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**French Equivalent:** Union douanières

**Definition:**

Customs unions are arrangements among countries in which the parties do two things: (1) agree to allow free trade on products within the customs union, and (2) agree to a common external tariff (CET) with respect to imports from the rest of the world. Customs unions and preferential trade arrangements more generally have become increasingly important in recent years.

**Context:**

The most famous example of a customs union is the European Union (EU). Trade among the member states of the EU flows tariff free, and regardless of which country in the EU imports a product, the same tariff is paid. The CET is what distinguishes a customs union from a free trade area. In a free trade area, trade among the member states flows tariff free, but the member states maintain their own distinct external tariff with respect to imports from the rest of the world. The North American Free Trade Agreement is the best known example of a free trade agreement. Canada, the United States, and Mexico do not share a common external tariff, despite allowing free trade on products traded among the three countries.

**Source Publication:**

World Economy Encyclopedia, 2011, Customs unions. Website. Available at: see website.

**Cross References:**

- [Common market](#)
- [Economic union](#)
- [Free trade area](#)
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**Hyperlink:**

<http://world-economics.org/78-customs-unions.html>

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