Regional blocks in international trade: SAARC, OPEC, EU

A **regional trading** block is a group of countries within a geographical **region** that protect themselves from imports from non-members. In general terms, regional trade blocks are associations of nations at a governmental level to promote trade within the block and defend its members against global competition. Defence against global competition is obtained through established tariffs on goods produced by member states, import quotas, government subsidies, onerous bureaucratic import processes, and technical and other non-tariff barriers. Since trade is not an isolated activity, member states within regional blocks also cooperate in economic, political, security, climatic, and other issues affecting the region.
In terms of their size and trade value, there are four major trade blocks and a larger number of blocks of regional importance. Trading blocs are a special type of economic integration. There are **four** types of trading blocs −

- **Preferential Trade Area** − Preferential Trade Areas (PTAs), the first step towards making a full-fledged RTB, exist when countries of a particular geographical region agree to decrease or eliminate tariffs on selected goods and services imported from other members of the area.
- **Free Trade Area** − Free Trade Areas (FTAs) are like PTAs but in FTAs, the participating countries agree to remove or reduce barriers to trade on all goods coming from the participating members.
- **Customs Union** − A customs union has no tariff barriers between members, plus they agree to a common (unified) external tariff against non-members. Effectively, the members are allowed to negotiate as a single bloc with third parties, including other trading blocs, or with the WTO.
- **Common Market** − A 'common market' is an exclusive economic integration. The member countries trade freely all types of economic resources – not just tangible goods. All barriers to trade in goods, services, capital, and labor are removed in common markets. In addition to tariffs, non-tariff barriers are also diminished or removed in common markets.

Objectives of Trade Blocs

→ Reduction of trade barriers among the member countries

→ Maintaining better relations

→ Imposing barriers on non member countries

→ Promoting free transfer of labour, capital and other factors

→ Creating common currency and Central Bank

→ Collective Bargaining

→ Assisting member countries

→ Enhancing welfare of consumers

→ Generating competition

→ Promoting Higher Employment

Regional Trading Blocs – Advantages

The advantages of having a Regional Trading Bloc are as follows −

- **Foreign Direct Investment** − Foreign direct investment (FDI) surges in TRBs and it benefits the economies of participating nations.
- **Economies of Scale** − The larger markets created results in lower costs due to mass manufacturing of products locally. These markets form economies of scale.
- **Competition** − Trade blocs bring manufacturers from various economies, resulting in greater competition. The competition promotes efficiency within firms.
- **Trade Effects** − As tariffs are removed, the cost of imports goes down. Demand changes and consumers become the king.
- **Market Efficiency** − The increased consumption, the changes in demand, and a greater amount of products result in an efficient market.

Regional Trading Blocs – Disadvantages

The disadvantages of having a Regional Trading Bloc are as follows −

- **Regionalism** − Trading blocs have bias in favor of their member countries. These economies establish tariffs and quotas that protect intra-regional trade from outside forces. Rather than following the World Trade Organization, regional trade bloc countries participate in regionalism.
- **Loss of Sovereignty** − A trading bloc, particularly when it becomes a political union, leads to partial loss of sovereignty of the member nations.
- **Concessions** − The RTB countries want to let non-member firms gain domestic market access only after levying taxes. Countries that join a trading bloc needs to make some concessions.
- **Interdependence** − The countries of a bloc become interdependent on each other. A natural disaster, conflict, or revolution in one country may have adverse effect on the economies of all participants.

The South Asian Association for Regional Cooperation (SAARC):

Name: South Asian Association for Regional Cooperation
Acronym: SAARC

Year of foundation: 1985

Headquarters: Kathmandu, Nepal

The South Asian Association for Regional Co-operation (SAARC) is an organisation of South Asian nations, which was established on 8 December 1985 when the government of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka formally adopted its charter providing for the promotion of economic and social progress, cultural development within the South Asia region and also for friendship and co operation with other developing countries. The Secretariat of the Association was set up in Kathmandu on 17 January 1987.

It is dedicated to economic, technological, social and cultural development emphasising collective self- reliance. In terms of population, its sphere of influence is the largest of any regional organisation. In April 2007, Afghanistan became its eighth member.

OBJECTIVES:

The objectives of the Association as outlined in the SAARC Charter are:

1) to promote the welfare of the peoples of South Asia and to improve their quality of life;
2) to accelerate economic growth, social progress and cultural development in the region and to provide all individuals the opportunity to live in dignity and to realize their full potentials;
3) to promote and strengthen collective self-reliance among the countries of South Asia;
4) to contribute to mutual trust, understanding and appreciation of one another's problems;
5) to promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields;
6) to strengthen cooperation with other developing countries;
7) to strengthen cooperation among themselves in international forums on matters of common interests; and
8) to cooperate with international and regional organizations with similar aims and purposes.

Decisions at all levels are to be taken on the basis of unanimity; and bilateral and controversial issues are excluded from the deliberations of the Association.

Principles of SAARC

The principles are as follows:

- Respect for sovereignty, territorial integrity, political equality and independence of all members states.
- Non-interference in the internal matters is one of its objectives.
- Cooperation for mutual benefit.
- All decisions to be taken unanimously and need a quorum of all eight members.
- All bilateral issues to be kept aside and only multilateral issues to be discussed without being prejudiced by bilateral issues.

The SAARC Secretariat:

The SAARC Secretariat is based in Katmandu. It coordinates and monitors implementation of activities, prepares for and services meetings, and serves as a channel of communication between the Association and its Member States as well as other regional organizations. The Secretariat is headed by the Secretary General, who is appointed from Member States in alphabetical order for a three-year term by the SAARC Council of Ministers. The Secretary General is assisted by eight Directors on deputation from Member States. The SAARC Secretariat and Member States observe 8 December as the SAARC Charter Day.

The Organization of the Petroleum Exporting Countries (OPEC):

Brief history and members:

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).

Ecuador suspended its membership in December 1992, rejoined OPEC in October 2007, but decided to withdraw its membership of OPEC effective 1 January 2020. Indonesia suspended its membership in January 2009, reactivated it again in January 2016, but decided to suspend its membership once more at the 171st Meeting of the OPEC Conference on 30 November 2016. Gabon terminated its membership in January 1995. However, it rejoined the Organization in July 2016. Qatar terminated its membership on 1 January 2019.

This means that, currently, the Organization has a total of 13 Member Countries.

The OPEC Statute distinguishes between the Founder Members and Full Members – those countries whose applications for membership have been accepted by the Conference.

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

OPEC Country	Joined	Located	Oil Produced (mbpd) 2017	Comments
Algeria	1969	Africa	1.06	
Angola	2007	Africa	1.63	
Ecuador	1973	Central America	0.53	Left in 1992. Rejoined in 2009.
Equatorial Guinea	2017	Africa	0.13	
Gabon	1975	Africa	0.21	Left in 1995. Rejoined in 2016.
Iran	1960	Middle East	3.87	Rose due to nuclear treaty.
Iraq	1960	Middle East	4.47	Increased output to fund Iraq War.
Kuwait	1960	Middle East	2.70	
Libya	1962	Middle East	0.82	Returned to 2013 levels.
Nigeria	1971	Africa	1.54	
Saudi Arabia	1960	Middle East	9.96	Produces 30% of total.
U.A.E.	1967	Middle East	2.97	
Venezuela	1960	Central America	2.03	Funds the failing government.
TOTAL OPEC			32.51	Less than the record 33.44 in 2016.

Goals of OPEC:

1) OPEC's first goal is to keep prices stable. It wants to make sure its members get a reasonable price for their oil. Since oil is a somewhat uniform commodity, most consumers base their buying decisions on nothing other than price. What's the right price? OPEC has traditionally said it was between $70 and $80 per barrel. At those prices, OPEC countries have enough oil to last 113 years. If prices drop below that target, OPEC members agree to restrict supply to push prices higher.

But Iran wants a lower target for prices of $60 a barrel. It believes a lower price will drive out U.S. shale oil producers who need a higher margin. Iran's break-even price is just over $50 a barrel. Saudi Arabia needs $70 a barrel to break even. That price includes exploration and administrative costs.

Saudi Arabia's flagship oil company, Aramco, can pump the oil at $2 to $20 a barrel. Saudi Arabia has cash reserves to allow it to operate at lower prices. But it is a hardship the country prefers to avoid. Like other OPEC members, it relies on petrodollars for government revenues.

Without OPEC, individual oil-exporting countries would pump as much as possible to maximize national revenue. By competing with each other, they would drive prices even lower. That would stimulate even more global demand. OPEC countries would run out of their most precious resource that much faster. Instead, OPEC members agree to produce only enough to keep the price high for all members. to explore its shale oil fields. U.S. companies used fracking to open up the Bakken oil fields for production. As a result, non-OPEC supply increased.

2) OPEC's second goal is to reduce oil price volatility. For maximum efficiency, oil extraction must run 24 hours a day, seven days a week. Closing facilities could physically damage oil installations and even the fields themselves. Ocean drilling is difficult and expensive to shut down. It is then in OPEC's best interests to keep world prices stable. A slight modification in production is often enough to restore price stability.

For example, in June 2008, oil prices hit an all-time high of $143 per barrel. OPEC responded by agreeing to produce a little more oil. This move brought prices down. But the global financial crisis sent oil prices plummeting to $33.73 per barrel in December. OPEC responded by reducing the supply. Its move helped prices to again stabilize.

3) OPEC's third goal is to adjust the world's oil supply in response to shortages. For example, it replaced the oil lost during the Gulf Crisis in 1990. Several million barrels of oil per day were cut off when Saddam Hussein's armies destroyed refineries in Kuwait. OPEC also increased production in 2011 during the crisis in Libya.

In 2018, it exported 25 million barrels of crude oil a day. That's 54% of the total world exports of 46 mbd. OPEC members hold 82% of the world's proven oil reserves. OPEC's decisions have a significant impact on future oil prices.

The Oil and Energy Ministers from the OPEC members meet at least twice a year to coordinate their oil production policies. Each member country abides by an honor system in which everyone agrees to produce a certain amount. If a nation winds up producing more, there is no sanction or penalty. Each country is responsible for reporting its own production. In this scenario, there is room for "cheating." A country won't go too far over its quota though unless it wants to risk being kicked out of OPEC.

Despite its power, OPEC cannot completely control the price of oil. In some countries, additional taxes are imposed on gasoline and other oil-based end products to promote conservation. Oil prices are also set by the oil futures market. Much of the oil price is determined by commodities traders. That's the underlying reason why oil prices are so high.

Recent Decisions:

On December 7, 2018, OPEC agreed to cut 1.2 million barrels per day. Members would cut 800,000 bpd. Allies would cut 400,000 bpd. Its goal is to return prices to $70 a barrel by early fall 2019. In November, average global oil prices had dropped to $65 bpd. Commodities traders had bid prices down. They believed higher U.S. supplies would flood the market with supply at the same time slowing global growth would cut into demand.

On November 30, 2017, OPEC agreed to continue withholding 2% of global oil supply. That continued the policy OPEC formed on November 30, 2016, when it agreed to cut production by 1.2 million barrels. As of January 2017, it would produce 32.5 mbd. That's still above its average 2015 level of 32.32 mbpd. The agreement exempted Nigeria and Libya. It gave Iraq its first quotas since the 1990s. Russia, not an OPEC member, voluntarily agreed to cut production.

The cut came a year after OPEC had raised its production quota to 31.5 mbpd on December 4, 2015. OPEC was struggling to maintain market share. Its share fell from 44.5% in 2012 to 41.8% in 2014. Its share fell because of a 16% increase in U.S. shale oil production. As the oil supply rose, prices fell from $108.54 in April 2012 to $34.72 in December 2015. That was one of the biggest drops in oil price history.

OPEC waited to cut oil production because it didn't want to see its market share drop further. It produces oil more cheaply than its U.S. competition. The cartel toughed it out until many of the shale companies went bankrupt. That created a boom and bust in shale oil.

The European Union (EU):

The European Union is a unified trade and monetary body of 27 member countries. It eliminates all border controls between members. The open border allows the free flow of goods and people, except for random spot checks for crime and drugs. Any product manufactured in one EU country can be sold to any other member without tariffs or duties. Practitioners of most services, such as law, medicine, tourism, banking, and insurance, can operate in all member countries. As a result, the cost of airfares, the internet, and phone calls are typically lower than in the United States.

Member countries:

As of 2018, the European Union has 28 members - all European countries. The countries comprising the European Union are Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, and the United Kingdom.

However, in 2019, Britain is set to leave the European Union, bringing the total down to 27 countries.

The Schengen Area:

To ensure free passage between countries, the Schengen Area was established for residents of certain countries - including some non-EU countries. Some countries in the Schengen Area are Austria, Belgium, Estonia, Finland, France, Germany, Greece, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Portugal, Slovakia, Slovenia, Spain, Czech Republic, Denmark, Hungary, Poland, and Sweden, as well as non-EU countries Iceland, Liechtenstein, Norway and Switzerland. In addition, Bulgaria, Croatia and Romania are pending approval to enter the Schengen Area as well.

For residents in these countries, passage to and from other Schengen Area countries is much easier - not requiring visas or showing passports.

Objectives:

The European Union's main objective is to promote peace, follow the EU's values and improve the wellbeing of nations. The European Parliament and other institutions see to it that these objectives are achieved.

The main objectives are:

A common European area without borders:

The objective is to create a free and safe Europe with no internal borders. The citizens living in the area enjoy the rights granted by the European Union.

Internal market:

The objective is to ensure smooth and efficient trade within Europe. Competition between companies is free and fair.

Stable and sustainable development:

The objective is to ensure Europe's sustainable and steady development. It means balanced economic growth and stable prices. The European Union seeks to create a competitive market economy which takes into account people's wellbeing and social needs. An important issue is environmental protection. Efforts are made to protect the environment and repair any damage made.

Scientific and technological development:

The European Union supports the advancement of science and technology and invests in education. Another objective is to achieve a skilled workforce and a high standard of technological production.

Prevention of social exclusion:

The European Union works hard to prevent social exclusion. It seeks to prevent people from drifting outside the labour market and society. Efforts are made to eliminate poverty. The Union works for equality. Minority rights are protected. Social security is improved. Men and women must be treated equally. Children's rights must be protected and children given a happy childhood. Old people must be looked after and respected.

Solidarity (unity):

Solidarity between countries and people is promoted in the field of the economy, social equality and regions. The member states must be loyal to one another. It means that states must take responsibility for and be understanding of one another.

Respect for languages and cultures:

The European Union respects the languages and cultures of the individual countries. National cultures and the common European culture are cherished and developed.

Common foreign and security policy:

The European Union seeks to promote peace not only in Europe but also elsewhere in the world. It seeks to ensure that peace is maintained in Europe and that people have security. With the common foreign policy, the European Union wants to make sure that the resources of the planet are used sensibly and that the environment is not destroyed. The European Union also wishes to respect other countries and nations. It works for free and fair trade and tries to eliminate poverty. Human rights are important all over the world. The European Union follows the Charter of the United Nations and underlines the importance of common international rules.

History:

In 1950, the concept of a European trade area was first established. The European Coal and Steel Community had six founding members: Belgium, France, Germany, Italy, Luxembourg, and the Netherlands.

In 1957, the Treaty of Rome established a common market. It eliminated customs duties in 1968. It put in place standard policies, particularly in trade and agriculture. In 1973, the ECSC added Denmark, Ireland, and the United Kingdom. It created its first Parliament in 1979. Greece joined in 1981, followed by Spain and Portugal in 1986.

In 1993, the Treaty of Maastricht established the European Union common market. Two years later, the EU added Austria, Sweden, and Finland. In 2004, twelve more countries joined: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. Bulgaria and Romania joined in 2007.

In 2009, the Treaty of Lisbon increased the powers of the European Parliament. It gave the EU the legal authority to negotiate and sign international treaties. It increased EU powers, border control, immigration, judicial cooperation in civil and criminal matters, and police cooperation. It abandoned the idea of a European Constitution. European law is still established by international treaties.

How Is the European Union Governed?

As mentioned earlier, the European Union is governed by three main bodies – (i) the EU Council, (ii) the EU Parliament and (iii) the EU Commission.

The Council's main job is to create and propose new policies and legislation for the European Union; it operates under a different EU president every six months.

The Parliament then debates and passes the laws proposed by the Council, electing members once every five years.

Finally, the Commission enforces and operates the laws for the European Union - the current president of which is Jean-Claude Juncker (until 2019).

Additionally, the European Central Bank services the EU's financial needs and manages things like inflation rates and foreign exchange reserves.

What Currency Does the European Union Use?

Unsurprisingly, the European Union primarily uses the euro as currency, which is reportedly the second most-used currency in the world, under the U.S. dollar. Once established, the euro has replaced many of Europe's leading currencies, including French and Italian currencies like the franc and lira, to name a few. In fact, according to the EU's website, more than 340 million EU citizens in 19 countries use the euro as their currency.

However, not all countries have adopted the euro - with Britain famously holding onto the pound. The euro, despite being so commonly held, has a fluctuating value - which exchange traders daily determine in comparison to the U.S. dollar as a standard.

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