

## Advantages + Disadvantages of Trading Blocs: trade creation + trade diversion

### Option 1: advantage for domestic nation

#### Trade creation policies

The removal of trade barriers and other trade barriers on German exports of a country ( e.g. no tariffs EU) may lead to greater specialization according to the principle of comparative advantage so without tariffs on its exports then a country can expect to sell more exports and the economy will grow:  $C + I + G + (X - M)$

e.g. German car industry expanded by buying Skoda and Seat and other major car brands.

### Option 2: disadvantage for domestic nation

#### Trade diversion policies

This is where consumption shifts from lower cost producers outside the EU to higher cost producers inside the EU. With the introduction of a tariff (all EU members will apply same tariff) on non-EU members a firm may find it how has to trade within the EU, buying goods which are more expensive than the products it used to buy from outside the EU before a tariff was placed on them.