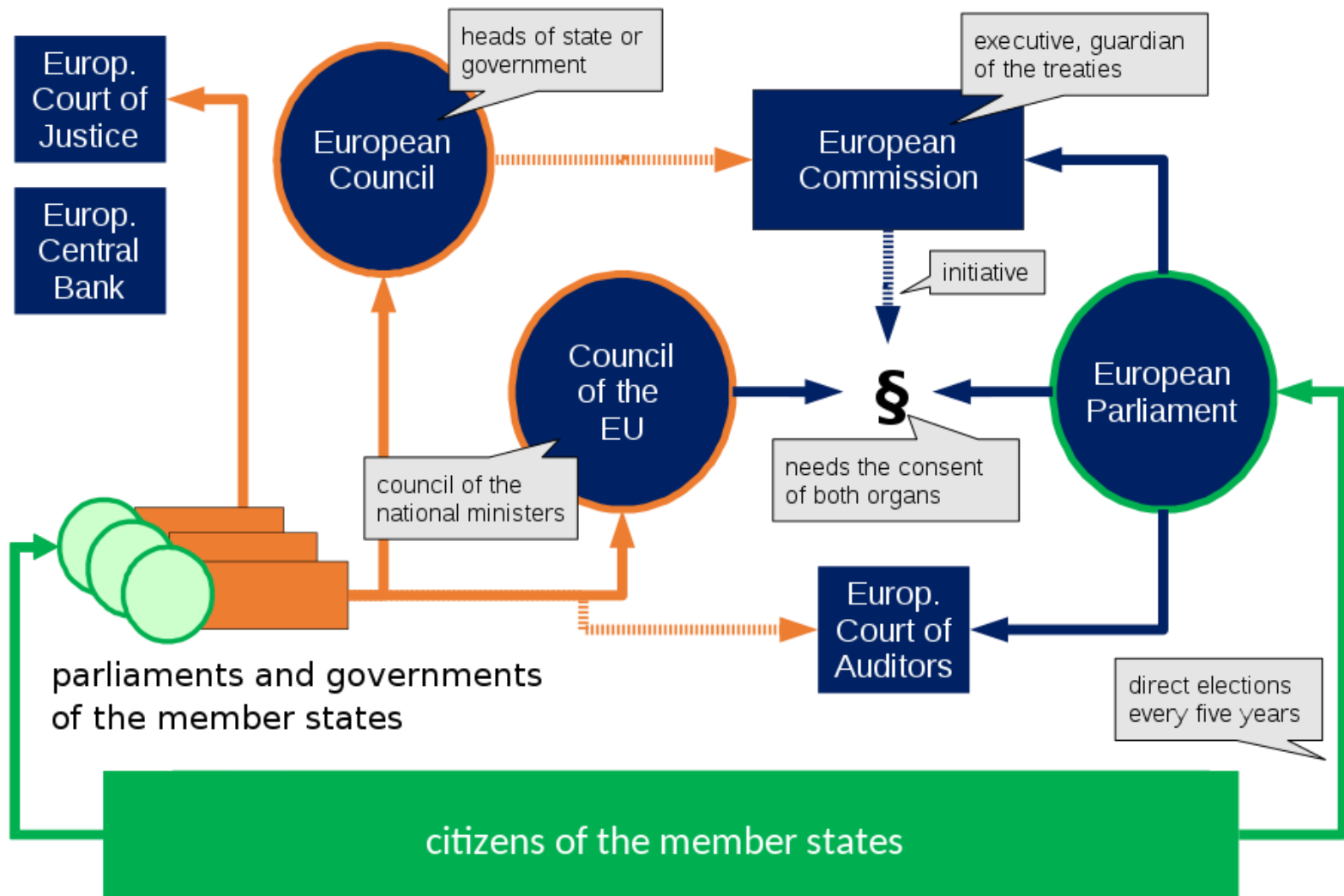
Major Regional Trading Groups

The European Union (EU)

European evolution to integration

- Organization for European Economic Cooperation
 - established to facilitate the implementation of the Marshall Plan after World War II
- European Economic Community (EEC)
 - eliminated internal tariffs
 - established a common external tariff
 - established common agricultural policy
 - expanded membership
- European Parliament
 - directly elected by the people
 - attempted to bring democracy into governance of Europe
- European Monetary System (EMS)
 - established to link individual national currencies

EU Organizational Structure



United States-Mexico-Canada Agreement (USMCA)

- The United States-Mexico-Canada Agreement (USMCA) entered into force on July 1, 2020. The USMCA, which substituted the North America Free Trade Agreement (NAFTA) is a mutually beneficial win for North American workers, farmers, ranchers, and businesses. The Agreement creates more balanced, reciprocal trade supporting high-paying jobs for Americans and grow the North American economy.
- Creating a more level playing field for American workers, including improved rules of origin for automobiles, trucks, other products, and disciplines on currency manipulation.
- Benefiting American farmers, ranchers, and agribusinesses by modernizing and strengthening food and agriculture trade in North America.
- Supporting a 21st Century economy through new protections for U.S. intellectual property and ensuring opportunities for trade in U.S. services.
- New chapters covering Digital Trade, Anticorruption, and Good Regulatory Practices, as well as a chapter devoted to ensuring that Small and Medium Sized Enterprises benefit from the Agreement.

Regional Economic Groups in Latin America

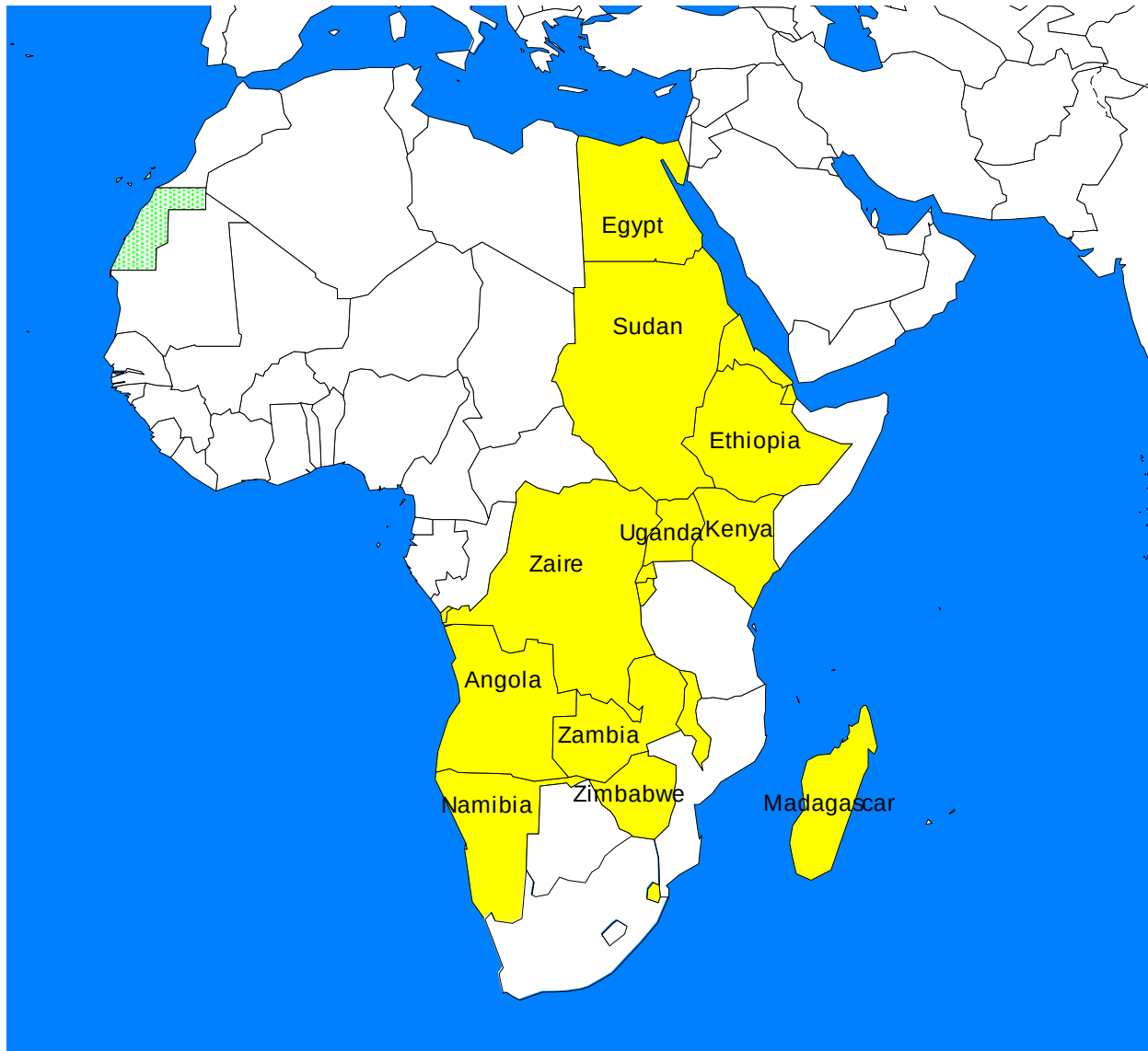
- Caribbean Community and Common Market (CARICOM)
 - It is a regional group of nations that encourage common policy and economic goals
 - It was formed in 1973 and consists of 20 nations, including fifteen full-time members and five associate members.
 - One of CARICOM's current goals is to establish a free-trade zone and single market for increased trade and economic growth in the region.

- Southern Common Market/South American Common Market (MERCOSUR)
 - It is is an economic and political bloc in South America established in 1994 Argentina, Brazil, Paraguay, Uruguay, and Venezuela.
 - Its main objective has been to promote a common space that generates business and investment opportunities through the competitive integration of national economies into the international market.
 - Since its inception, it has been based on the principles of Democracy and Economic Development, which underpins the core values of a human-faced integration. Aligned with these, different agreements have been added in terms of migratory, labour, cultural, and social matters -just to mention a few, which are of utmost importance for its inhabitants.

The Common Market for Eastern and Southern Africa (COMESA)

- The history of COMESA began in December 1994 when it was formed to replace the former Preferential Trade Area (PTA) which had existed from the earlier days of 1981.
- COMESA (as defined by its Treaty) was established ‘as an organization of free independent sovereign states which have agreed to co-operate in developing their natural and human resources for the good of all their people’ and as such it has a wide-ranging series of objectives which necessarily include in its priorities the promotion of peace and security in the region.

COMESA countries



Association of Southeast Asian Nations

- The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by the Founding Fathers of ASEAN, namely Indonesia, Malaysia, Philippines, Singapore and Thailand.
- Brunei Darussalam then joined on 7 January 1984, Viet Nam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.
- The ASEAN Community is comprised of three pillars, namely the ASEAN Political-Security Community, ASEAN Economic Community and ASEAN Socio-Cultural Community. Each pillar has its own Blueprint, and, together with the Initiative for ASEAN Integration (IAI) Strategic Framework and IAI Work Plan Phase II (2009-2015), they form the Roadmap for an ASEAN Community 2009-2015.

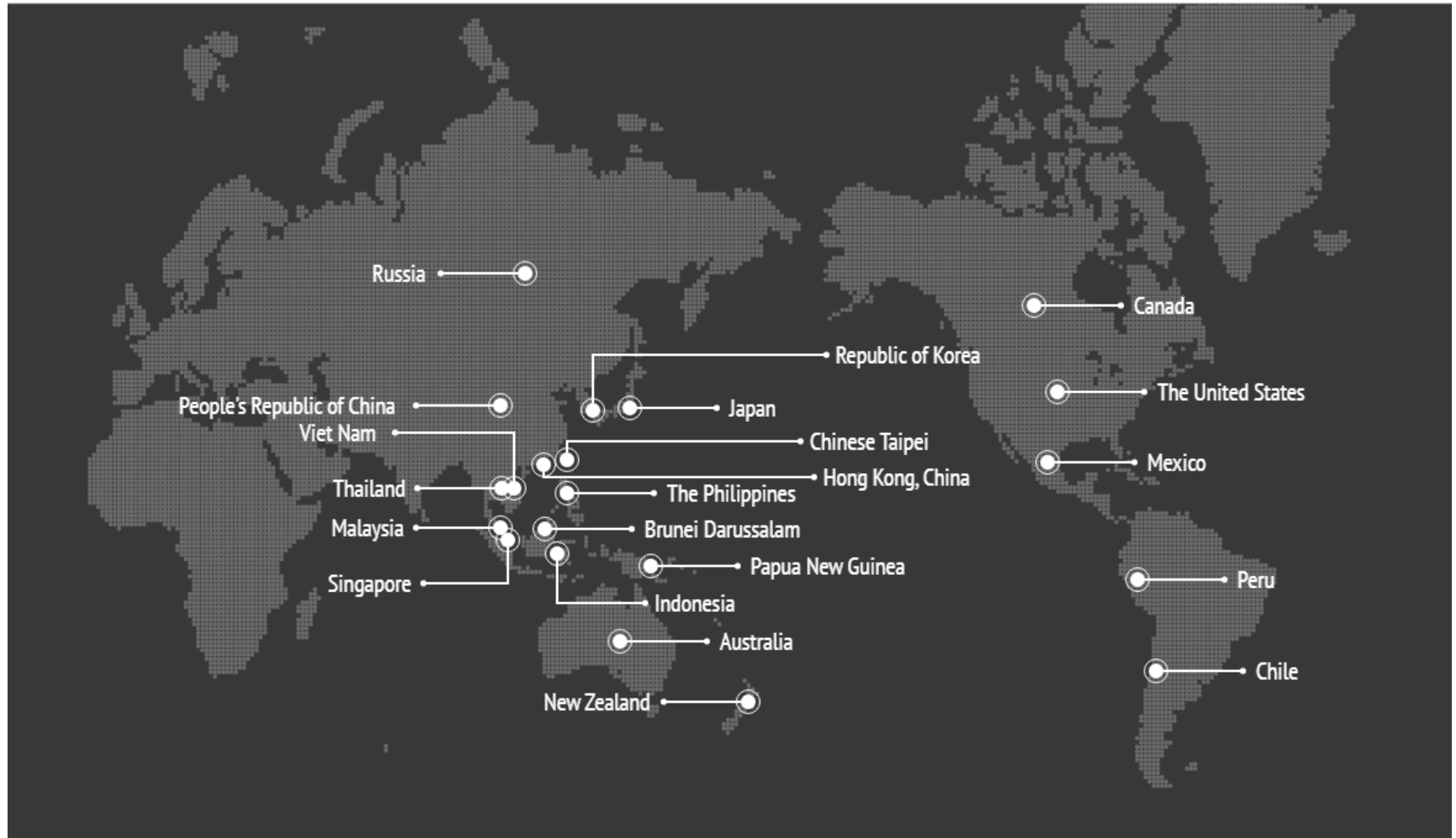
ASEAN countries



As set out in the ASEAN Declaration, the aims and purposes of ASEAN are:

1. To accelerate the economic growth, social progress and cultural development in the region through joint endeavours in the spirit of equality and partnership in order to strengthen the foundation for a prosperous and peaceful community of Southeast Asian Nations;
2. To promote regional peace and stability through abiding respect for justice and the rule of law in the relationship among countries of the region and adherence to the principles of the United Nations Charter;
3. To promote active collaboration and mutual assistance on matters of common interest in the economic, social, cultural, technical, scientific and administrative fields;
4. To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative spheres;
5. To collaborate more effectively for the greater utilization of their agriculture and industries, the expansion of their trade, including the study of the problems of international commodity trade, the improvement of their transportation and communications facilities and the raising of the living standards of their peoples;
6. To promote Southeast Asian studies; and
7. To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes and explore all avenues for even closer cooperation among themselves.

Asia Pacific Economic Cooperation (APEC)



- The Asia-Pacific Economic Cooperation (APEC) is a regional economic forum established in 1989 to leverage the growing interdependence of the Asia-Pacific. APEC's 21 members aim to create greater prosperity for the people of the region by promoting balanced, inclusive, sustainable, innovative and secure growth and by accelerating regional economic integration.
- APEC ensures that goods, services, investment and people move easily across borders. Members facilitate this trade through faster customs procedures at borders; more favorable business climates behind the border; and aligning regulations and standards across the region. For example, APEC's initiatives to synchronize regulatory systems is a key step to integrating the Asia-Pacific economy. A product can be more easily exported with just one set of common standards across all economies.
- APEC has 21 members. The word 'economies' is used to describe APEC members because the APEC cooperative process is predominantly concerned with trade and economic issues, with members engaging with one another as economic entities.

APEC Members	Date of Joining	APEC Members	Date of Joining
Australia	6-7 Nov 1989	New Zealand	6-7 Nov 1989
Brunei Darussalam	6-7 Nov 1989	Papua New Guinea	17-19 Nov 1993
Canada	6-7 Nov 1989	Peru	14-15 Nov 1998
Chile	11-12 Nov 1994	The Philippines	6-7 Nov 1989
People's Republic of China	12-14 Nov 1991	Russia	14-15 Nov 1998
Hong Kong, China	12-14 Nov 1991	Singapore	6-7 Nov 1989
Indonesia	6-7 Nov 1989	Chinese Taipei	12-14 Nov 1991
Japan	6-7 Nov 1989	Thailand	6-7 Nov 1989
Republic of Korea	6-7 Nov 1989	The United States	6-7 Nov 1989
Malaysia	6-7 Nov 1989	Viet Nam	14-15 Nov 1998
Mexico	17-19 Nov 1993		

Organization of Petroleum Exporting Countries (OPEC)

- **Producer cartel** that has significant control over output and price. OPEC oil exports are 60 percent of oil traded internationally
- OPEC is a permanent intergovernmental organization of 14 oil-exporting developing nations that coordinates and unifies the petroleum policies of its Member Countries.
- Its mission is to coordinate and unify the petroleum policies of its Member Countries and ensure the stabilization of oil markets in order to secure an efficient, economic and regular supply of petroleum to consumers, **a steady income to producers and a fair return on capital** for those investing in the petroleum industry.

- The Organization of the Petroleum Exporting Countries (OPEC) was founded in Baghdad, Iraq, with the signing of an agreement in September 1960 by five countries namely Islamic Republic of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. They were to become the Founder Members of the Organization.
- These countries were later joined by Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973), Gabon (1975), Angola (2007), Equatorial Guinea (2017) and Congo (2018).

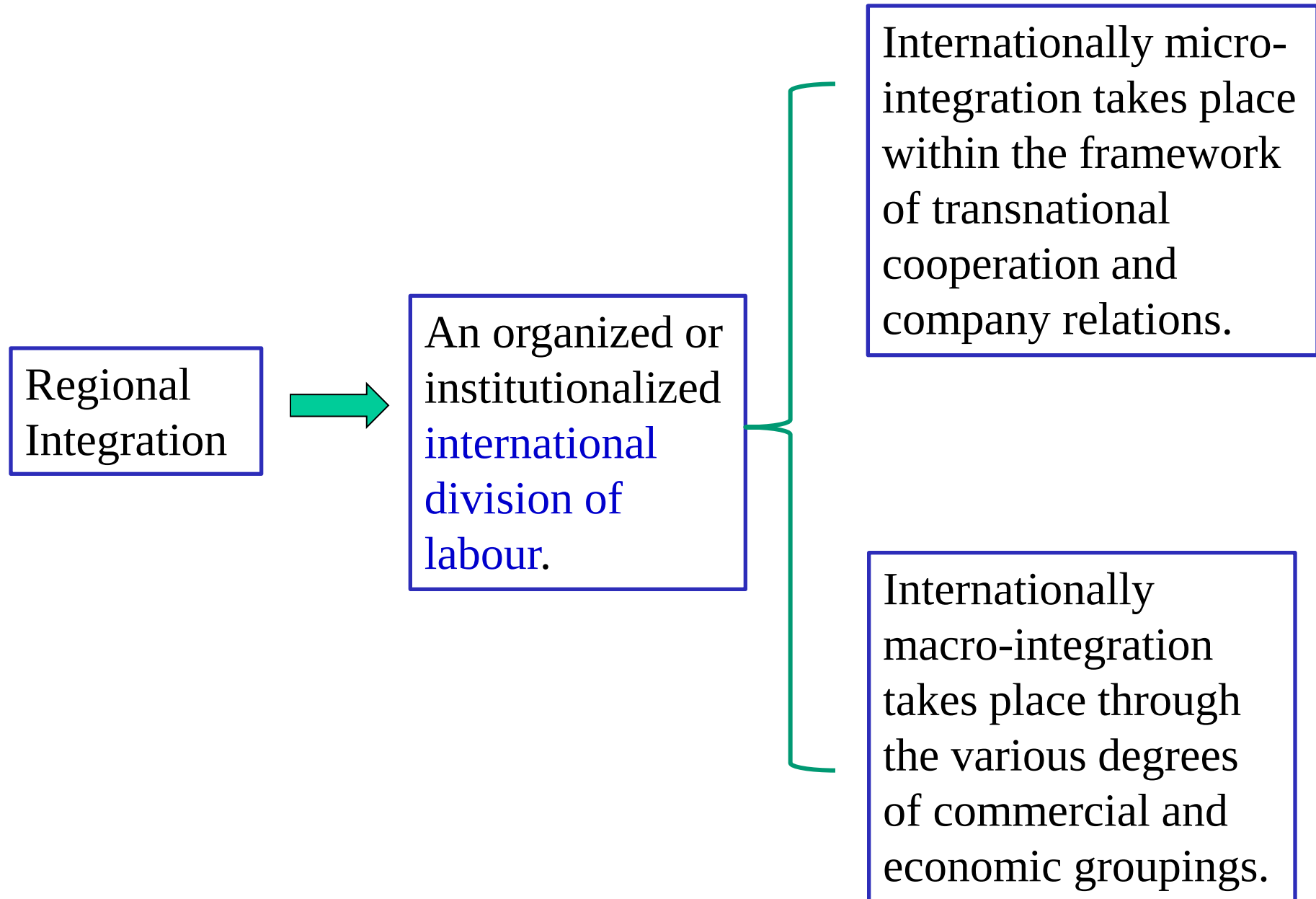
Hong Kong's International Free Trade Agreements

- Mainland China and Hong Kong CEPA
- Hong Kong - New Zealand CEPA
- Hong Kong and the member states of the EFTA FTA
- Hong Kong and Macao CEPA
- ASEAN-Hong Kong FTA and Investment Agreement
- Hong Kong and Georgia FTA
- Hong Kong and Australia FTA
- Hong Kong and Chile FTA
- Hong Kong and Peru FTA
- Double Taxation Avoidance Agreements

Sources;

<https://www.china-briefing.com/doing-business-guide/hong-kong/why-hong-kong/hong-kong-s-international-free-trade-and-tax-agreements>

Regional Economic Integration Theory



Five forms/levels of regional integration

- **Preferential Trading Arrangement (PTA)**: is a trading bloc that gives preferential access to certain products from the participating countries.
- **Free Trade Area (FTA)** : Lowering of some tariff barriers among members but the maintenance of individual tariff barriers against non-members
- **Customs Union**: Liberalized intra-regional trade, common external barriers
- **Common Market**: Liberalized intra-regional trade, common external barriers and unfettered factor mobility.
- **Economic Union**: Liberalized intra-regional trade, common external barriers, unfettered factor mobility and policy harmonization.

Level of integration

USMCA



Preferential Trading
Arrangement

Free Trade
Area

Customs
Union

Common
Market

Economic
Union

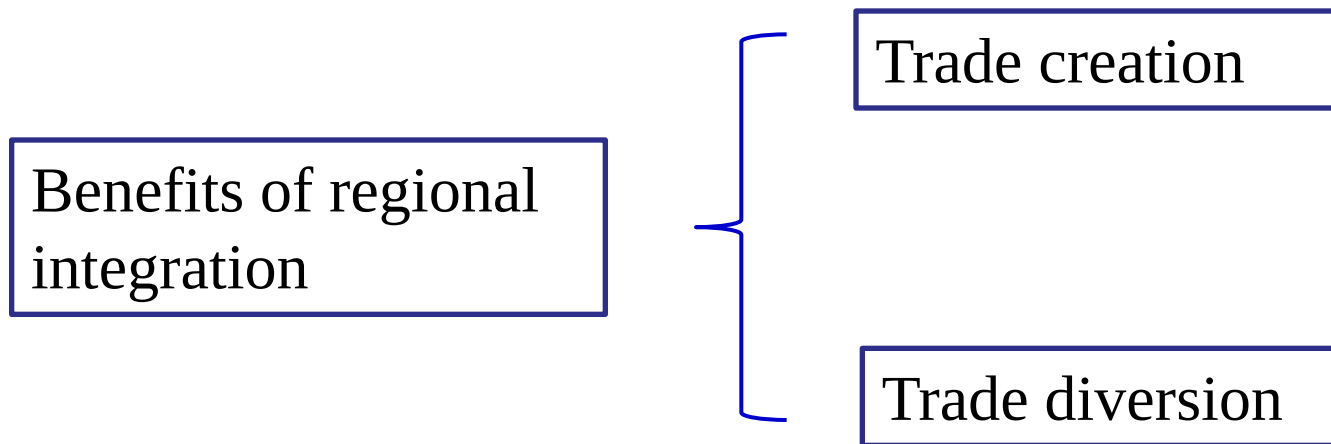
EU



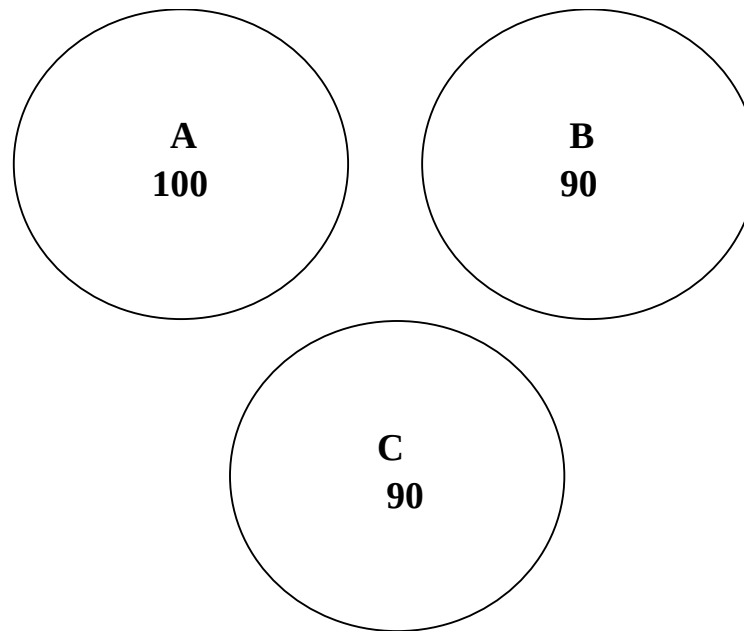
Characteristics of regional economic integration

Agreement	Lower Barriers Among members	Free trade among members	Common trade barriers	Free movement of labour and capital	Harmonization Of fiscal and monetary policies
Preferential Trading Arrangement	✓				
Free Trade Area	✓	✓			
Customs Union	✓	✓	✓		
Common Market	✓	✓	✓	✓	
Economic Union	✓	✓	✓	✓	✓

Benefits of regional integration



Trade creation



20 percent tariff

Before establishing an RIA between country A and B:

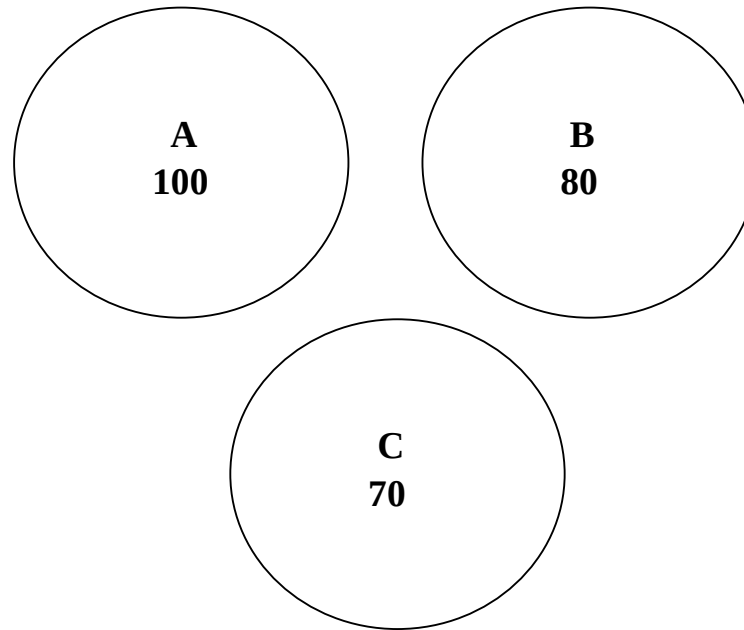
The price of a traded commodity in country A is 100 SWR, import from country B and C are 108 SWR.

A=100, $B=90 \times 1.2=108$, $C=90 \times 1.2=108$

After establishing an RIA between country A and B:

$A=100$, **B=90**, $C=90 \times 1.2=108$

Trade diversion



20 percent tariff

Before establishing an RIA between country A and B:
 $A=100$, $B=80 \times 1.2=96$, $C=70 \times 1.2=84$

After establishing an RIA between country A and B:
 $A=100$, $B=80$, $C=70 \times 1.2=84$

Cost of regional integration

Cost of regional integration

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graph LR; A[Cost of regional integration] --- B[Diversion of trade]; A --- C[Erosion of national sovereignty]
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Diversion of trade

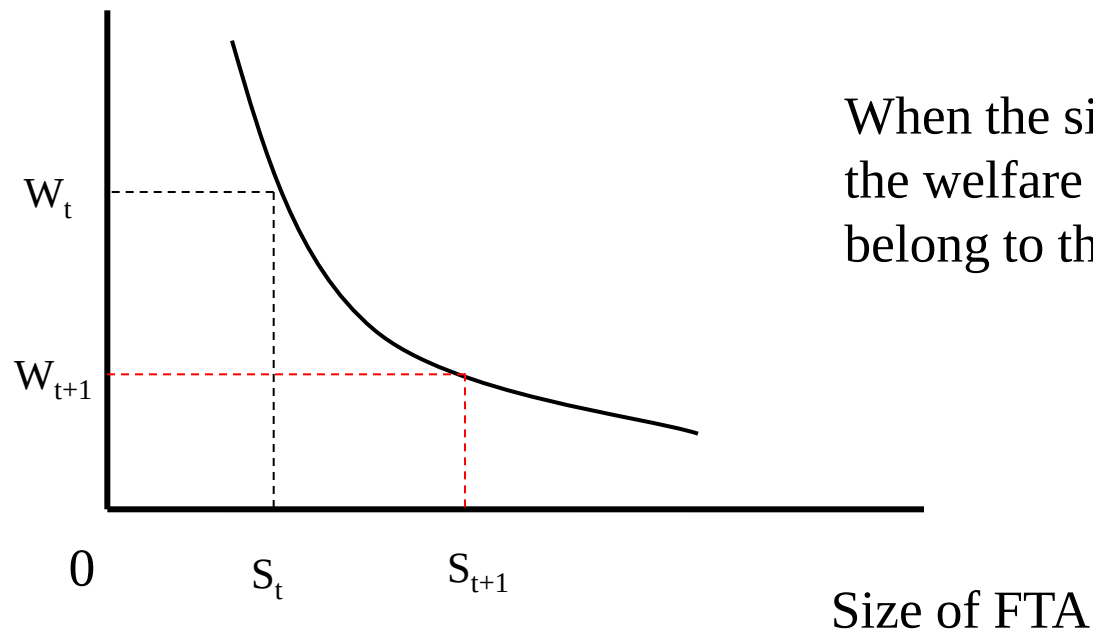
Trade can be diverted from nonmembers to members, even if it is economically detrimental for the member state.

Erosion of national sovereignty

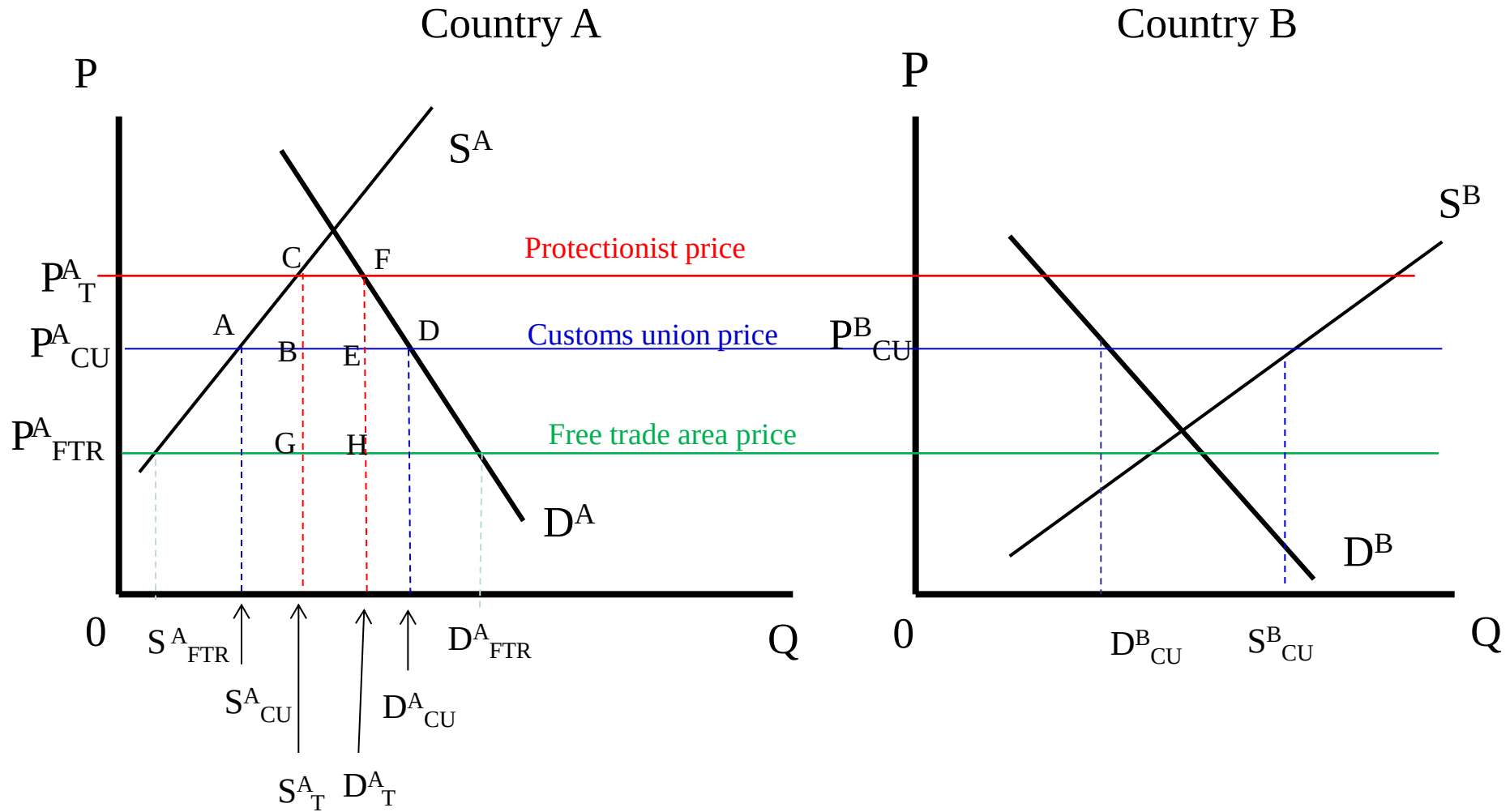
Members of economic unions typically are required to adhere to rules on trade, monetary policy, and fiscal policies established by an unelected external policymaking body.

Expansion of the FTA and the Third Country

Welfare of
the third
country



The positive and negative effects of a customs union



- Under free trade: Country A imports— $S^A_{FTR} D^A_{FTR}$ at world market price. Country B is not competitive because of its higher price.
- Country A introduces a tariff: Imports decrease $S^A_T D^A_T$
- Customs Union among countries A and B: Tariff inside CU is abolished; former tariff of country A is now common tariff for imports from third countries. This increases the relative comparative advantage of country B. Trade inside the CU leads to an equilibrium price ($p^A_{CU} = p^B_{CU}$).
- Country A imports now $S^A_{CU} D^A_{CU} = S^B_{CU} p^B_{CU}$ from country B.

Comparing CU with import tariff:

- Volume effects of the customs union:
 - Positive trade creation $S_{CU}^A S_T^A$
 - Positive trade expansion $D_{CU}^A D_T^A$
 - Negative trade diversion $S_T^A D_T^A$
- Welfare effect of the customs union:
 - Positive: $ABC + EDF$
 - Negative: $CFEB$

Regional Economic Integration Implications for Global Business

A change in Regional economic
integration arrangement



Global business
challenges

Regional integration can lead to substantial economic gains.
Regional integration allows countries to:

- Improve market efficiency;
- Share the costs of public goods or large infrastructure projects;
- Decide policy cooperatively and have an anchor to reform;
- Have a building block for global integration; and
- Reap other non-economic benefits, such as peace and security.

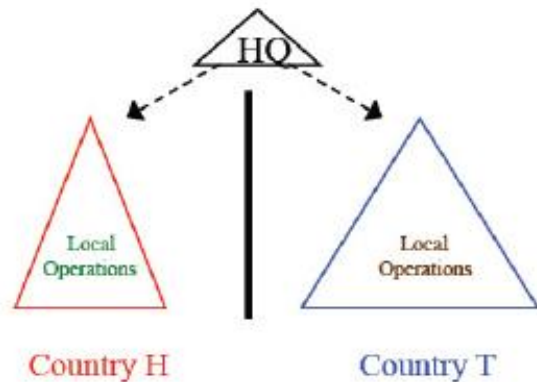
However, there are risks to regional integration that need to be identified and managed.

- Countries may have different preferences or priorities for regional integration, depending on their connectivity gaps, economic geography, or preferences for sovereignty in specific areas.
- Regional integration's impact on trade and investment flows, allocation of economic activity, growth, income distribution are often difficult to assess.
- Lack of adequate complementary policies and institutions may lead to inefficient outcomes. For instance, policy barriers at the border may offset the gains from transport infrastructure cooperation.
- Regional integration creates winners and losers, notably within countries. Policies and institutions are needed to ensure that regionalism is inclusive and social, environmental, governance risks are managed.

Global Integration in the Multinational Companies

The recent history of a major organizational change

“Local Autonomy”



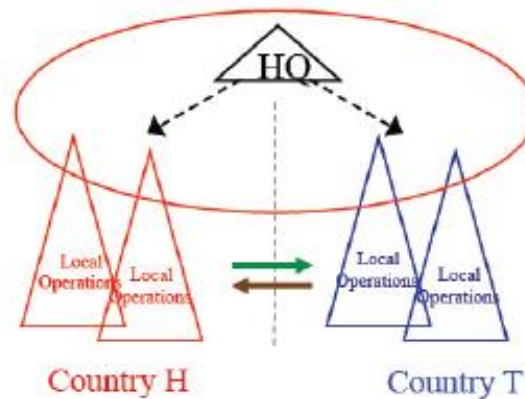
Acting as a “set”

(Value Logic: Portfolio, integrating output)

< 1980s

- GM
- Shell
- IBM

“Global Integration”



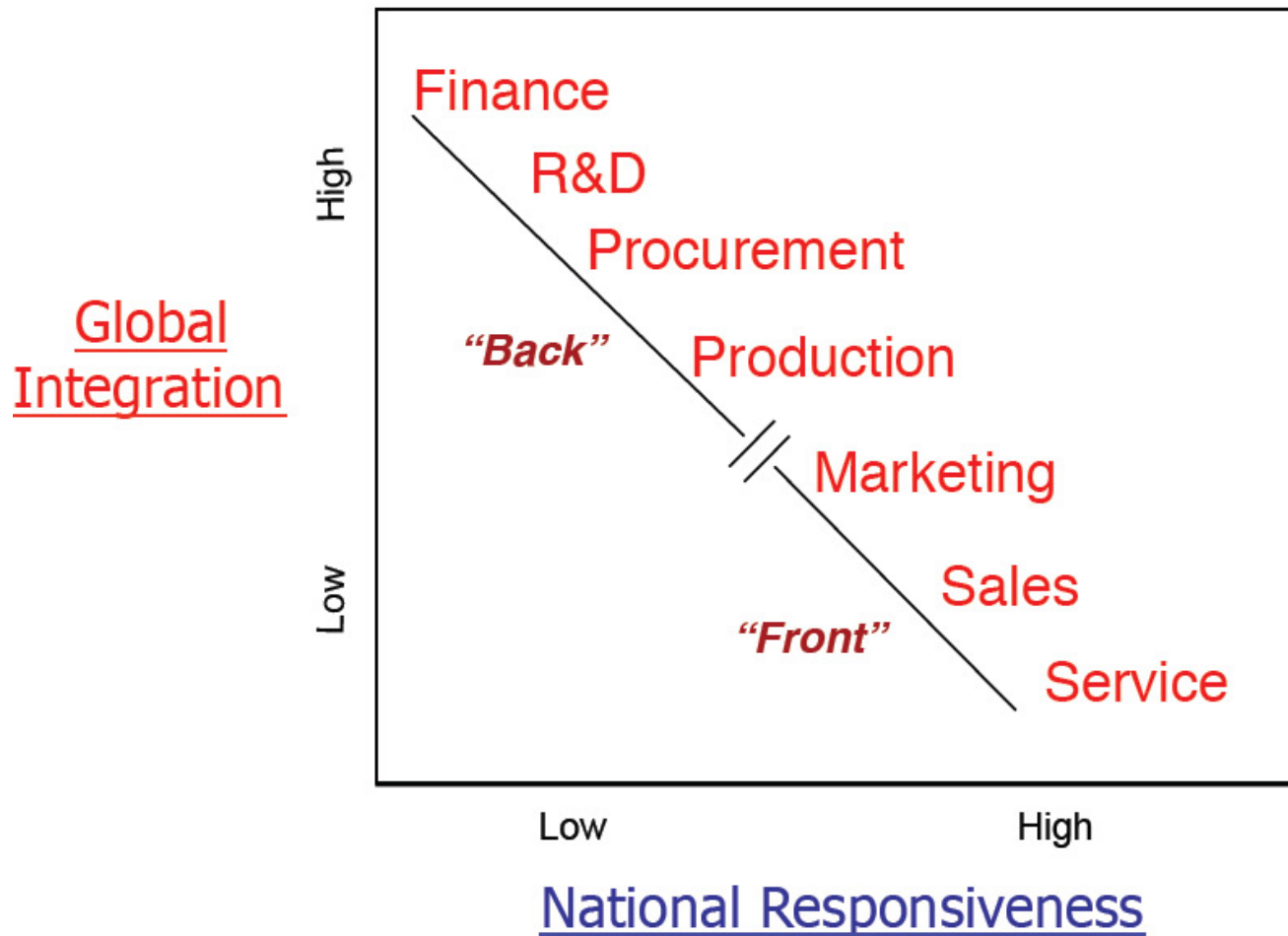
Acting as “one”

(Value Logic: Collaboration, integrating work)

> 1980s

- Toyota
- Exxon
- IBM

Selective Integration: Different functions call for different strategies and different organizations





How do we design, coordinate, and control what we do in our units around the world to realize a superior global performance?

Thank you
for your attention