DOWNLOAD PDF ECONOMIC INTEGRATION OF DEVELOPING COUNTRIES

Chapter 1 : Economic Integration Theories and the Developing Countries - Munich Personal RePEc Archiv

3 Integration determinants in developing countries In most cases, theories of economic integration and its benefits - of dynamic ones, but even more of static ones, are not fully applicable to integration agreements among developing and least developed countries.

Regions have found it difficult to address the equitable distribution of gains and losses from integration. Mechanisms to provide compensation to the less developed members of groupings have been either absent or ineffective. The dependence of many African countries on their former colonial powers tended to work against viable regional groupings. Regionalism has been driven from above by public sector organizations and has lacked the support and involvement of the private sector and the general public. Cooperation has been seen as involving bloated and expensive bureaucracies, rather than opportunities for growth and development. Institutional weaknesses, including the existence of too many regional organizations, a tendency towards top-heavy structures with too many political appointments, failures by governments to meet their financial obligations to regional organizations, poor preparation before meetings, and lack of follow up by sectoral ministries on decisions taken at regional meetings by Heads of State. Integration is hampered by the existence of weak states and political opposition to sharing sovereignty. Integration arrangements are not characterized by strong supranational bodies and virtually all integration institutions are intergovernmental. Given the ongoing economic reform programs in these countries, the underlying premise is that regional integration can accelerate the pace of economic growth by fostering efficient cross-border investment and trade flows. Assessments by the co-sponsors suggested that good if variable progress has been achieved by the Initiative and that the model represents an effective example of regional partnership Fajgenbaum et al, Trade relations, which are now based on non-reciprocal trade preferences granted by the EU, will in future be based on economic integration agreements. Formal negotiations of EPAs started in September in a two-phase process. The first phase of the negotiations takes place between the EU and the ACP group as a whole with the aim of defining the format, structure and principles for the negotiations, to be followed by the negotiation of individual EPAs. It is envisaged that EPAs will enter into force by 1 January at the latest. Decisions about the geographical configuration of future EPAs are still outstanding. Under the Cotonou Agreement, this decision lies with the ACP countries, but the EU has added the rider that it is up to the Community to ensure that this decision is in line with the objectives and principles of the Agreement. Criteria for ACP regions The criteria for eligible regions are clear enough; the difficulty lies in implementing them in the specific context of the existing structure of African regional groupings. It highlights the importance of structural funds financed by customs and taxation revenues to assist weaker partners in the integration scheme to ensure an equitable distribution of the gains of regional integration. Finally, it recommends that integration should take account of existing infrastructures, trading and production links. This requirement runs up against the overlapping membership and fragmented nature of African regional organizations. There are a number of permutations. The simplest is where one grouping is a sub-group of another, possibly embarked on pursuing deeper integration as an example of variable geometry. An example typical in West and Southern Africa is where there is a wide free trade area arrangement, within which a sub-group has established a customs union or an even more deeply integrated group. Here the options are for the negotiations to proceed with either one group or the other as it would be impossible to have two negotiations in parallel, one with respect to the free trade area and one with the customs union. The difficulty is that if negotiations proceed with the customs union sub-group, it is hard to see how this could avoid fragmenting the larger grouping unless it decides to accelerate its own integration ambitions. More tricky situations arise with groupings that have members in common. In this situation, overlapping membership would lead to the negotiation of two or more EPAs with the same countries, which is not conceivable. As overlapping memberships mainly affect the broad, free trade groupings, this could effectively end up forcing even larger integration arrangements than currently exist.

Another difficult situation is where groupings have non-ACP States as members. The Commission points out that while, legally, arrangements could be put in place to allow free circulation of goods within the free trade area while confining the benefits of the EPA to the ACP members of the group, in practice this situation would not be tenable in the longer term because of the possibility of trade deflection. Given that the EU will have entered into separate FTAs with many of these non-ACP African states, it suggests that a logical step would be to extend the geographical coverage of EPAs by merging the existing agreements. While this might imply that only the former are required to provide some measure of reciprocity under the new regime, in practice it is hard to see how LDCs which are members of regional groupings with non-LDC ACP States can retain external protection against EU imports. It goes on to suggest that the appropriate response for LDCs in a regional grouping is to adopt a variable speed approach under which they would be offered a delayed start or a slower pace of tariff dismantlement. In practice, such an arrangement would give rise to the potential for goods with reduced or zero tariffs to be imported from the EU by the more advanced ACP members and re-exported under the FTA to LDC members which have the right to protect themselves by higher tariffs. While the problem can be avoided in principle by proper documentation of rules of origin, the difficulties of policing these may in practice undermine the tariff policies of the least developed countries. As the LDCs also lose out because of the potential for trade diversion under EPAs as EU exporters now gain better access to the markets of ACP countries at their expense, there is a strong case for compensation measures in their favor. These include whether trade diversion will dominate trade creation, the loss of fiscal revenues from the abolition of customs duties, the limited capacity in most ACP countries to conduct parallel sets of trade negotiations, and how to provide for sufficient scope for flexibility, special and differential treatment and asymmetry while ensuring that the agreements reached remain WTO-compatible. The future of regional integration in Africa Despite competing visions of regional integration We have seen how a new momentum is building up behind regionalism in Africa, but that there are competing visions for the objectives and design of regional integration arrangements. On the other hand, there are the erstwhile sceptics among the donors who have been converted to supporting regionalism of a certain type, one which is outward-looking, which is focused on trade facilitation, which has strong private sector involvement and which has light institutional structures. Finally, there is the traditional model of top-down African regionalism, espoused by the OAU and endorsed by African Heads of State, which has a strong rhetorical basis and a largely political significance. This has implications for those interested in promoting a food security dimension to these agreements as outlined more fully in Chapter 5. For example, food security is explicitly addressed in the Cotonou Agreement in the provision which reads: The new regionalism must address the following issues which have been partly responsible for the poor record of the past: Overlapping memberships of competing groups should be resolved to allow a clear political commitment to particular country groupings. For a common market to function its members at least need to be at peace. The wars and conflicts in a number of African regions which have devastated transport networks, communications and other basic infrastructure need to be peacefully resolved. Ways must be found to involve the private sector in the integration process. It should not be expected that all private sector groups will favor regional integration. In some countries, farmers may fear low-cost competition from elsewhere in the region and may take quite a protectionist stance. The participation of consumer groups and other NGOs should be encouraged as these groups can also gain from exploiting the opportunities for greater intra-regional trade. Given the disparities in economic weight that exist between members of some groupings, new policy instruments to deal with the fears of economic polarization must be found, for example, multispeed arrangements allowing weaker members more time to liberalize , compensation schemes, regional investment banks, or structural solidarity funds such as the Food Security Financial Instrument proposed in Chapter 5. Dispute settlement mechanisms need to be strengthened and ways to ensure policy credibility must be put in place. Investors need to have confidence that integration measures will not be reversed and that barriers to regional markets will not be re-instituted overnight. Binding liberalization commitments in the WTO should be encouraged where possible, while the opportunity of the REPA negotiations with the EU should also be used to bind and enforce policy commitments. As the value of the EBA initiative was in the extension of duty-free access to agricultural products with transition periods for rice, sugar and bananas , these countries may now be in a position to export duty-free to the EU by transshipment through the LDC members of their EPA. Again, the quality of enforcement of rules of origin will be the decisive issue.

Chapter 2 : CHAPTER REGIONAL INTEGRATION IN AFRICA

Economic integration theory goes through two development stages each of which addresses the relevant for its time political and economic context The first stage is regarded as classic theory or static analysis and includes the traditional theories of economic integration that explain the possible benefits of integration.

The relevance of traditional integration theory to less developed countries. Journal of Common Market Studies 9 3: Centro De Estudios Monetario Latinoamericanos. Journal of Common Market Studies, pp. Simulation analysis of the single market programme. The American Journal of International Law 45 1: The Journal of Political Economy 73 5: The Journal of Political Economy 80 3: Journal of Common Market Studies 14 1: Essays on development and Latin America. New Haven and London. A Survey of the Economic and Political Literature. The Journal of Political Economy 72 2: The traditional and the new. Chapter 2 in Regional Partners in Global Markets: The Economic Journal 70 Longi, S and P. Regionalization, Growth and Economic Integration. The Economic Journal 63 Social and Economic Studies March Lessons for the Central American common market. Journal of Common Market Studies 7 4: The Journal of Political Economy 59 1: The World Bank Economic Review 12 2: Some lessons based on case studies. Hamburg Institute of International Economics. Law and Contemporary Problems 44 3: Carnegie Endowment for International Peace. All papers reproduced by permission. Reproduction and distribution subject to the approval of the copyright owners.

Chapter 3 : The World Factbook

Regional integration is often viewed as a way to support development and economic growth in developing countries through the related with it benefits to trade and welfare.

Net Capital Flows Introduction Global economic integration is not a new phenomenon. Some communication and trade took place between distant civilizations even in ancient times. Since the travels of Marco Polo seven centuries ago, global economic integrationâ€"through trade, factor movements, and communication of economically useful knowledge and technologyâ€"has been on a generally rising trend. This process of globalization in the economic domain has not always proceeded smoothly. Nor has it always benefited all whom it has affected. But, despite occasional interruptions, such as following the collapse of the Roman Empire or during the interwar period in this century, the degree of economic integration among different societies around the world has generally been rising. Indeed, during the past half century, the pace of economic globalization including the reversal of the interwar decline has been particularly rapid. And, with the exception of human migration, global economic integration today is greater than it ever has been and is likely to deepen going forward. First, improvements in the technology of transportation and communication have reduced the costs of transporting goods, services, and factors of production and of communicating economically useful knowledge and technology. Second, the tastes of individuals and societies have generally, but not universally, favored taking advantage of the opportunities provided by declining costs of transportation and communication through increasing economic integration. Third, public policies have significantly influenced the character and pace of economic integration, although not always in the direction of increasing economic integration. These three fundamental factors have influenced the pattern and pace of economic integration in all of its important dimensions. In particular, this paper discusses three important dimensions of economic integration: After examining how fundamental forces have influenced economic integration in these dimensions, the paper concludes with reflections on three issues of general importance to the future course of global economic integration: Before turning to this agenda, however, it is important to emphasize a key theme that will recur in subsequent discussion: Interactions Among the Fundamental Factors Driving Economic Integration Although technology, tastes, and public policy each have important independent influences on the pattern and pace of economic integration in its various dimensions, they clearly interact in important ways. Improvements in the technology of transportation and communication do not occur spontaneously in an economic vacuum. The desire of people to take advantage of what they see as the benefits of closer economic integrationâ€"that is, the taste for the benefits of integrationâ€"is a key reason why it is profitable to make the innovations and investments that bring improvements in the technology of transportation and communication. And, public policy has often played a significant role in fostering innovation and investment in transportation and communication both to pursue the benefits of closer economic integration within as well as across political boundaries and for other reasons, such as national defense. The tastes that people have and develop for the potential benefits of closer economic integration are themselves partly dependent on experience that is made possible by cheaper means of transportation and communication. The broadening desire for these products resulting from limited experience hastened the search for easier and cheaper means of securing them. As a by-product of these efforts, America was discovered, and new frontiers of integration were opened up in the economic and other domains. More recently, if less dramatically, it is clear that tastes for products and services produced in far away locations including tastes exercised through travel and tourism , as well as for investment in foreign assets, depend to an important degree on experience. As this experience grows, partly because it becomes cheaper, the tastes for the benefits of economic integration typically tend to rise. For example, it appears that as global investors have gained more experience with equities issued by firms in emerging market countries, they have become more interested in diversifying their portfolios to include some of these assets. Public policy toward economic integration is also, to an important extent, responsive to the tastes that people have regarding various aspects of such integration, as well as to the technologies that make integration possible. On the latter score, it is relevant to note the current issues concerning public policy with respect to commerce conducted over the internet. Before recent advances in computing and communications technology, there was no internet over which commerce could be conducted; and, accordingly, these issues of public policy simply did not arise. Regarding the influence of tastes on public policy, the situation is complicated. Reflecting the general desire to secure the perceived benefits of integration, public policies usually, if not invariably, tend to support closer economic integration within political jurisdictions. The disposition of public policy toward economic integration between different jurisdictions is typically more ambivalent. Better harbors built with public support and better internal means of transportation as well tend to facilitate international tradeâ€”both imports and exports. Import tariffs and quotas, however, are clearly intended to discourage people from exercising their individual tastes for imported products and encourage production of domestic substitutes. Sadly, the mercantilist fallacy that seems to provide common-sense support for these policies often finds political resonance. It should be emphasized that the interactions between public policy and both tastes and technology in their effects on economic integration can be quite complex and sometimes surprising. Two examples help to illustrate this point. First, for several centuries, there has been active trade between Britain and the Bordeaux region of France, with Britain importing large quantities of Bordeaux wine. This trade, however, was seriously interrupted if not completely suppressed during various periods of hostility between the two countries when one side or the other wished to suppress trade with the enemy. Partly as a result of being cut off from Bordeaux wines, and partly as a means of strengthening its alliance with Portugal, Britain sought to develop imports of Portuguese wines. The existing Portuguese wines, however, did not meet British requirements. A solution was found in creating a new productâ€”Portuguese red wine from the Duoro region, fortified with grape brandy that gave the wine an extra alcoholic kick, retained some of the fruit sugar that would otherwise have been absorbed in fermentation, and helped protect the wine during shipment in hot weather. The second example concerns U. For many years, the United States has maintained tight import quotas on sugar to keep the domestic price typically at roughly three times the world market level. The domestic political interests that support this policy include some sugar refiners, some producers of cane sugar in the deep south and Hawaii, and a few thousand sugar beet farmers primarily in the upper midwest. Before that time, sugar was produced from cane grown primarily in the West Indies. In response, Napoleon established a prize for finding a substitute for cane-based sugar which could be produced within his empire. The sugar beet was discovered, and has been with us ever since. This story becomes even more complicated when we consider reactions to the U. Responding to the high domestic price of sugar, users have searched for alternatives. High fructose corn syrup is a cheaper and attractive alternative, especially for producers of soft drinks who are major users of sweeteners. A key by-product of high fructose corn syrup is corn gluten meal which can be used as animal feed and which the U. Thus, through this round-about channel of public policies and product innovations, what was started by Napoleon and Nelson has come back to European shores. Human Migration Evidence from DNA has established that all modern humans are descended from common pre-human ancestors living in Africa roughly one million years ago. From that time until a few centuries ago, the most important mechanism for interaction among and integration of the activities of different human societies was undoubtedly people moving from one place to another, predominantly by foot. In the great span of pre-history up to roughly fifty thousand years ago, humans walked out of Africa and settled across the Eurasian land mass. Throughout most of historical time, extending back roughly five thousand years, human migration has remained the predominant mechanism of interaction and integration of different societies. Use of the horse and other beasts of burden changed somewhat the technology of human movement and had a larger effect on methods of warfare , and boats were used to cross water barriers. However, most people most of the time continued to travel by foot. Although migration was slow by the standards of present speeds of human transport and often posed considerable risks, it proceeded on a vast scale. Indeed, even for many societies that pursued agriculture as well as hunting and gathering migration was a very common phenomenon up until quite recent timesâ€”as is testified to by the waves of migration out of Asia and across Europe extending up to roughly AD. But, the key factor was surely public policy. In some cases a society would see that it was exhausting the productive opportunities in a particular location and decide to move on. Also, if one society thought it had the military might to improve its welfare by taking over the territory and other property of one of its neighbors and perhaps also enslave its citizens, it would launch an attack. Seeing discretion as the better part of valor, the society under attack might decide to move onâ€”and perhaps attack somebody else. For the victor who succeeded in subjugating or driving out a rival society, the result would probably be an improvement in economic welfare. The loser, of course, would lose. The overall result presumably was negative sum. Indeed, in the first work in the entire field now known as social science, Thucydides opens his History on the Peloponnesian War with the following observation: Without commerce, without freedom of communication either by land or sea, cultivating no more of their territory than the necessities of life required, destitute of capital, never planting their land for they could not tell when an invader might not come and take it all away, and when he did come they had no walls to stop him , thinking that the necessities of daily sustenance could be supplied at one place as well as another, they cared little about shifting their habitation, and consequently neither built large cities nor attained to any other form of greatness. Their richest soils were always subject to this change of masters The goodness of the land favored the enrichment of particular individuals, and thus created faction which proved a fertile source of ruin. It also invited invasion. It also reminds us that not all forms of economic interaction among different societies are necessarily beneficial. Globalization by means of the sword, the gun boat, or the slave ship is very different from globalization through voluntary movements of people, goods, services, and physical and financial assets. Turning to human migration in more recent times, it is useful to distinguish between mass migrations which have continued to occur in response to wars and political and social turmoil, and migrations of individuals and families undertaken primarily for economic reasons. Of course, the two categories are not completely distinct; individual and family decisions about migration are often affected by both economic and non-economic factors. Nevertheless, events such as the mass migrations in Europe that occurred during and immediately after World War II clearly reflect different fundamental factors than those that were primarily at work in influencing migration to the United States during the past two centuries. As the noted historian Oscar Handlin observed, America is a nation of immigrants. The greatest surge of immigrants came during the period from the end of the Civil War up to the start of World War I, especially during the first decade of this century; see Charts 1 and 2. Economic considerations, including the cost of transportation mainly explain why immigration was particularly high during this period, with fluctuations in annual immigration flows reflecting with a short lag business cycle conditions in the United States. Even in the early part of the 19th century, the United States was, relatively, a rich country. Average per capita income was roughly comparable to that in England, but the average American worker and his family probably lived better than the average English working family. The gap between America and much of the rest of Europe was substantial. However, travel from Europe to America was neither cheap nor fast nor without risks. A sailing ship could easily take a month to make the voyage. During colonial times, if a poor man wanted to immigrate, he could secure passage by agreeing to become an indentured servant, usually for five to seven years. By the middle of the 19th century, the cost, speed, and safety of human transport across the Atlantic had all progressively improved, especially with the replacement of wooden sailing vessels by iron-made steam ships. These improvements in passenger transportation continued through the 19th and into the 20th century. Indeed, my grandmother Marie Noel earned sufficiently good wages as a skilled seamstress for high fashion houses in New York where speaking French was an important advantage , and was sufficiently suspicious of American doctors, that she sailed back to France in to give birth to her fourth son, before returning to live out the rest of her lifeâ€”generally quite happilyâ€”in America. A couple of them, after experience in the new world, returned permanently to Italy. Beyond these anecdotes, there is evidence of significant back and forth movement of people between Europe and the Americas in the period shortly before World War I. This phenomenon of back-and-forth movement is significant. It suggests that by no later than the early part of this century, the costs and risks of transportation had fallen to the point that in contrast to earlier times they were no longer a substantial factor in economic decisions about migration. Also, this reduction in transportation costs probably interacted with tastes in a way that enhanced the likelihood of migration. Even if, as is often the case, one knows family or friends who have migrated to a new country and culture, there must be uncertainty and concern about adapting to a new environment. If the decision to migrate is seen as practically irreversible, deterrence to migration is relatively high. Undoubtedly, the transportation costs of migration have continued to decline since World War I. Why has the pace of immigration into the United States slowed? For migration from Europe, the answer is partly that income differentials have narrowed and so too have the economic and non-economic incentives for migration.

Chapter 4 : Economic integration among developing countries (English) | The World Bank

Economic integration among developing countries (English) Abstract Issues relating to economic integration in developing nations are addressed, with emphasis on the benefits and costs of regional integration through trade liberalization and on the project approach to integration.

Investopedia hosts articles from other investing and financial information publishers across the industry. While we do not have editorial control over their content, we do vet their articles to make sure they are suitable for our visitors. Pologeorgis Updated March 6, â€” 2: The phenomenon of globalization began in a primitive form when humans first settled into different areas of the world; however, it has shown a rather steady and rapid progress in recent times and has become an international dynamic which, due to technological advancements, has increased in speed and scale, so that countries in all five continents have been affected and engaged. Globalization is defined as a process that, based on international strategies, aims to expand business operations on a worldwide level, and was precipitated by the facilitation of global communications due to technological advancements, and socioeconomic, political and environmental developments. The goal of globalization is to provide organizations a superior competitive position with lower operating costs , to gain greater numbers of products, services and consumers. This approach to competition is gained via diversification of resources, the creation and development of new investment opportunities by opening up additional markets, and accessing new raw materials and resources. Diversification of resources is a business strategy that increases the variety of business products and services within various organizations. Diversification strengthens institutions by lowering organizational risk factors, spreading interests in different areas, taking advantage of market opportunities, and acquiring companies both horizontal and vertical in nature. Using these definitions, some industrialized countries are: Industrialization is a process which, driven by technological innovation, effectuates social change and economic development by transforming a country into a modernized industrial, or developed nation. The Human Development Index comprises three components: The degree to which an organization is globalized and diversified has bearing on the strategies that it uses to pursue greater development and investment opportunities. The Economic Impact on Developed Nations Globalization compels businesses to adapt to different strategies based on new ideological trends that try to balance rights and interests of both the individual and the community as a whole. This change enables businesses to compete worldwide and also signifies a dramatic change for business leaders, labor and management by legitimately accepting the participation of workers and government in developing and implementing company policies and strategies. Risk reduction via diversification can be accomplished through company involvement with international financial institutions and partnering with both local and multinational businesses. Evaluating Country Risk For International Investing Globalization brings reorganization at the international, national and sub-national levels. Specifically, it brings the reorganization of production, international trade and the integration of financial markets. This affects capitalist economic and social relations, via multilateralism and microeconomic phenomena, such as business competitiveness, at the global level. The transformation of production systems affects the class structure, the labor process, the application of technology and the structure and organization of capital. Globalization is now seen as marginalizing the less educated and low-skilled workers. Business expansion will no longer automatically imply increased employment. Additionally, it can cause high remuneration of capital, due to its higher mobility compared to labor. The phenomenon seems to be driven by three major forces: Globalization of product and financial markets refers to an increased economic integration in specialization and economies of scale , which will result in greater trade in financial services through both capital flows and cross-border entry activity. The technology factor, specifically telecommunication and information availability, has facilitated remote delivery and provided new access and distribution channels , while revamping industrial structures for financial services by allowing entry of non-bank entities, such as telecoms and utilities. Deregulation pertains to the liberalization of capital account and financial services in products, markets and geographic locations. It integrates banks by offering a broad array of services, allows entry of new providers, and increases multinational presence in many markets and more cross-border activities. In a global economy, power is the ability of a company to command both tangible and intangible assets that create customer loyalty, regardless of location. Independent of size or geographic location, a company can meet global standards and tap into global networks, thrive and act as a world class thinker, maker and trader , by using its greatest assets: Beneficial Effects Some economists have a positive outlook regarding the net effects of globalization on economic growth. These studies examined the effects of several components of globalization on growth using time series cross sectional data on trade, FDI and portfolio investment. Although they provide an analysis of individual components of globalization on economic growth, some of the results are inconclusive or even contradictory. Trade among nations via the use of comparative advantage promotes growth, which is attributed to a strong correlation between the openness to trade flows and the affect on economic growth and economic performance. Additionally there is a strong positive relation between capital flows and their impact on economic growth. Empirical research examining the effects of several components of globalization on growth, using time series and cross sectional data on trade, FDI and portfolio investment, found that a country tends to have a lower degree of globalization if it generates higher revenues from trade taxes. Further evidence indicates that there is a positive growth-effect in countries that are sufficiently rich, as are most of the developed nations. The World Bank reports that integration with global capital markets can lead to disastrous effects, without sound domestic financial systems in place. Furthermore, globalized countries have lower increases in government outlays and taxes, and lower levels of corruption in their governments. One of the potential benefits of globalization is to provide opportunities for reducing macroeconomic volatility on output and consumption via diversification of risk. Harmful Effects Non-economists and the wide public expect the costs associated with globalization to outweigh the benefits, especially in the short-run. Less wealthy countries from those among the industrialized nations may not have the same highly-accentuated beneficial effect from globalization as more wealthy countries, measured by GDP per capita etc. Although free trade increases opportunities for international trade, it also increases the risk of failure for smaller companies that cannot compete globally. Additionally, free trade may drive up production and labor costs, including higher wages for more skilled workforce, which again can lead to outsourcing of jobs from countries with higher wages. Domestic industries in some countries may be endangered due to comparative or absolute advantage of other countries in specific industries. Another possible danger and harmful effect is the overuse and abuse of natural resources to meet new higher demands in the production of goods. The Globalization Debate The Bottom Line One of the major potential benefits of globalization is to provide opportunities for reducing macroeconomic volatility on output and consumption via diversification of risk. However, the specialization of production, based on the concept of comparative advantage, can also lead to higher volatility in specific industries within an economy and society of a nation. As time passes, successful companies, independent of size, will be the ones that are part of the global economy.

Chapter 5 : CHAPTER ECONOMIC ASPECTS OF REGIONAL INTEGRATION

3 Claire Economidou, Vivian Lei, Janet S. Netz, International Integration and Growth: A Further Investigation on Developing Countries, International Advances in Economic Research, , 12, 4, CrossRef.

Overview[edit] Regional integration has been defined as the process through which independent national states "voluntarily mingle, merge and mix with their neighbors so as to lose the factual attributes of sovereignty while acquiring new techniques for resolving conflicts among themselves. The degree of integration depends upon the willingness and commitment of independent sovereign states to share their sovereignty. The deep integration that focuses on regulating the business environment in a more general sense is faced with many difficulties. This new global political structure made obsolete the classical Westphalian concept of a system of sovereign states to conceptualize world politics. The two processes deeply affect the stability of the Westphalian state system, thus contributing to both disorder and a new global order. This is claimed to spur greater efficiency, productivity gain and competitiveness , not just by lowering border barriers, but by reducing other costs and risks of trade and investment. Bilateral and sub-regional trading arrangements have been advocated by governments as economic development tools, as they been designed to promote economic deregulation. Such agreements have also aimed to reduce the risk of reversion towards protectionism , locking in reforms already made and encouraging further structural adjustment. Some claim the desire for closer integration is usually related to a larger desire for opening nation states to the outside world, or that regional economic cooperation is pursued as a means of promoting development through greater efficiency, rather than as a means of disadvantaging others. There is no conclusive evidence to suggest that the strategies of economic deregulation or increased investor protection implemented as forms of regional integration have succeeded in contributing to "progress" in sustainable economic growth, as the number of economic crises around the world has increased in frequency and intensity over the past decades. Also, there is increasing evidence that the forms of regional integration employed by nation states have actually worsened social inequality and diminished democratic accountability. It has achieved a new meaning and new significance. Regional integration arrangements are mainly the outcome of necessity felt by nation-states to integrate their economies in order to achieve rapid economic development, decrease conflict, and build mutual trusts between the integrated units. Some have argued that the idea of the state and its sovereignty has been made irrelevant by processes that are taking place at both the global and local level. Walter Lippmann believes that "the true constituent members of the international order of the future are communities of states. Carr shares Lippmann view about the rise of regionalism and regional arrangements and commented that "the concept of sovereignty is likely to become in the future even more blurred and indistinct than it is at present. As fundamental to the multi-faceted process of globalization, regional integration has been a major development in the international relations of recent years. As such, Regional Integration Agreements has gained high importance. Not only are almost all the industrial nations part of such agreements, but also a huge number of developing nations too are a part of at least one, and in cases, more than one such agreement. The removal of the trade barriers or liberalization of many economies has had multiple impacts, in some cases increasing Gross domestic product GDP , but also resulting in greater global inequality, concentration of wealth and an increasing frequency and intensity of economic crises. The number of agreements agreed under the rules of the GATT and the WTO and signed in each year has dramatically increased since the s. There were agreements ratified in and it contained 94 agreements form the early s. The top three major changes were the following: Deep Integration Recognition Closed regionalism to open model Advent of trade blocs Deep Integration Recognition[edit] Deep Integration Recognition analyses the aspect that effective integration is a much broader aspect, surpassing the idea that reducing tariffs, quotas and barriers will provide effective solutions. Rather, it recognizes the concept that additional barriers tend to segment the markets. That impedes the free flow of goods and services, along with ideas and investments. Hence, it is now recognized that the current framework of traditional trade policies are not adequate enough to tackle these barriers. However, in the light of the modern context, that debate is being propounded into the clauses of different regional integration agreements arising out of increase in international trade. Closed regionalism to open model[edit] The change from a system of closed regionalism to a more open model had arisen out of the fact that the section of trading blocs that were created among the developing countries during the s and s were based on certain specific models such as those of import substitution as well as regional agreements coupled with the prevalence generally high external trade barriers. The positive aspects of such shifting is that there has been some restructuring of certain old agreements. The agreements tend to be more forward in their outward approach as well as show commitment in trying to advance international trade and commerce instead to trying to put a cap on it by way of strict control. The concept of equal partners grew out of the concept of providing reinforcement to the economies to all the member countries. The various countries then agree upon the fact that they will help economies to maintain the balance of trade between and prohibit the entry of other countries in their trade process. Another vibrant example would entail as to how EU has formed linkages incorporating the transition economies of Eastern Europe through the Europe Agreements. It has signed agreements with the majority of Mediterranean countries by highly developing the EU-Turkey customs union and a Mediterranean policy. The European Free Trade Association is a free trade bloc of four countries Iceland, Liechtenstein, Switzerland and Norway which operates in parallel and is linked to the European Union. The AFTA started in full swing in Alternative Regional Integration[edit] In the last decade regional integration has accelerated and deepened around the world, in Latin America and North America, Europe, Africa, and Asia, with the formation of new alliances and trading blocks. However, critics of the forms this integration has taken have consistently pointed out that the forms of regional integration promoted have often been neoliberal in character, in line with the motives and values of the World Trade Organization , the International Monetary Fund and the World Bank - promoting financial deregulation, the removal of barriers to capital and global corporations, their owners and investors; focusing on industrialisation , boosting global trade volumes and increasing GDP. This has been accompanied by a stark increase in global inequality, growing environmental problems as a result of industrial development, the displacement of formerly rural communities, ever-expanding urban slums , rising unemployment and the dismantling of social and environmental protections. Global financial deregulation has also contributed to the increasing frequency and severity of economic crises, while Governments have increasingly lost the sovereignty to take action to protect and foster weakened economies, as they are held to the rules of free trade implemented by the WTO and IMF. Advocates of alternative regional integration argue strongly that the solutions to global crises financial , economic , environmental , climate, energy, health, food, social, etc. However, they propose alternatives to the dominant forms of neoliberal integration, which attends primarily to the needs of transnational corporations and investors. Renowned economist, Harvard professor, former senior vice president and chief economist of the World Bank, Joseph Stiglitz has also argued strongly against neoliberal globalisation see Neoliberalism. Stiglitz argues that the deregulation, free trade, and social spending cuts or austerity policies of neoliberal economics have actually created and worsened global crises. In his book Globalization and Its Discontents he explains how the industrialized economies of the US, Europe, Japan, South Korea and Taiwan developed not with the neoliberal policies promoted in developing countries and the global South by the WTO, IMF and World Bank, but rather with a careful mix of protection, regulation, social support and intervention from national governments in the market. PAAR strives to "promote cross-fertilisation of experiences on regional alternatives among social movements and civil society organisations from Asia, Africa, South America and Europe. The PAAR initiative aims to develop these networks and support their efforts to reclaim democracy in the regions, recreate processes of regional integration and advance people-centred regional alternatives. In the video Global Crises, Regional Solutions the network argues that regional integration and cooperation is essential for tackling the many dimensions of the current global crises and that no country can face these crises alone. The video also calls for countries to break their dependency on the global markets, as well as the dominant development model that has failed to address increasing global hunger, poverty and environmental destruction, resulting instead in greater inequality and social unrest. Regional integration, the video argues, should be much more than macro-economic cooperation between states and corporations; it should protect shared ecological resources and should promote human development - health, wellbeing and democracy - as the base of economic development.

Chapter 6 : Economic integration - Wikipedia

Mordechai Kreinin and Michael Plummer consider the implications of the emerging global trend of economic regionalism for developing countries. The analysis focuses on the trade and investment effects of integration in developed countries on developing countries, as well as the ramifications of regional integration in the latter.

International commodity markets , labor markets , and capital markets make up the economy and define economic globalization. In Sumer , an early civilization in Mesopotamia , a token system was one of the first forms of commodity money. Labor markets consist of workers, employers, wages, income, supply and demand. Labor markets have been around as long as commodity markets. The first labor markets provided workers to grow crops and tend livestock for later sale in local markets. Capital markets emerged in industries that require resources beyond those of an individual farmer. Most of the global economic powers constructed protectionist economic policies and introduced trade barriers that slowed trade growth to the point of stagnation. Globalization did not fully resume until the s, when governments began to emphasize the benefits of trade. Governments shifted their economies from central planning to markets. These internal reforms allowed enterprises to adapt more quickly and exploit opportunities created by technology shifts. Labor-intensive production migrated to areas with lower labor costs, later followed by other functions as skill levels increased. Networks raised the level of wealth consumption and geographical mobility. This highly dynamic worldwide system and powerful ramifications. This event came to be known as the Big Bang. Global actors[edit] International governmental organizations[edit] An intergovernmental organization or international governmental organization IGO refers to an entity created by treaty, involving two or more nations, to work in good faith, on issues of common interest. International non-governmental organizations NGOs [edit] For more information, reference non-governmental organization NGO Despite its activity within one nation, NGOs work towards solutions that can benefit undeveloped countries that face the backlash of economic globalization. NGOs perform various services and humanitarian functions, bring citizen concerns to Governments, advocate and monitor policies and encourage political participation through provision of information. In business , outsourcing involves the contracting out of a business process e. ECLAC states that in order to create better economic relations globally, international lending agencies must work with developing countries to change how and where credit is concentrated as well as work towards accelerating financial development in developing countries. Key factors in achieving universal competition is the spread of knowledge at the State level through education, training and technological advancements. The fair trade movement works towards improving trade, development and production for disadvantaged producers. The fair trade movement has reached 1. Fair trade works under the motto of "trade, not aid", to improve the quality of life for farmers and merchants by participating in direct sales, providing better prices and supporting the community. Some global brands were found to do that before but they took some methods to support the labors soon after. The movement is taken to decrease the wrongdoing and gain the profits for labors. Race to the bottom Globalization is sometimes perceived as a cause of a phenomenon called the "race to the bottom" that implies that multinational companies are constantly attempting to maintain or increase their influence in countries that are already reliant on foreign investment alone. Multinationals tend to target export dependent countries. Due to a rise in competition, underdeveloped countries are undercutting their competitors through lowering their labor standards thus lowering the labor costs for the multinational companies investing into them. Companies will deliberately move into countries with the most relaxed laws and regulations for labor standards allowing them to do whatever they want. This results in factories with harsh labor conditions, low wages, and job insecurity. With the growing demands of science and technology, Gao states that with world markets take on an "increasing cross-border division of labor". Rappa agrees that economic globalization is reversible and cites International Studies professor Peter J. Per capita GDP growth in the post globalizers accelerated from 1. This acceleration in growth is even more remarkable given that the rich countries saw steady declines in growth from a high of 4. This rapid growth among the globalizers is not simply due to the strong performances of China and India in the s and sâ€”18 out of the 24 globalizers experienced increases in growth, many of them quite substantial. While several globalizers have seen an increase in inequality, most notably China, this increase in inequality is a result of domestic liberalization, restrictions on internal migration, and agricultural policies, rather than a result of international trade. Even in China, where inequality continues to be a problem, the poorest fifth of the population saw a 3. In several countries, those living below the dollar-per-day poverty threshold declined. In China, the rate declined from 20 to 15 percent and in Bangladesh the rate dropped from 43 to 36 percent. China, India, and Bangladesh, once among the poorest countries in the world, have greatly narrowed inequality due to their economic expansion. Global Value Chain The global supply chain consists of complex interconnected networks that allow companies to produce handle and distribute various goods and services to the public worldwide. Corporations manage their supply chain to take advantage of cheaper costs of production. A supply chain is a system of organizations, people, activities, information, and resources involved in moving a product or service from supplier to customer. Supply chain activities involve the transformation of natural resources , raw materials , and components into a finished product that is delivered to the end customer. Supply chains link value chains. Trade union Labor unions were established during industrialization as a solution to poor and unregulated working conditions. Unregulated businesses allowed for low wages, job insecurity and poor working conditions. Trade unions responded by implementing a technique called collective bargaining , where the workers could legally negotiate wages as well as working conditions. As a direct result, labors rights increased as policy and regulation were enforced. Alongside globalization, outsourcing developed which increased corporate power. As a solution, Labor Unions continue to fight for global labor rights standards through trans-national organizations.

Chapter 7 : UNCTAD | Economic Cooperation and Integration among Developing Countries

iv ECONOMIC UNION: This is a higher level of economic integration than the common market, but in addition, it involves coordination and harmonization of policy in such fields as economic planning.

The economic integration of several countries or states may take a variety of forms. The term covers preferential tariffs, free-trade associations, customs unions, common markets, economic unions, and full economic integration. The parties to a system of preferential tariffs levyâ€¦ Forms of economic integration Although there are many different forms of economic integration, perhaps the most convenient way to order the concept is to think of a continuum that ranges from loose association at one end to an almost complete merging of national economies at the other end. Although it is far from a given that positive experiences in the simpler forms of economic integration will lead to a deepening of the process to increasingly integrated shared economic spaces, the more-complex forms incorporate and are founded on the substantive elements of the earlier forms. The significant point is that although economic integration is explicitly framed by trading relationships, it acquires an increasingly political character as it reaches deeper forms. Simple free-trade area The most basic type of economic integration is a simple free-trade area. In this form, attention is focused almost exclusively on a reduction of the tariffs and quotas that restrict trade. Emphasis is placed almost entirely on increasing the exchange of goods. The articulation of transnationalized production chains, trade in services, labour mobility, and more-sophisticated forms of economic integration are not an explicit goal and emerge as merely tangential to the primary goal of securing access to foreign markets for domestic firms. Second-generation free-trade area In a second-generation free-trade area, the basic nature of simple free trade is expanded to include trade in non-goods such as services. Where a simple free-trade area need only address the question of tariffs and quotas, the trade in services and a widening of trade in goods raises questions of regulatory convergence and the harmonization of rules of operation and governance. At this stage, attention needs to be turned to such things as the transferability of professional certifications as well as questions of labour mobility, particularly for the highly skilled professions such as legal, accounting , technology , and medical services. The increased interdependence between the participating economies that comes with expanded trade in all economic areas and a measure of regulatory convergence can lead to an increased distribution of production chains across national boundaries. Customs union As national production structures transnationalize across the regional space, the next stage is to deepen regulatory harmonization to present a common stance to the extra-regional market. The result is the formation of a customs union relying upon a common external tariff. One of the key attractions of this regulatory convergence between participating economies is that it reduces the challenges of monitoring and taxing external inputs that are used to produce goods and services that circulate within the region. Implicit in the adoption of a common external tariff is a further harmonization of national rules and regulations, particularly those relating to the control and flow of external trade into the regional economic space. Common market The idea of a common market grows from the possibilities presented by the adoption of a common external tariff. As trade flows increase and factor inputs imported into the integrating economies begin to circulate freely, production chains crossing the intra-regional national boundaries begin to form. This results in sustained pressure to reduce the costs of transporting finished and semi-finished goods between the states participating in the integration project. The solution is the harmonization of border procedures, which in its ultimate form leads to the virtual elimination of national boundaries as internal barriers to trade and the formation of a free-flowing regional economic space. A concomitant change with this complete opening of internal trade is a liberalization of labour mobility, allowing the inhabitants of one member state to work in all the other member states of the region. Monetary union With the evolution of a common market and the concomitant surge in intra-regional trade comes a new source of expenses for business: Even though borders may be open to the free transit of goods and services, the need to constantly engage in foreign exchange operations to settle payments as well as the differing relative costs caused by different national economic policies impose a constant financial and administrative expense on firms operating within the region. The solution and next stage in the integration progression is some form of monetary union, be it through an agreed fixing of relative exchange rates or the more commonly discussed adoption of a common currency. At this point, the economic aspects of integration also begin to take on a strong political flavour. Adoption of a common currency or monetary policy by all members of the project also requires a strong convergence in macroeconomic policy, which imposes external restraints on the domestic fiscal and expenditure policies that a government may pursue. The result is a gradual blurring of the political as well as economic lines that separate the states participating in the integration project. Economic community or union In an economic community or union, the logic of common external tariffs, regulatory approximation, and harmonization of macroeconomic policy is taken to its full conclusion through the construction of an overarching governance framework that imposes a common economic policy system on all countries in the region. In effect, the member states surrender a significant degree of economic sovereignty to the whole in the expectation of significantly expanded opportunities presented by a much larger, fully integrated economic space facilitating the full mobility of finished products, factors of production , and labour. The harmonization of regulations and procedures is facilitated through the creation of an overarching legislative and legal system that trumps national laws and rules and also ensures that economic actors will face the same treatment throughout the region. Justifications of economic integration The extent to which a region will deepen its economic integration and adopt the characteristics of a supranational state is partially influenced by the factors prompting states to start the regionalization process. Four broad reasons for pursuing economic integration can be identified. Reactive regionalism Reactive regionalism is also referred to as defensive regionalism, suggesting that states choose to pursue economic integration to protect their shared interests from a specific or nebulous external threat. In a historical context , reactive regionalism was viewed by developing countries as a technique for providing the large internal markets needed to support nascent industrial sectors. Although the decline of import-substitution industrialization strategies and the rise of neoliberalism have greatly reduced the protectionist aspect of reactive regionalism, the idea of providing a common level of shelter for internal producers does remain in integration projects such as the South American trade bloc Mercosur. The more common motive for contemporary economic integration projects lies in the logic of defensive regionalism. Here the participating states are reacting to perceived threats in the international economic environment. In some instances, such as Canadian participation in the North American Free Trade Agreement NAFTA , the regional economic integration route was pursued to prevent a country from becoming isolated in a global economic system that appeared to be increasingly drifting toward a series of large economic blocs. Other regional groupings, such as the Andean Community and Mercosur, emerged partly as an attempt to use the expanded internal market as a lure to attract foreign direct investment FDI in an increasingly competitive international investment climate. Either way, the common element is that the participating states are seeking to use their combined economic mass and density to protect shared interests and to mitigate external vulnerabilities. Peace and security The most prevalent example of an economic integration emerging as part of an effort to ensure peace and security is the European Union EU. As the neofunctionalist school suggests, the idea is to increase economic interpenetration between erstwhile hostile countries, seeking to raise the level of interdependence to the point where armed conflict and sustained mutual isolation become economically unsupportable. This underlying rationale can either emerge as a consensus position between participating states, as was partly the case in Argentine-Brazilian approximation in the s and the formation of the South Asian Association for Regional Cooperation SAARC , or be suggested as a solution to simmering hostilities by mediating actors as an effective method for diffusing potential conflicts, as has sometimes been the case with the South American infrastructure integration program launched in Efficiency The defensive character of many integration projects is in some cases eclipsed by a desire to reduce transaction costs within a regional space that is seeing growth in transnational production structures. Here the example of the Association of Southeast Asian Nations ASEAN is instructive, with a sustained rise in the regional distribution of production structures creating pressure for increased logistical and regulatory cooperation to facilitate the exchange of production factors. Significantly, an efficiency-seeking rationale to economic integration will not necessarily bring about pressure for labour mobility and often completely rejects the sorts of political approximations implicit in the deeper forms of economic integration. The profit-making potential of economic cooperation within the region remains the dominant factor, with only tangential attention being given to notions of social or political integration. Externalization Although rarely explicitly framed as the need to externalize the rationale for politically contentious policies, economic integration has emerged as a device used on the domestic political stage. In South America the pursuit of an economic integration project was one justification used by pro- democracy factions in Argentina and Brazil in the late s to neutralize lingering calls for a return to authoritarianism. Democratic governments in developing countries have also used the need to adhere to regional commitments as the justification for the pursuit and implementation of the Washington Consensus model of neoliberalism. Particularly important in this respect has been the reduction of state supports for local industries, the lowering of high tariff walls, and the privatization of state-owned firms. The political factor Although economic integration leads to regionalism as a method of organizing interstate relations that focuses on economic questions, it is in the end a politically motivated concept. States do not fall into economic regionalism by accident. Rather, they engage in long, sustained, and highly technical discussions to carefully delimit the policy and geographical boundaries of the region. Management of the region, irrespective of the extent to which it has resulted in economic integration, also emerges as a potential source of sustained political tension between member states. Different levels of relative economic strength, sophistication, and global competitiveness provide a basis for divergent views over how the integration project should operate and how it should evolve over time. Particularly contentious can be the role of the anchor state, the state with the large market that is often present in an economic integration project and effectively provides the membership rents to the other members by absorbing an increased proportion of their exports. The point is that, even though an economic region is founded on and discussed in terms of the technocratic language of economics, the power relations and equations typically found in international relations remain, although manifest in different and sometimes indirect form. The formation and pursuit of economic integration can also present new international challenges for participating states. Developing states engaged in a defensive regionalist project to improve their collective negotiating power with predominant states in the global political economy can be faced with a divide-and-conquer strategy in interregional and multinational negotiations. This places additional strains on the anchor state to maintain the solidity of the region. In some instances this is not a particularly significant challenge, because the benefits of collective negotiation in international forums quickly outweigh the economic benefits offered by the group.

Chapter 8 : Global Challenges of Integration

The aim of economic integration is to reduce costs for both consumers and producers and to increase trade between the countries involved in the agreement.

Typical questions asked by these disciplines in the regionalism literature are summarized in Table 3. There is not space in this paper to pursue all of these questions. We focus on the contributions of economists who investigate the potential and actual economic impacts of forming regions. With the trend towards deeper integration, we summarize the emerging literature on the gains from integrating services trade and from regulatory integration. The lessons for developing countries from the literature surveyed are summarized in conclusion. Table 3 - Debates about regionalism Motivation -why do regions come into being? Structure - what form do regions take, and why do they take these forms? Design - how should regions be designed to ensure they function efficently? Impacts - are regions successful in promoting more rapid economic growth for members, and what are the consequences of third parties? Convergence - do regions assist in the convergence of economic performance and living standards between participating countries? Sustainability - what contributes to the success and sustainability of regions? Systemic - are regions building blocks or stumbling blocks towards a more effective multilateral system? The traditional approach to regional trade arrangements The traditional economic approach to regional trade integration assumes perfect competition in markets and is concerned with the implications of forming a region for the allocation of resources in a static sense. This static analysis distinguishes between the trade creation and trade diversion effects of regional trade integration. Unilateral tariff reductions lead to trade creation In order to understand these concepts, it is helpful to begin with the analysis of a country which unilaterally eliminates tariffs on all imports. As a result, the domestic price falls to the world price. Domestic production falls, domestic consumption increases and total imports increase. The reduction in tariffs leads to additional trade, or trade creation. The effect of the tariff reduction on economic welfare can be decomposed into three effects: Under the standard assumptions that resources remain fully employed and that prices reflect marginal costs and benefits, it is easily shown that the consumer gain exceeds the producer and government loss from reducing tariffs and that there is an overall gain in national welfare as a result of this policy change. In some cases, the barriers to trade are not rent-creating policies such as tariffs but policies which raise the real cost of importing. Typical examples of such policies are complicated and slow customs procedures, or the imposition of spurious health, safety or technical standards. Resources which could be employed productively elsewhere in the economy are tied up wasted as a result of these barriers. The removal of such cost-increasing barriers magnifies the gain in national welfare from their elimination. Discriminatory tariff reductions lead to trade creation and trade diversion Now consider the consequences when a country the home country eliminates trade barriers with its regional partners but maintains them on trade with third countries. This complicates the analysis because it may lead the home country to switch its source of import supplies. If the partner country is already the low-cost supplier, then preferential trade liberalization leads to the same trade creation effect as earlier identified for unilateral trade liberalization. Trade creation takes place when preferential liberalization enables a partner country to export more to the home country at the expense of inefficient enterprises in that country. But preferential liberalization, by maintaining tariffs against the rest of the world, may cause enterprises in the home country to switch supplies from the rest of the world to higher-cost suppliers in the partner country. The partner country again increases its exports to the home country but this time at the expense of exports from third countries. Trade diversion occurs when imports from a country which were previously subject to tariffs are displaced by higher cost imports which now enter tariff-free from partners. While trade creation contributes positively to welfare in the home country, trade diversion results in a welfare loss. The consumer gain on the volume of imports previously imported from third countries is less than the tariff revenue lost by the government because, if the partner country is a less efficient supplier, the domestic price in the home country does not fall to the world price level. This example focuses on the experience of a single partner in an RTA. It is possible that one or more partners in an RTA can gain from trade diversion in their favor. This is more likely if a country initially has lower tariffs or smaller imports from its partner. However, trade diversion is always a loss for the RTA overall. A simple numerical example of this proposition can be found in the appendix to this chapter. A third effect comes into play in the traditional analysis if the RTA is large in world market terms, so that a change in its demand for imports influences the price at which those imports can be purchased. In imperfectly competitive markets, there may be collective gains if regional integration makes it possible to shift rents away from third countries. Rents exist if firms in the Rest of the World ROW can exercise market power and price above marginal cost. Forming an RTA increases the amount of competition in the market and this affects not only domestic firms but also ROW firms which will find their ability to extract these rents eroded. Consumers and the RTA as a whole gain from the movement in the terms of trade in their favor. Not only market power but also bargaining power can be increased by forming an RTA. This assumes that the countries making up an RTA have a sufficient economic size relative to the third countries with which they must negotiate, and this requirement limits the relevance of this argument in the case of developing countries. A nice example though based on regional cooperation rather than a regional trade arrangement is noted by Schiff and Winters They point out how the Organization of Eastern Caribbean States OECS wanted to impose waste disposal charges on cruise ships to prevent ocean dumping of solid waste which was threatening the fragile ecosystems on which the tourist revenue of the islands depends. The cruise lines warned the OECS governments that any island that imposed waste disposal charges would lose cruise tourism because the lines would move their business to other islands. However, by acting together and, it should be noted, with some arm-twisting by the World Bank and other donors the islands were able to face down the cruise lines and a pollution charge was introduced. The importance of transfer effects Economic analysis has emphasized the overall welfare consequences of regional integration at the expense of the distributional or transfer implications which are often crucial in determining its political sustainability. Thus, the domestic price continues to be the world price plus the tariff on third country imports. The partner country, which previously would also have had to sell at the world price, now can sell at the domestic price in the home country. The home country loses the tariff revenue it previously collected on imports from its partner, and pays its partner more for its imports than it did previously. This amounts to a transfer from the home country to its partner exporting country. If the partner country also happens to be more developed or better off than the home country, then such transfers are clearly regressive and, over time, will call into question the sustainability of the integration arrangement. Conditions for a positive welfare outcome The fact that the welfare outcome of preferential trade liberalization is ambiguous, the net result of the trade creation and trade diversion effects, has spawned a huge literature on the circumstances needed to ensure a net overall gain. As trade diversion is most likely when countries do little trade with each other prior to integration, one rule of thumb, although not an infallible one, is that regional integration between countries which trade little with each other should not be encouraged. Other circumstances favoring net trade creation include: Where tariffs and non-tariff barriers of member countries are high prior to integration, since this maximizes the likelihood of trade creation. Where members are geographically close, since this reduces transactions costs such as transport and communications. Where tariffs and non-tariff barriers to extra-regional trade are low after the region is formed since this minimizes the likelihood of trade diversion. Where members have complementary economic structures dissimilar patterns of production since there will be scope for inter-industry specialization. These criteria led to the traditional view that the ideal grouping for economic integration includes countries at comparable levels of development but with disparate, complementary resource bases. Such countries would have the maximum to gain from integration but little to worry about in terms of the distribution of benefits in favor of rich countries at the expense of poor countries within the grouping. Trade diversion costs should be measured relative to sustainable equilibrium world price levels. In the case of agricultural products it is widely recognized that world prices are distorted by various policy interventions, in particular the high subsidy levels paid by OECD countries. Any assessment of the trade diversion costs of an RTA with respect to agricultural trade should take into account the possible divergence between current world market prices and long-run social opportunity costs, particularly if the consequence of current depressed world prices as a result of trade-distorting policies results in irreversible loss of production capacity or changes in the local economy. Here, there is no tariff revenue accruing to the home country government before integration, and thus any reduction in domestic prices arising from sourcing supplies in a partner country can only have positive, trade-creating effects. As Baldwin notes with respect to African regional integration p. For instance the transportation system for intra-African trade is less developed than the one for extra-regional trade. The same is true of telecommunications and postal services. However, this argument is not a carte blanche to invest in regional infrastructure to ease trade between partners. Such funds have an opportunity cost, and the returns from integrating with the rest of the world may well be higher. Modern contributions Further welfare gains under imperfect competition The trade creation gains identified in the previous section arise even under perfect competition because resources are re-allocated within the home country in line with its comparative advantage. In more recent analysis of welfare effects, the perfect competition assumption has been relaxed in models that allow for imperfect competition, economies of scale and product differentiation. These new analytical perspectives on market integration emphasize the pro-competitive effects of larger markets rather than comparative advantage. The additional sources of welfare gain under imperfect competition include: In many small countries the domestic market may not support a large number of firms and thus there is a tendency for firms to collude and raise prices at the expense of consumers. Larger markets as a result of regional integration may allow firms to exploit economies of scale, thus driving down costs and prices to local consumers. Larger markets may increase the range and variety of products which are available to consumers. In well-integrated customs unions such as the EU, much of the increase in intra-regional trade takes the form of intra-industry trade the exchange of similar products such as Renault cars for Mercedes cars between France and Germany rather than the classical inter-industry trade such as the exchange of cars for wine between Germany and Portugal which would be predicted on the basis of comparative advantage. Additional gains from integration Modern theory also highlights a number of other consequences of regional trade arrangements: If closer integration improves the efficiency with which factors are combined it is also likely to induce greater investment. While this additional investment is taking place, countries may experience a medium-term growth effect. If such investment is associated with faster technical progress or accumulation of human capital as identified in the new endogenous growth models, long-run growth rates may also be improved. More emphasis is now given to the impact of regional integration on production via the effect on foreign direct investment and investment creation and diversion. Transactions costs and regulatory barriers. The traditional theory of customs unions was developed in the context of tariff reductions but, as noticed above, the welfare effects of integration can be quite different if the barriers removed are cost-increasing barriers. Many of the effects identified in the modern theory, especially those related to or requiring investment, assume that the integration effort is credible and will not be reversed. If credibility is lacking, and there is uncertainty among investors, their behavior is unlikely to be influenced. The emphasis on credibility assumes the existence of enforcement mechanisms which will ensure the implementation of commitments entered into when a country joins a regional integration scheme. The way in which access to a Northern country market might be used to enforce policy commitments has led to a new literature outlining the advantages of North-South rather than South-South integration arrangements on grounds quite different to the traditional allocation or accumulation effects. Developmental regionalism The traditional efficiency advantages of removing barriers to economic activities are likely to appeal to industrialized countries with large, diversified industrial structures where significant scope to re-allocate resources among alternative activities exist. Page points out that this source of gain is unlikely to be so important in developing country integration, and it has not normally been the objective of developing country groups. For developing countries, the rationale for economic integration has often been structural in nature. They have been concerned with the development of new industries through cross-border coordination to exploit the advantages of economies of scale which a larger home market permits. Thus, much thinking in developing countries on the advantages of regional integration sees it as a development tool and specifically as a tool of industrial policy Asante, The advocates of import-substitution industrialization strategies could see the problems of pursuing these strategies in the context of small home markets, and saw regional integration as the way to establish these industries on a more competitive footing.

Chapter 9 : Economic Integration Theories and the Developing Countries

The recent literature on economic integration in developing countries does not address this question directly. It is, therefore, essential, and possible, to approach the question.

English All views and opinions expressed remain solely those of the author. Readers are encouraged to quote and reproduce this material, provided the source is acknowledged. This publication should be cited as: Economic Integration Theories and the Developing Countries. Psychology, Politics, Sociology, and Education Dr. Gurdal Ertek, Sabanci University Dr. Nikolaos Mylonidis, University of Ioannina Dr. Anna Watson, University of Hertfordshire Dr. Alexandros Zangelidis, University of Aberdeen Prof. The case of Sri Lanka. Nadeeshani Silva and Dieter Kirschke The importance of institutions on export performance: Developing a new scale. The Quest for Sensorial Information. Economic integration theory goes through two development stages each of which addresses the relevant for its time political and economic context The first stage is regarded as classic theory or static analysis and includes the traditional theories of economic integration that explain the possible benefits of integration. The second stage includes the new economic integration theories that are often referred to as dynamic analysis of economic arrangements. Be- sides these two, there is a third type of integration theories that deals with the effects, benefits and constrains of economic integration arrangements of devel- oping and least developed countries. The current paper tries to come up with a conclusion on what parts of the classic and new integration theories are appli- cable to integration arrangement among developing countries and to summarize these theories. Economic Integration, Integration Theory, Developing Countries Integration 1 Introduction Regional economic integration is one of the main trends in the development of inter- national economic relations in the last few decades. There are multiple examples, practically everywhere in the world, which demonstrate that it is not an isolated event, but an actual global phenomenon. The opportunities that are presented by the different forms of economic integration arrangements are growing and so are the means and ways for their utilization. There is a clear distinction between the integration processes among developed countries where mainly the classic static and dynamic effects described by classic and new integration theory are sought, and those among developing and least developed countries â€" where the reasoning, the expected benefits and the clear constrains to the participation in integration arrangements are different. As such it does not have the ambition to be a complete research with historical data or to provide some concrete examples that the theory applied to developing countries seeks to determine, neither to present a to have a poli- cy-oriented discussion. First, the paper explores the relevance of theories of static and dynamic analysis in the case of developing countries. It then discusses other economic integration theories that are adjusted to developing countries and are focused more on issues related to the effects, benefits and constraints of economic integration. The main contribution of the current paper is the systematisation of economic theo- ries that could be applied to integration efforts among developing countries. The first stage includes the traditional theories of economic integration, which explain the possible benefits of integration and are often referred to as static analysis. The second stage includes the new economic integration theories, which are developed in changed economic conditions and trade environment â€" they are referred to as dynamic analysis of economic arrangements. His so-called static analysis of economic inte- gration distinguishes the now well-known effects of trade creation and trade diver- sion. One speaks of trade creation when with signing a trade agreement between two countries trade is shifted from a higher cost producer to a lower cost producer among member-states. Trade diversion occurs when imports are shifted from a lower price producer from a third country, which is not a part of the integration agreement to a higher price producer from a member-state. This happens when a common customs tariff is applied if the integration agreement protects the higher cost supplier from a member-state. When speaking about the role of Customs unions on increasing economic welfare he says: All of them come to the conclusion that no one-sided answer could be given to the question of whether customs unions increase global welfare or not. They may or may not be instruments for leading to a more economic use of resources. Viner comes to the conclusion that an unpreferential trade policy free trade is a far better way to liberalise trade than a customs union, or, in other words the better allocation of resources is no longer applicable as a rationale for the creation of a customs union. Static effects analysis cannot fully assess the impact of integration on welfare, thus Bella Balassa introduces a new instrument to analyse the effects of economic integration on welfare â€" dynamic effects analysis â€" as a better means of explaining the reasons and economic rationale behind the creation of cus- toms unions and economic integration schemes as a whole. A main thesis in interna- tional economics is that free trade on competitive markets enables production and consumption efficiency globally as well as in every single country. At first, the crea- tion of preferential trade agreements motivated by the ideas of static effects analysis is viewed as a shift towards free trade and thus is perceived as a tool to increase real income. However, this turns out not to be true â€" this type of analysis does not give simple answers and principles, thus the attention should be put on the dynamic analy- sis of economic integration Sheer, , p. Balassa Balassa, and Cooper and Massell Cooper and Massell, are the first researchers that introduce the concept of the dynamic effects of economic integration, which adds a new dimension to the research in this area. Balassa defines the main dynamic effects of integration: Schiff and Winters summarise the definition of the dynamic effects of eco- nomic integration as anything that affects the rate of medium and long term economic growth of the participating in the integration agreement member-states Schiff and Winters, , p. New theories of economic integration are developed together with the change in global economic conditions. Lawrence Lawrence, , p. Together with these, among the main effects and fac- tors that dynamic analysis regards as coming from the participation in integration agreements are, as follows: The only obvious setback of dynamic analysis is that, unlike the static one, there is no reliable method for quantitative assessment of dynamic effects. Because of their deeper scope dynamic effects have a larger impact on economic processes than static ones. The dynamic effects of eco- nomic integration can be summarized as follows: Even Balassa Balassa, , p. Their problems and environment are not related to economic development, but more to relative changes of production and consumption features. The traditional theory of economic integration relies on many factors in order to reach the conclusion that net static effects determine the welfare effects of integration. Based on them, some generalisations can be made about the motivation of countries to participate in integration processes. This part of the paper will try to distinguish those factors and effects of economic integration agreements that are relevant to de- veloping countries. The economic determinants of integration agreements that influ- ence the motivation of developing countries to participate in integration, in terms of both expected gains and feared negative consequences, are presented here in three main groups â€" general economic, market-related and trade-related factors and effects. General economic determinants Development perspective Many researchers claim that when it comes to developing countries, economic in- tegration should be regarded an instrument for their economic development, and not that much as customs or even trade policy Abdel Jaber, ; Balassa and Stout- jesdijk, Integration theory is more focused on better resource allocation while development theory and policy deals more with the benefits from faster economic growth in the long term and the utilization of under- or not at all employed resources and production factors. Thus in many developing countries integration efforts are aimed at or more focused on the implementation of common projects in the field of development â€" poverty reduction, support for the development of healthcare and edu- cation systems, achievement and preservation of regional security. Macroeconomic policy coordination Shams Shams, , p. The issue of macroeconomic policy coordination dates back to the studies of Kahnert Kahnert et al, and Hirschman, Hirschman, who argue that in order for trade agreements to be durable, participating countries should try to uniform their internal monetary and foreign exchange policies Hirschman, , p. The economic areas that should be harmo- nised are not only limited to macroeconomic policy, but could also include industrial, social, transport, environmental policies, etc. Size of the participating countries Traditional theory assumes that the larger in economic terms the participating countries are, the more substantial the benefits of integration will be. According to Abdel Jaber Abdel Jaber, , p. Balassa on the other hand claims that integration gains depend not only on the size of the countries participating in the integration arrangement, but also on their rate of economic growth. Thus, as developing economies tend to grow at higher rates than already developed ones, the benefits of integration for them would be even bigger Balassa, , p. Under this criterion, developing countries will surely benefit from integration as they are usually over populated Hosny, , p. Integration effects for small countries Kreinin claims that potential gains from economic integration can be observed more clearly in small and medium sized member-states Kreinin, , p. If integration and trade as a whole is carried out between a small and a large country, the benefits for the small one are bigger because there is more demand for its exports. This is very substantial when the small country is a developing one and the large country is a developed one, with higher purchasing power. A similar view is expressed by Velko Marinov, according to who in the environ- ment of a bigger market, the comparative advantages of small national economies are manifested in their pure nature. They improve their production and market structure and increase their efficiency. The argument of the positive effect of integration on small countries has its oppo- nents. Helleiner for instance claims that the disproportion of gains in favour of the larger country is inevitable and is a result of the disparity of the economic potential of the two countries. He argues that the small country is an unequal partner who is forced to adjust to the economic and price structure in the larger member-state Hel- leiner, C. Market-related determinants The welfare effects of economic integration among developing countries should not be limited only to those on production and consumption, but should also include the potential positive impact on employment, productivity, income level, specialization, competitiveness, etc. Employment and productivity effects It is established that in most developing countries exists a situation of generally low productivity plus mounting unemployment Hosny, , p. Therefore when there is trade diversion that leads to labour force to be transferred from low- productive sectors and activities to ones with higher value added, welfare will in- crease. The integration benefits to employment are even more obvious Sakamoto, , p. On one hand, they are related to the fact that the changes in the geographical distribution of production influence labour demand, and on the other hand the bigger flows of workers influences labour force supply Longi and Nijkamp, , p. Production specialization Developing countries in general are specialized in the production of primary prod- ucts. That however is rarely what hap- pens in reality, thus most developing countries adopt a trade policy of diversification and import substitution to accelerate economic growth. Balanced growth can be achieved by small developing countries by increasing the size of the market, benefit- ing from economies of scale, and expanding their inter-industry transactions, i. For these effects to be achieved however, a strong commitment is required â€” both in economic and political terms. Protection for industrial development According to Viner, in some cases economic integration can be seen as a step to- wards free trade, but in others it is one towards more protection Viner, , p. There are some researchers who argue that protection trade regimes could be beneficial to developing countries. Cooper and Massell for instance believe that the main goal of integration agreements among developing countries is to support their industrial development Cooper and Massell, , p. This could be achieved through protection because integration, according to Sakamoto Sakamoto, , p. If two developing countries create a customs union and there is a trade diversion in industrial products, welfare from the point of view of consumption, will increase when the tariffs are removed. On the other hand â€" from the point of view of produc- tion â€" welfare will decrease viewed as an effective use of resources because it will be replaced with production in one of the developing member-states that is more inef- fective compared to that of developed third-countries. However, if such trade diver- sion is combined with a common external tariff that protects domestic industry, this could lead to the development of the industrial sector in both member-states. This would be particularly useful if the two developing countries are complementary, be- cause this way each of them will expand their industrial production to supply the market in the other one Cooper and Massell, , p. According to Elkan Elkan, , p. He calls this effect "backwash" - where much of the economic benefits of integration are concentrated in one or a small number of member-states Elkan, , p. International competitiveness In the past, developing countries have sought motivation for economic integration in the benefits from trade diversion and import-substituting industrialization. Later on, with the introduction of the ideas of the dynamic effects of integration, they began to find arguments for integration in the economies of scale, investment creation, tech- nology transfer, etc. Nowadays, however, the integration initiatives of developing countries far exceed those arguments â€” most of them pursue policies of trade liberali- zation and deregulation as part of their overall stabilization programs agreed with international organizations. This approach has the goal to make economic integration policies compatible and complementary to other policies in order to promote interna- tional competitiveness. Therefore, according to Hosni, most developing countries regard economic integration as a tool for more competitiveness in a global economy Hosny, , p. Competition and complementarity Even Viner suggests that countries producing competing similar products gain more benefits from integration than those producing complementary different ones Viner, This comes from the fact that the more significant the difference in the price of the same goods in the potential member-states is, the greater the benefit will be Makower and Morton, , p.