

# ECN330 – OUTLINE OF LECTURE SESSIONS FOR MODULE 1

## Sessions 1-2. Convergence under Economic Integration and Trade Liberalization

### 1. Globalization, integration and liberalization

- 1.1 Globalization
- 1.2 Economic integration
- 1.3 Trade liberalization
- 1.4 Drivers of the process

### 2. Theoretical expectations of integration

- 2.1 Convergence criteria
  - 2.1.1 Economic convergence: prices of goods/services (goods and factors)
  - 2.1.2 Political convergence: policies, programs, regulations and political institutions
  - 2.1.3 Legal (implementation, enforcement and interpretation)
- 2.2 Trilemma over economic integration, democratic principles and national sovereignty
- 2.3 Theoretical construct

International trade or factor movements	Basic assumptions					
	Competitive markets	Identical goods, services or factors	No government policy or regulations		No transactions costs	No tech constraints
			Trade policy	Domestic regulations		
Goods						
Services						
Capital						
Labor						

- 2.4 State of global integration
  - 2.4.1 Brief historical account of integration
  - 2.4.2 Evidence to support a trend toward further integration
  - 2.4.3 Evidence of obstacles to further integration

### 3. Stages of Liberalization and Integration

- 3.1 Theoretical case for a multilateral system of trade
  - 3.1.1 Unilateral liberalization: economic and political considerations; legal convergence
  - 3.1.2 Bilateral liberalization: economic and political considerations; legal convergence
  - 3.1.3 Multilateral liberalization: economic and political considerations; legal convergence
- 3.2 Stages of integration
  - 3.2.1 Free trade area (FTA)
  - 3.2.2 Customs union (CU)
  - 3.2.3 Common market
  - 3.2.4 Economic union
- 3.3 WTO definition of FTAs and CUs (GATT Article XXIV) – limitation of the theory
- 3.4 Debate on advantages and disadvantages of multilateralism vs regionalism (regional blocs)
  - 3.4.1 Static gains (short-term effects of trade)
  - 3.4.2 Promotion of liberalization and facilitation of trade talks
  - 3.4.3 Dynamic gains (long-term effects of liberalization/integration)
- 3.5 Trends in regional and preferential trade arrangements

### 4. Economic integration: Creating the EU

- 4.1 Background: GATT, Marshall Plan and Treaty of Paris, 1951
- 4.2 Phases of integration: process of deepening, widening and enlargement
  - 4.2.1 Phase 1: 1957 Treaty of Rome (institution building)
  - 4.2.2 Phase 2: 1980s - EC political-economic environment
  - 4.2.3 Phase 3: 1990s - Treaties of Maastricht, Amsterdam

Phases of integration: treaties bringing the EU closer			
Founding treaties	Date in force	Signatories	Main points: deepening + widening
Treaty of Paris	1952	EC-6: Belgium, France, Germany, Netherlands, Italy, and Luxembourg	Limited pooling
Treaty of Rome	1958		Common market
European Atomic Energy	1958		Common sectoral policy
Enlargements: 1973, 1981 and 1986		UK, DK, Ire; GR; SP, POR	
Single European Act	1987	EC-12	Lift last barriers
Maastricht Treaty	1992		Economic union + euro
Enlargement	1995	AU, SW, FIN	
Treaty of Amsterdam	1999	EC-15	Free movement
Treaty of Nice	2003		Voting rules
Enlargements: 2004; 2007; 2011		EU-28: 10 Central and E. European countries; Bulgaria and Romania; Croatia	
Brexit	2021	UK leaves EU and common market	

#### 4.3 EC's initial approach to product market integration

4.3.1 Guiding principles: create customs union and pursue market integration

4.3.2 Mechanisms: liberalization, free movement of goods, and approximation

4.3.3 Successes and shortcomings: liberalization, approximation, and GATT compliance

#### 4.4 Economic freedoms of the EU rights to move across borders

4.4.1 Movement/trade of goods

4.4.2 Labor movement

4.4.3 Capital movement

4.4.4 Trade in services

#### 4.5 Final comments on the EU: harmonization and approximation (acquis Communautaire)

### 5. Trade Liberalization under the Multilateral Trading System

#### 5.1 Multilateral liberalization: from GATT to the WTO

5.1.1 What was the GATT?: Accomplishments, limitations and trade rounds

5.1.2 What is the WTO?

5.1.3 How does the WTO address trade in goods/services and factor mobility?

#### 5.2 Basic structure of the WTO

Structure of the World Trade Organization				
Rules for trade	Goods	Services	Intellectual Property	Trade disputes
Basic principles	GATT	GATS	TRIPS	DSM
Additional details	Agreements and annexes			
	Agriculture, investment, SPS and TBT, etc.	Air / road transport, telecommunications, financial services, etc.		
Country-specific commitments	Schedules of commitments			
	Listing of tariffs, quotas and other trade policies	Listing of regulations limiting market access and national treatment		

Source: WTO

## Review Questions: Module 1

**Sections 1-2.** What does globalization imply for economic integration and trade liberalization? What does integration imply for convergence in an economic, political and legal sense? What do the basic assumptions of the standard trade models imply for goods and services markets and factor markets? How does ignoring policy, technical constraints and transactions costs matter for the general lessons from the economics of trade? What is the state of global integration in product markets, services markets and factor markets? Is what is happening in reality on international markets supported/not supported by what the theory predicts?

**Section 3.** What are the economic implications of unilateral, bilateral and multilateral trade liberalization and what are the political drivers that prevent advancements in trade liberalization?

How do the four stages of economic integration differ (i.e., FTA, CU, common market and economic union)? Why are rules of origin a problem for trade liberalization? Why does the WTO not have a formal definition of a common market or an economic union? What are the advantages/disadvantages associated with regional blocs or multilateral agreements in the context of trade (e.g., for the static gains, promoting trade and for the longer-term gains)? How is providing greater market access to developing countries an improvement over providing aid? Are there limitations with providing preferential market access?

**Section 4.** What was the EC's approach to market integration? How is the objective of product market integration different from the creation of a customs union? What was the role of the three mechanisms by which Europe created its union (e.g., liberalization, free movement of goods, and approximation)? What does each of these concepts mean in the EU context? How is approximation different from harmonization? How was liberalization inconsistent with approximation? What were the successes and failures of EU liberalization and approximation? How does the EU process address trade in goods/services and labor and capital movement within the union? Is there an inconsistency with limited free movement of services for an economic union? Is there an inconsistency with non-uniform taxation (fiscal policy) regimes under an economic union? How do the four freedoms under the EU conform with economic expectations of convergence?

**Section 5.** What was the GATT and what was the significance of the Uruguay Round of GATT? What is the WTO and what are the objectives of the organization and its functions? How does a multilateral system differ, in terms of its economic objectives, from regionalism, e.g., the processes under the EU? How does the WTO address trade in goods/services and labor and capital mobility among members states?